

IMPACT OF MICROFINANCE INSTITUTIONS ON RURAL PROMOTERS

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ABSTRACT

The provision of financial services is essential for decreasing poverty. People in poverty can gain control of their lives by having constant access to financial services. Poor individuals who live in insecure circumstances and are challenged by a lack of money, housing, and food may need good management of very small assets in order to survive. They need to be able to invest, save, borrow, and protect their families from risk in order to escape poverty.

Poor people can receive modest loans from non-governmental organizations (NGOs) and microfinance institutions like credit unions, receive remittances from relatives working abroad, and safeguard their investments. Poor individuals can start small enterprises if they have access to low quantities of financing at low-interest rates.

Present study the profile of the MSMEs in the promoters under the heads like the social-economic conditions, support in rural promoters, and awareness of ruler promoters factor that induced them in promoting the business units are analysed. The socio-economic profile is the criterion, it influences to a great extent the promotion of the unit, and the knowledge about the microfinance institutions by applying tools such as percentage analysis, rank, chi-square test, and one-way ANOVA used in this paper.

Keywords: Microfinance Service, MSME, Microfinance Institution, Ruler areas, Promoters.

INTRODUCTION

The majority of people living in poverty or with little financial resources do not have enough revenue to conduct business with traditional financial institutions. Unemployed and low-income people are served by microfinance institutions and microfinance services. Microfinance enables individuals to buy accepted small business loans in an honest and secure manner. Despite the fact that they operate worldwide, the great majority of microfinance activities occur in underdeveloped countries. Financial institutions cover a wide range of services, including banking products and services including checking and savings accounts, as well as start-up funds for young promoters, and investment training materials. These programs may concentrate on bookkeeping, working capital, and professional and technical skills such as financial statements. Many microfinance organisations are dedicated to assisting business owners in their undertakings.

People seeking financing from microfinance institutions are frequently asked to complete basic money-management training. This includes the concept of working capital, how professionally managed and savings account accounts function, how to plan, and how to back pay. Customers who have been educated may apply for loans. A loan officer, like the one you would find at a traditional bank, assists applicants with applications, manages the lending process, and authorises loans. The benefits of microfinance extend beyond simply providing a source of capital. Promoters who start successful enterprises provide jobs, trade, and overall economic growth in their countries.

LITERATURE REVIEW

Kumar Vikas, (2021), in his article titled, “Rural Development Strategies and Approaches in India – A New Dimension”, has analysed rural development programs should include infrastructure development, education, health services, agricultural investment, and promotion of rural non-farm activities in which women and rural populations can participate. Rural development and rural entrepreneurship are two strategies for transforming a developing country into a developed country. Monitoring rural development programs by providing the right information at the right time, providing timely and adequate credit, and continuously motivating bankers.

Viswanathan Saravanakumar, (2021) in his research article, can be concluded as per the most recent economic figures, the rural entrepreneur is an essential component for every developing country to progress toward becoming a developed country. Rural entrepreneurship is one of the most effective tools available to non-governmental organizations (NGOs) and governments (GOs) for transitioning from a developing to a developed state. Non-urban children raised in socioeconomic circumstances solve poverty in any country. As a result, any individual or citizen of India must purchase or sell any Indian product. The most contentious issues are youth participation and curriculum in an institution.

Abhijith (2021), in their study, entitle “ Role of Rural Entrepreneurship in Rural Development ”, in light of findings the entrepreneur is central to the creation of new businesses that energise the economy and revitalise the established businesses that comprise the economic structure. As a result, rural entrepreneurship is important not only for creating employment opportunities in rural areas at a low capital cost and increasing people's real income but also for contributing to the development of agriculture and urban industries. Rural entrepreneurship can be viewed as one of the solutions to poverty, migration, economic disparity, and unemployment, as well as the development of rural areas and backward regions.

Longbao Wei, and Noman Sahito, (2021), in their joint article, “The Role of SMEs in Rural Development: Access of SMEs to Finance as a Mediator”, have analysed small and medium-sized enterprises (SMEs) are seen as critical instruments for economic growth; SMEs are a vital source of employment, economic creation, and poverty alleviation in developing countries rural areas. Their access to funding is critical to the growth of this sector. This essay aims to look into the role of "access to finance for SMEs" in the relationship between SME evolution and rural development in Pakistan. This study shows that the evolution of SMEs has a positive and hopeful impact on rural development. Furthermore, the study shows that has a positive impact on the success of SMEs.

STATEMENT OF THE PROBLEM

There are particular difficulties with rural microfinance. Rural places have weak infrastructure because people are distributed over wide distances as opposed to cities, where people are concentrated in small areas. Providing loans to a spread-out population is more

expensive. The cost of transactions and information is significant. Many rural residents who are impoverished lack property rights and land tenure, and thus frequently lack the collateral needed to get loans.

Agriculture and associated industries are frequently the lifeblood of rural places. Because it depends on the weather, this revenue is frequently cyclical and less reliable than other kinds of income. Rural microfinance banks must come up with creative solutions to deliver cost-effective services that are tailored to the requirements of their customers. Independent control and moveable branches are frequently needed for this. In a distant place, building a rural finance network will cost 80% more than it would in an area with better access.

OBJECTIVES

- 1) To examine the social-economic condition of ruler promoters in Tirunelveli District.
- 2) To assess the microfinance institution support of ruler promoters in Tirunelveli District.
- 3) To analyse the awareness of ruler promoters in Tirunelveli District.

SCOPE OF THE STUDY

This study made analysed the microfinance institutions in social-economic conditions, support in rural promoters, and awareness of ruler promoters. The study area is limited to Tirunelveli District.

METHODOLOGY

This research is based on empirical research. It is based on primary and secondary data collected. The primary data were directly collected from the sample of MSMEs promoters in Tirunelveli District. The secondary data have been collected from the book's articles journals and the web.

SAMPLING DESIGN

The size of sample was selected from the microfinance institution in Tirunelveli District. Purely based on a random basis. First, the sample size was selected as 120. At the time of

the proceeding the data was found to have some misspecification of data So the researchers dropped the irrelevant sample Finally the researcher narrowed the size 110.

TOOLS FOR ANALYSES

The collected data are analysed by using SPSS packages. The statistical tools of percentage analysis, one-way ANOVA, Chi-score test, and Ranking test.

THE HYPOTHESIS OF THE STUDY

H₀: There is no significant difference between the mean score and microfinance institutions' financial support to the MSMEs.

DATA ANALYSIS AND INTERPRETATION

SOCIO-ECONOMIC PROFILE OF PROMOTERS:

Gender of MSME Promoters: Out of the 110 promoters, 82(74.55%) are male and 28 (25.45%) are female. Which demonstrates that the majority of males are in entrepreneurial activity. Male promoters have a high proportion than female promoters.

Age of MSME Promoters: According to the data, the majority of promoters 50 (45.45%) belong to the age group of 41 to 50 years, followed by 26(23.64%) belonging to the age group of 31 to 40 years, 19(17.27%) are in the age group below 30 years, 9 (8.19%) are in 51 to 60 years, and the rest 6(5.45%) belong to the age group of over than 60 years of age. It can be said that most of the promoters 50(45.45%) are in the age group of 41 to 50 years which demonstrates the middle age promoters.

Education Qualification of MSME Promoters: Out of the 110 promoters, a high number of them 45 (40.90%) have graduated, followed by 23 (20.90%) have qualified with a Diploma/ITI i.e. technical education as their education qualification, 22 (20%) have acquired their post graduate degree, followed by 12 (10.90%) have been qualified below HSC and the rest 8 (7.3%) have not completed their formal education. It is striking that, only 45(40.90%) have graduation as a high number. More importantly, 12 (10.90%) have not completed their formal education which handicaps the advancement of promoters to great extent.

Motivated in Business Knowledge: It is understood that out of the 110 promoters, 56(50.91%) have started the business unit on personal interest, 19(17.27%) get the business knowledge through their parents started business unit i.e, Inherited,

followed by 15(13.64%) have started the business after having their educations relating to business, 12(10.91%) have started the business as family, friends, relatives influence and only 8(7.27%) have started a business because of their own prior experience.

MICRO SMALL AND MEDIUM PROMOTERS PROFILE

Type of Enterprise: Reveals the business unit-wise classification of promoters and Micro units have taken the most of the share at 82(74.54%), followed by small business units at 25(22.73%), and the least share at 3(2.73%) are the Medium type of business units. To conclude, a majority of the business units 82(74.54%) are the Micro type of business units.

Business Activity: undergoing Among the 110 business units, 82 (74.55%) are manufacturing units, and only 28 (25.45%) units are service units. A majority of the business units are falling under manufacturing units.

Firm's Age: The age of the firm is calculated with the date of starting the business and the date of data collected from the promoters. It is clear from the above table that 56 (50.91%) of business units' age is between 1 – 5 years, 30 (27.27%) of business units' age is between 6-10 years, followed by 7 (6.36%) business started below 1 year, 13 (11.82%) of business firm's age is between 11 – 10 years of age and 4 (3.64%) of business firm's age are above 16 years. To conclude maximum of enterprises' age, 56 (50.91%) is between 1 – 5 years, secondly, 30(27.27%) of business units age between 6-10 years.

The number of workers: The table reveals the range of the number of workers working in the business unit. A maximum of 11 – 20 employees are working in 32 (29.09%) enterprises out of 110 enterprises, followed by less than 10 numbers of employees working in 31 (28.18%) enterprises, 31 – 40 employees working in 20(18.18%) enterprises, in 16 (14.55%) enterprise 21 -30 number of employees are working and in only 11 (10.0%) enterprise more than 41 employees are working.

Undergone Entrepreneurial Training: Out of 110 entrepreneurs, 86 (78.18%) promoters have undergone Entrepreneurial Training through the Entrepreneurial Development Cell (EDC) and the rest 24 (21.82%) of the promoters have not attended the training given by EDC.

MICROFINANCE INSTITUTION SUPPORT TO MSMEs

The main reason MSMEs stepped back is finance. MSME promoters can have two sources of finance. Firstly, they can use their fund as an internal source of finance, and secondly, they can avail credit from the external source. The significant external source of finance for the MSMEs is the microfinance institution credit. Shows the variable analysed to determine the level of financial assistance/support rendered by the microfinance institution in the MSMEs.

TABLE: 1

MICROFINANCE INSTITUTION SUPPORT TO MSMEs

VARIABLE	SA	A	N	D	SD	TOTAL SCORE
Terms and Conditions	13 (11.82)	30 (27.27)	34 (30.91)	12 (10.91)	21 (19.09)	110
Collateral Requirement	17 (15.45)	21 (19.09)	12 (10.91)	37 (33.64)	23 (20.91)	110
Working Capital Support	39 (35.45)	13 (11.82)	26 (23.64)	16 (14.55)	16 (14.55)	110
L/C Support	33 (30.00)	23 (20.91)	18 (16.36)	13 (11.82)	23 (20.91)	110
Risk Management Support	36 (32.73)	31 (28.18)	21 (19.09)	14 (12.73)	8 (7.27)	110
Rejection of new loan application	54 (49.09)	12 (10.91)	14 (12.73)	19 (17.27)	11 (10.00)	110
Withdrawal of loans before maturity	48 (43.64)	15 (13.63)	14 (12.73)	13 (11.82)	20 (18.18)	110
Less frequent visits from financial institutions	8 (7.27)	44 (40.00)	12 (10.91)	14 (12.73)	32 (29.09)	110
Increase in the borrowing rate	14 (12.73)	16 (14.55)	11 (10.00)	22 (20.00)	47 (42.72)	110
Shortening of the borrowing period	33 (30.00)	28 (25.45)	16 (14.56)	18 (16.36)	15 (13.63)	110
Additional loan (Top up loan)	17 (15.45)	16 (14.55)	20 (18.18)	26 (23.64)	31 (28.18)	110
Provision of additional collateral	30 (27.27)	38 (34.54)	13 (11.82)	14 (12.74)	15 (13.63)	110
Asset Reconstruction Support	13 (11.82)	15 (13.63)	31 (28.18)	21 (19.10)	30 (27.27)	110

Table 1, explains among 110 promoters, 54 (49.09%) of MSME promoters are in the category of ‘Strongly agree’ with ‘Rejection of new loan application’ led by a microfinance institution, 48 (43.64%) of respondents with ‘Withdrawal of loans before maturity’, 39 (35.45%) of promoters with the ‘Working Capital Support’ by the microfinance institutions.

Out of 110 promoters 44 (40.00%) ‘Agree’ with ‘Less frequent visits’ from the microfinance institutions, followed by 38 (34.54%) the respondent with ‘Provision of additional collateral’ and 31 (28.18%) of promoters are satisfied with ‘Risk Management Support’ by the microfinance institutions.

Among 110 MSME promoters, 34 (30.91%) are in the ‘Neutral’ category for ‘Terms and Conditions’ in microfinance institutions, 31(28.18%) of promoters with ‘Asset Reconstruction Support’, and 26(23.64%) are neutral with ‘Working Capital Support’ led by microfinance institutions.

From the above table, it is clear that 37 (33.64%) are ‘Disagree’ with the ‘Collateral Requirement’ by microfinance institutions, 26 (%) of MSME promoters with ‘Additional loan (Top up loan)’ followed by 87 (19.68%) promoters with ‘Increase in borrowing rate’.

From the above Table, 47(42.72%) of promoters ‘Strongly Disagree’ with the ‘Increase in borrowing rate’ fixed in microfinance institutions and 32 (29.09%) with the ‘Less frequent visits from financial institutions, and 30 (27.27%) promoters are with ‘Additional loan (Top up loan)’ rendered by the microfinance institutions.

TABLE:2

MICROFINANCE INSTITUTION FINANCIAL SUPPORT TO MSMEs – ANOVA

SOURCE	DEGREE OF FREEDOM	SUM OF SQUARES	MEAN SQUARES	F- VALUE
Between Groups	17	328.91	15.356	41.513**
Within Groups	4522	1668.46	.386	

**Significant level at 1%

NULL HYPOTHESIS

H₀: There is no significant difference between the mean score and microfinance institutions' financial support to the MSMEs.

The ANOVA result shows that the calculated *F*- ratio value is 41.513 which is higher than the table value of 2.03 at a 1% level of significance. Since the calculated value is higher than the table value, it is inferred that there is a significant difference in the mean scores on the preference of microfinance institutions among the promoters. Hence the Hypothesis is rejected.

TABLE:3
RANKS ON PROMOTERS' AWARENESS OF LOANS FROM MICROFINANCE INSTITUTIONS

VARIABLES	TOTAL MEAN SCORE	RANK
Rate of Interest	3.58	2
Mode of interest calculation	2.25	7
Loan processing charges	2.65	4
Loan sanction and disbursement process	2.62	6
Repayment process	3.72	1
Penalty for default in repayment of a loan	2.64	5
Action against default in repayment of a loan	3.02	3

From Table 3, the, total aggregate ranks for the promoter's awareness of loans by microfinance institutions have been shown. The evaluation of rank order has been undergone with seven variables and the mean agreeability score about motivating the unit ranges from 2.35 to 3.72.

From the analysed variables, the result of the analysis in the microfinance institution. The rate of Interest got 3.58 as the mean score of (II Rank), the mode of interest calculation got 2.25 as the mean score of (VII Rank), loan processing charges got 2.65 as the mean score of (IV Rank), loan sanction and disbursement process got 3.72 as the mean score of (I Rank), repayment process got 2.64 as the mean score of (V Rank), the penalty for default in repayment of a loan got 3.02 as the mean score of (III Rank).

CONCLUSION

The Indian market is growing and the Indian industry is making rapid progress in various Industries like manufacturing, food processing, textile and garments, retail, precision engineering, information technology, pharmaceuticals, agro, and service sectors. There are five different types of market players: - self-employed, micro, small, medium, and large enterprises, and multinational companies. Micro Small and Medium Enterprises (MSMEs) are heterogeneous groups encompassing a wide range of business activities.

Nowadays, MSME entrepreneurs face enormous challenges in terms of manpower shortage, lack of technical guidance, interrupted power supply, etc. These factors affect entrepreneurs to a great extent. The government is playing a vital role to sustain these enterprises through various policy measures that resulted in constructive force and the enterprises help to generate various opportunities for the Indian population though the full potential is yet to be realised.

Mounting the role of MSMEs in the Indian economy and their problems encourage analyzing their performance and the problems for a better solution to set a desirable marker. Tamilnadu is considered one of the most desired industrial locations in the country for setting industries. The State has shown rapid industrial growth in recent years. Micro, Small, and Medium Enterprises form an important and growing segment of the Tamilnadu industrial sector. The financial institution's performance in Tamilnadu State is commendable in terms of the spread of the banking network, mobilization of deposits, disbursement of credits, penetration of the cooperative movement, etc.

The ray of hope on the horizon for entrepreneurs is the banks only for the immediate solution. The role of Nationalized Banks is very important in promoting or developing MSMEs in Urban, Suburban, and rural areas. The financial institution needs to introduce more dynamic and innovative MSME schemes, focus on mass customisation, and build a better relationship with the MSMEs. The satisfied MSME entrepreneurs supported by banks are more likely to concentrate their business with that bank and tend to be more committed to that bank, which in turn results in better relationships.

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