



## ROLE OF MICRO FINANCE ON RURAL DEVELOPMENT

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### ABSTRACT:

India is a country which has its majority of population residing in rural areas hence rural development becomes an important aspect on which limelight should be brought. Micro finance is to supply micro credit to people living in utter poverty and has no reach to the conservative and formal financial products. It is an aid to engage them in productive activities and grow their tiny businesses. It is regarded as a useful tool for socio-economic up-liftment in a developing country like India. Micro financial schemes plays vital role in increasing women's participation in economic activities and decision making. This paper is an attempt to diagnose the role of microfinance in the development of the rural area through Micro financial schemes. It is observed from the study that microfinance brings effective changes in the society with the policies and practices. The aim is to examine the current scenario of outreach of micro-finance in said areas and whether it is helping in alleviating poverty. The data collection of the research would be based on primary and secondary data sources. It is concluded that developing countries, are in immense need of credits so microfinance programs must make available this credit needs and motivate the poor people to increase their standard of living.

**Key words:** - *Microfinance, Rural Development, Financial Services, Economy etc.*

### INTRODUCTION:

'Microfinancing' was introduced in India in the 1980s as a solution to poverty and to empower women. Despite its strong potential, the microfinance sector faces challenges related to accessibility in rural India. Microfinance is a category of financial services targeting individuals and small businesses who lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; microinsurance; and payment systems, among other services. Microfinance services are designed to reach excluded customers, usually poorer population segments, possibly socially marginalized, or geographically more isolated, and to help them become self-sufficient.

Microfinance initially had a limited definition: the provision of microloans to poor entrepreneurs and small businesses lacking access to credit. The two main mechanisms for the delivery of financial services to such clients

were: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs come together to apply for loans and other services as a group. Over time, microfinance has emerged as a larger movement whose object is: "a world in which as everyone, especially the poor and socially marginalized people and households have access to a wide range of affordable, high quality financial products and services, including not just credit but also savings, insurance, payment services, and fund transfers."

Proponents of microfinance often claim that such access will help poor people out of poverty, including participants in the Microcredit Summit Campaign. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the

risks. Critics often point to some of the ills of micro-credit that can create indebtedness. Many studies have tried to assess its impacts.

New research in the area of microfinance call for better understanding of the microfinance ecosystem so that the microfinance institutions and other facilitators can formulate sustainable strategies that will help create social benefits through better service delivery to the low-income population.

#### **OBJECTIVES OF THE STUDY:**

The specific objectives of the study are to:

- To analyze the role of Microfinance enterprises in social and economic development of India .
- To study the awareness of micro-finance amongst the weaker section of the economy .
- To study whether micro-finance is necessary to alleviate poverty.
- To examine the current status and performance of microfinance institutions in India.

#### **TYPES OF MFIs:**

- Domestic Commercial Banks including Public Sector, Private Sector and Local Banks
- Regional Rural Banks
- Co-operative Banks
- Co-operative societies
- Registered NBFCs
- Unregistered NBFCs
- Others include Societies and Trusts

#### **ROLE AND SIGNIFICANCE OF MICRO-FINANCE:**

According to the research done by the World Bank, India is home to almost one third of the world's poor (surviving on an equivalent of one dollar a day). Though many central government and state government poverty alleviation programs are currently active in India, microfinance plays a major contributor to financial inclusion. In the past few decades it has helped out remarkably in eradicating poverty. Reports show that people who have taken microfinance have been able to increase

their income and hence the standard of living. Thus Microfinance plays a major role in upliftment of Indian economy in following ways:-

- **Economic Growth:-**Finance plays a key role in stimulating sustainable economic growth. Due to microfinance, production of goods and services increases which increases GDP and contributes to economic growth of the country.
- **Credit to Rural Poor:-**Usually rural sector depends on non-institutional agencies for their financial requirements. Micro financing has been successful in taking institutionalized credit to the doorstep of poor and have made them economically and socially sound.
- **Women Empowerment:-** Normally more than 50% of SHGs are formed by women. Now they have greater access to financial and economical resources. It is a step towards greater security for women. Thus microfinance empowers poor women economically and socially.
- **Poverty Alleviation:-**Due to micro finance poor people get employment. It also helps them to improve their entrepreneurial skills and encourage them to exploit business opportunities. Employment increases income level which in turn reduces poverty.
- **Development of Skills:-**Micro financing has been a boon to potential rural entrepreneurs. SHGs encourage its members to set up business units jointly or individually. They receive training from supporting institutions and learn leadership qualities. Thus micro finance is indirectly responsible for development of skills.
- **Mutual Help and Co-operation:-**Microfinance promotes mutual help and co-operation among members. The collective effort of group promotes economic interest and helps in achieving socioeconomic transition.
- **Social Welfare:-** With employment generation the level of income of people increases. They may go for better education, health, family welfare etc. Thus micro finance leads to social welfare

• Mobilisation of Savings:-Microfinance develops saving habits among people. Now poor people with meager income can also save and are bankable. The financial resources generated through savings and micro credit obtained from banks are utilised to provide loans and advances to its members. Thus microfinance helps in mobilisation of savings.

#### **CHANNELS OF MICROFINANCE:**

As of May 2021, the Reserve Bank of India (RBI) had registered 94 non-banking financial companies (NBFC) to run microfinance institutions (MFI)

There are two channels through which microfinance is being operate in India:

SHG-Bank Linkage programme (SBLP) – In the year 1992 NABARD initiated this channel. This model incites women to unite together to form a group of 10-15 members. Where all the women belonging to financial backward classes contributes by giving their individual savings to the group at regular intervals. Thereafter, loans are provided to the members of the group by their contributions. Self-help groups {SHG} also at later stage provide loans for income generating activities.

Self-help groups has gained a lot of success in the past years and it got popular for contributing for the empowerment of women. It

has been observed that once these self-help groups reach to the level of stability, they function almost independently with minimal support from NABARD , SIDBI , and Non-governmental organisations.

#### **Microfinance Institutions:**

The primary operation of these type of institutions is to have the provision of microfinancing. They lend through the concept of joint liability i.e a group of 10-15 members who seeks loans either jointly or individually.

#### **Microfinance Companies In India:**

Some of the microfinance companies that offer loans to the unbanked and under banked population in India as are Arohan financial banks, Equitas microfinance pvt ltd, Bandhan financial services pvt ltd., BSS microfinance pvt ltd.,Cashpor microcredit, Asirvad microfinance pvt ltd, Disha microfin pvt ltd, Annapurna microfinance pvt ltd, Esaf microfinance and investments pvt ltd, Fusion microfinance pvt ltd Lenders Offering Microfinance Loans To Mfis Institutions

Following are the lenders offering microfinance loans to the microfinance institution:

Reliance Money, ICICI Bank, State Bank of India, AXIS Bank, DCB Bank .

The below Data are from NABARD 2020-21

#### **Progress under MFI/MFO-Bank Linkage**

(Amount in crore)

Particulars	2018-19		2019-20		2020-21	
	No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
Loans disbursed by banks/FIs to MFIs/ MFOs	8,750	26,852.08	20,744	20,875.97	28,601	15,322.33
Loans outstanding against MFIs/MFOs as on 31 March	34,982	27,158.51	52,288	29,896.67	61,259	24,494.04

**Region-wise progress of Savings Linked SHGs with Banks (2018-19 to 2020-21) (Amount in Lakh)**

Sr.no	Regions	2018-19		2019-20		2020-21	
		No. of SHGs	Savings-Amount	No. of SHGs	Savings-Amount	No. of SHGs	Savings-Amount
1	Northern Region	5,48,624	62,453	5,77,122	59,550	6,09,808	1,74,345
2	North Eastern Region	5,23,469	40,407	5,56,899	48,141	6,33,714	83,126
3	Eastern Region	26,54,358	6,01,155	28,11,130	6,64,333	31,22,424	7,74,912
4	Central Region	10,62,759	1,33,230	11,35,083	1,71,217	13,45,575	2,11,870
5	Western Region	13,88,615	2,05,275	14,73,853	2,01,880	15,50,176	3,74,023
6	Southern Region	38,36,418	12,89,928	36,89,236	14,70,085	39,61,703	21,29,485
	<b>Total</b>	<b>1,00,14,243</b>	<b>23,32,448</b>	<b>1,02,43,323</b>	<b>26,15,205</b>	<b>1,12,23,400</b>	<b>37,47,761</b>

**SUCCESS STORIES OF MFIs DURING 2020-21:****1. In tough Times we work together (East Godavari, Andhra Pradesh)**

**Challenges:** In East Godavari district about 70-80% of the land is cultivated by tenant farmers who are following high input agricultural practices they are not access to bank credit, which is an inevitable input for cultivation. The pandemic COVID 19, during 2020-21 led many of the SHGs and tenant farmers into a vulnerable economic situation. Interventions □ DCCB-East Godavari came up with a plan for JLG financing, under NABARD JLG programme. PACS were guided for 'activity based' lending. Potential activities and vulnerable communities were identified. Campaigns were conducted by DCCB and loans were disbursed to the groups through selected PACS for setting up of units by the JLGs. Impact □ More than 1000 JLGs were formed covering around 5000 beneficiaries. The groups were able to start their income generation activities immediately on receipt of the loans. Beneficiaries took up activities like flower decoration, milk vending, flower sale, vegetable farming, laundry etc.

**2. Stitching Dreams (Imphal East, Manipur)**

**Challenges:** COVID pandemic had severely affected income levels of SHG members. Lack of stitching skills. Interventions □ Modern

Tailoring has been implemented as Virtual Readymade Cluster for School Uniforms through LEDP in Imphal East District by involving 90 women from 15 SHGs with three Common Facility Centres. Each trainee received a composite Bank loan of `20,000/- to `50,000/- for procurement of a sewing machine. The members of SHGs intensively trained on modern tailoring and designing, business concepts and financial literacy aspects. Impact □ After the training programme, 100% of the trained SHGs members took up the livelihood venture in a commercial way by setting up micro enterprises. The trained SHG members are working together in cluster mode by forming 3 sub group in 3 work-sheds/common facility centers located at 3 different places of Imphal East District. Under the LEDP Programme NABARD supported setting up of common facility centers for the SHGs as demonstration units

**3. Hum Honge Kamyab (Chittorgarh, Rajasthan)**

**Challenges:** COVID – 19 and has created a great deal of panic among the general population with any cure or vaccine still months away. There was lack of protective masks in the market. Interventions □ Consumer unity and Trust Society (CUTS) formed 200 SHGs including 22 SHGs of differently abled women and men. These SHGs are currently engaged in activities

such as spice processing, detergent and phenyl manufacturing, grocery selling, animal husbandry, etc. Impact □ SHGs are now engaged in the processing, packaging and marketing of spices such as chilly, turmeric, coriander, tea masala, chaat masala, etc. and bag making. The Samavesh Sai Kripa SHG of differently abled women received order from the district administration of Chittorgarh to stitch 8000 face masks.

There are many successful stories of MFIs through NABARD, SHGs which is impossible to include in this research paper. Many helping hands from private sectors, NGOs etc. All of them helped a lot during Covid pandemic. Which give upliftment in their living.

#### CONCLUSION:

As we all know financial institution are the integral part of our economy as it plays key role in economic development. Therefore, India financial institution are very strong but operations of the same are adverse, somewhere we are lacking in its implications. However micro finance plays the major role in the alleviation of poverty from the society. Many banks in India have initiated to lend money to the micro finance institution. It works towards the empowerment of women which is the great move towards the development of the country. The MFI is leaving enormous economic and social impact. Microfinance provide both savings and loan facilities An MFI is likely to provide the much needed funds to the potential entrepreneurs of the rural India. A core conclusion of this paper is that microfinance can contribute into solving the problem of insufficient housing and rural services as an integral part of poverty alleviation programs and empower women to play a vital role in the society. Eventually it would be ideal to improve the creditworthiness of the poor and to make them more bankable to financial institutions and allow them to meet the criteria for long-term credit from the formal sector. Microfinance

institutions have a lot to contribute to this by building financial discipline and educating borrowers about compensation requirements. All micro finance institutes helped a lot in overcoming the Covid pandemic by financially, mentally, physically and by providing their basic needs, education to children etc.

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