



## ROLE OF MICRO FINANCE ON RURAL DEVELOPMENT

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### ABSTRACT:

The direction of development of a country depends on its good economic condition. Therefore, if any country wants to develop, then rural development is necessary. That is why various schemes are devised to improve the economy of the country. Despite this, in most cases development plans do not reach the rural masses of the country. Concepts like microfinance have emerged to help people in rural areas in such situations. Under microfinance, they are not only given loans, but also training for the whole process.

The Government of India has provided loans to poor rural families, smallholder farmers, agricultural labourers, rural artisans, non-agricultural labourers living in rural areas of the country, which make a living by doing small and big jobs, so that they can become self-employed, start their own business. Microfinance is a form of financial services for entrepreneurs, small businesses as well as rural people who do not have access to banking and related services. Microfinance is a wide range of services, including microcredit. If India wants to become an economic superpower, it is imperative to double the income of farmers and develop rural areas.

**Key words:** - *Microfinance, Rural Development, Loan, Microcredit, Economic Superpower*

### INTRODUCTION:

This research paper discusses the current role of microfinance in India. It acts as an anti-poverty vaccine in rural India. In a developing country like India, it is a well-known fact that the majority of Indian population still lives in rural areas, where facilities and knowledge are lacking and they have minimal amount to meet their basic needs. India is the second most populous country with 70% of the population working in agriculture, resulting in low unemployment but low per capita income.

The income earned is so low that it is not enough for people to meet their basic needs. Micro-financing plays an important role in the lives of small businesses in urban areas and entrepreneurs in rural and underdeveloped parts of India. Institutional loans are not available to people in rural areas. That is why

microfinance serves as a boon for people living in rural areas which help them to achieve stability in the face of their financial problems.

The concept of microfinance is related to providing financial services to the poor through loans and deposits. India's microfinance is gaining momentum for sustainable development. Microfinance is considered as an important tool for poverty alleviation and livelihood of the poor. It is also considered as a method of economic inclusion to improve the sustainable development of the country. An innovation brought to Bangladesh by Dr. Mohammad Yunus which currently exists as a rural model. This has created awareness in many countries and especially in India as a way to eradicate poverty. The microfinance sector is currently undergoing major innovations and is

claiming to be an emerging sector, especially in the concept of financial inclusion.

#### REVIEW OF LITERATURE:

\* Bhole B & Ogden S (2010) in their paper 'Group lending & individual lending with strategic default', the distinction between group loans and personal loans, covered up strategic faults and various drawbacks.

\* James C Brau & Gary M Woller (2004), in this paper 'Microfinance: A Comprehensive Review of the Existing Literature' finance is introducing the discipline of microfinance and microfinance institutions to the academic community.

#### OBJECTIVE:

- 1) To study the concept of microfinance.
- 2) To study the need of microfinance in rural area.
- 3) To highlight importance of microfinance for rural development.
- 4) To analyses the role of microfinance on rural development.
- 5) To study the role of State Bank of India in microfinance.

#### COLLECTION OF DATA:

Research work is based on Secondary data collected from various websites, journals, research papers and article, newspapers, reports. Overall it is a descriptive research work.

#### NEED OF THE STUDY:

The direction of development of a country depends on its good economic condition. If any country wants to develop, then rural development is necessary. Microfinance plays an important role for the development of rural economy. Hence it is need of the day to analyse the role of microfinance on rural development of India.

#### About Status of Indian Village:

India is an agricultural country. Three-quarters of India's population lives in rural areas. The strength and prosperity of India really determines rural India, but unfortunately our villages have been neglected for centuries. As a result, the general condition of our villages is

not satisfactory. Even after 70 years, we have not been able to bridge the gap between rural and urban life. The per capita income of the rural population is much lower than the per capita income of the urban population. Despite nearly seven decades of planning, its benefits have not reached the rural poor who are deprived. Undoubtedly our villages have made a lot of progress, but not as much progress as they should have. One of the major causes of backwardness is the widespread illiteracy of the rural population. Three-quarters of the rural population is still shrouded in the darkness of illiteracy and ignorance. This is because they do not know what is going on around them. They cannot take advantage of modern farming techniques and sophisticated methods of increasing farm production. Due to the ignorance of the common poor villagers, all the benefits of development are taken away by some rich people. Their weak financial position and desperate desire to make progress is a major obstacle in overcoming their backwardness. Poor people in rural areas cannot dare to fight for their rights fearlessly. So he has left himself to his fate. The situation has been aggravated by the neglect of the government employees working in the village. Thus, crores of rupees have been spent for rural development, but no satisfactory progress has been made in that direction.

The government's faulty planning system is also responsible for the slowdown in growth. The village always lacks facilities like educational facilities, medical facilities, transportation facilities, rural electrification etc. The poor condition of credit facilities in rural areas has also contributed to rural indebtedness. Although these facilities have been extensively expanded in the works. But the removal of a large portion of these facilities by influential people does not improve the situation. Most of the people in our village are born in poverty, live in debt and die in debt. Unemployment from time to time, poor

condition of small scale industries and lack of incentives for their proper development, extravagant expenditure on various social norms, all these have contributed to the impoverishment of the rural masses.

Now is the time to reevaluate our priorities and focus on improving the lot of our rural people. In order for every village to be connected to the main road, the work of link roads should be revived. The problem of transportation should be removed and the rural poor should be able to commute to and from the city, from where they can get awareness and encouragement for their progress. Power generation should be given top priority in rural electrification. There is a need to maximize the support of renewable energy sources. Good educational facilities need to be mobilized. Adult education programs should be successful. Government employees working in rural areas should be made aware that they should pay attention to the people who are really in charge of it. Small businesses need to be encouraged. Television can play an important role in bringing modern faith to the traditional poor. The Central and State Governments have committed to spend 60 to 70 percent of the budget for the development and welfare of the rural population. There is definitely a tendency towards villages in the minds of our leaders. Green revolution has taken place in many places in our country. India has become almost self-sufficient in food production. The milk production and dairy sector has achieved great success and India is ranked second in the dairy sector. Fishing has also gained a status in many rural areas and the blue revolution, the fish revolution, is not far off. In the near future, the rural people of India will consider themselves lucky as the pace of development there is very fast.

#### **The importance of Credit in Rural Development:**

Credit is very important in rural development. Therefore, every plan and program needs to be

implemented effectively for the development of rural areas in real sense. The following credit is required for rural development-

1. With the help of loans, productivity of agriculture and agriculture initiatives in rural areas can be increased.
2. Loans can be used by farmers to purchase seeds, farm implements, fertilizers etc.
3. With the help of loan, subsistence expenses of the farmer's family, marriage, death, religious rites etc. can be met.
4. Debt has raised the living standards of people in rural areas.
5. Loans create employment opportunities in rural areas.

#### **Credit Challenges in Rural Development:**

Most of the farmers in India are smallholders who produce only for subsistence. Loans are most needed between planting and harvesting.

##### **1) Short-Term Credit-**

The need for short-term loans is mainly related to the purchase of inputs such as seeds, fertilizers and pesticides. Sometimes it is also used to pay electricity bills. This loan is for a period of 6 to 12 months.

##### **2) Medieval Credit-**

Medieval loan requirements are related to buying a machine, digging a well. The term of such loan is usually 12 months to 5 years.

##### **3) Long-Term Credit-**

Long-term loans are required to purchase land or to make permanent improvements to existing land, etc. The term of such loan is 5 to 20 years.

#### **About Microfinance:**

Microfinance is basically a financial service, which provides a small amount of financial services in the form of loans or savings. Microfinance companies have been set up to facilitate credit arrangements for rural micro-enterprises. Due to the cumbersome loan process, people in rural areas are unable to get loans from banks. This is why it is often referred to as a micro-credit institution. They offer small loans to various small businesses or households

that are not eligible for formal banking channels or loans. This is less than Rs.50,000/- for rural area and less than Rs.1,25,000/- for urban area. Microfinance companies in India can lend at affordable rates as directed by the RBI and the central government. They have a large base for all rural and agricultural development, including income and job creation. There are basically two types of microfinance companies in India, one is registered with RBI and the other is non-profit type, which is registered as a Section 8 company and does not require RBI approval. Under microfinance, loans are given to the financially weak to start their own business. Although the loan amount is less, this facility is becoming important from the point of view of job creation. This type of loan can be obtained for agriculture, dairy, pottery, tailoring, poultry, small shop, animal husbandry or any other personal needs.

#### **The Work Culture of Microfinance Companies:**

The functioning of microfinance companies is different from the traditional banking system. An officer is appointed by the concerned financial institution in this area. This appointed officer liaises with the group of people and understands the needs of the applicant and decides the final amount based on that. Borrowers also have to abide by certain rules laid down by microfinance companies.

The job of microfinance companies is not just to lend. On the contrary, unless they can run their own business, they will not leave the side of the borrower. This is one of the reasons why the success rate of microfinance is so high in our country.

#### **The main features of Microfinance:**

- \* The loans given in it are small amount like micro loans.
- \* The basic purpose of lending is generally linked to income growth.
- \* This type of loan is given to low income group people.

\* There are short term loans.

\* They are repaid at a higher level.

\* In this, loan is given without any parallel arrangement.

\* Loans are given exclusively for self-employment.

#### **Objectives of Microfinance for Rural Development:**

1. Finance to create employment opportunities in rural areas and increase people's purchasing power.
2. To finance the use of science and technology to create employment opportunities using rural resources.
3. All kinds of programs, employment work should be easy, which is easy to do and by doing that the beneficiaries can earn money. This should benefit the beneficiaries financially.
4. The main objective of this scheme is to increase the income of rural people by financing animal husbandry, poultry, fisheries, dairy cottage industries.
5. Through microfinance, farmers and laborers are being financed to develop modern equipment and new technologies to increase their income.
6. The main objective of microfinance is to develop a system at the local level so that rural development can take place.

#### **Other important information related to microfinance from the perspective of rural development:**

- \* Microfinance companies operate under the auspices of the Reserve Bank of India.
- \* Borrowers need to know for what purpose the loan is being taken.
- \* Under this, loans are given to people belonging to deprived income group. Most of them do not even have a bank account.
- \* Debt repayment in microfinance is done on weekly / monthly basis.
- \* Lending to women is done by microfinance companies.
- \* The Microfinance Institute works to educate people in rural areas about current market

trends, helping them prepare for market competition.

\* There is no guarantee of borrowing.

\* One thing is that not all microfinance companies do the same thing. There may be differences in the way each of these works.

\* Any customer can take a loan again after repaying the loan.

\* In microfinance, loans are given to an individual or a group of individuals.

\* Under microfinance they are not only given loans but also training in the whole process.

\* Diploma courses based on microfinance are run by various institutes.

### **State Bank of India's entry into the Microfinance:**

In the current economic downturn, the banking sector's hopes have been dashed by the microfinance market. Against this backdrop, State Bank of India, the largest public sector bank, has also taken a bold step in this area. By entering this market, SBI also intends to provide low interest rate loans to customers with low financial credit at lower interest rates than other competing financial institutions. State Bank will be the first government bank to operate in the microfinance sector. State Bank will also enlist the help of some experienced and retired executives for the microfinance business.

### **CONCLUSION:**

The global economy has achieved unprecedented success in the last two decades. Today, all countries have moved out of the social economy and adopted the capitalist system. Microfinance is playing a vital role for rural India, especially for women, in India's rapid development in this age of economic growth. Microfinance has become more successful in India by linking the banking system with self-help groups. To facilitate microfinance efforts in India, companies like NABARD, SIDBI, etc. are playing their role through their Micro Credit Innovation Division. The department aims to provide low cost long term financial services to the rural

poor who have so far been deprived of banking services through various micro finance innovations.

Being a successful entrepreneur of the rural masses means that microfinance has a strong potential to reduce poverty. The level of economic development is directly related to the level of financial literacy. These microfinance companies not only bring micro-credit to the poor, rural masses through formal banking system, but also sow the seeds of financial literacy in them. So these microfinance companies have become the main carriers of transformation.

On the one hand, the provision of financial services in rural areas is being done by microfinance while on the other hand; microfinance is also playing an important role in the economy of the country by helping the rural poor. At the same time, these companies are educating people about the proper use of money. Rural development has also accelerated through micro-credit.

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