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EFFECT OF MICROFINANCE ON ECONOMIC AND RURAL DEVELOPMENT IN INDIA

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Abstract: -
Microfinance not only a financial system; rather, it is a vehicle for bringing about social change and eradicating poverty in a nation, particularly among women, who are then better able to achieve self-sufficiency. There are now 82 significant microfinance institutions in India that provide modest loans to assist individuals escape poverty. The conceptual underpinning of microfinance organizations in India is described in this essay. The researcher made an effort to identify how microfinance contributed to the growth of the rural areas. Through the examination of microfinance programmes, an attempt is being made to provide light on the contribution of microfinance to rural development. The study's main finding is that the weaker section of the Indian economy desperately needs ways to obtain credit through money lending. Thus, it is crucial to focus on the needs of the poor and raise their living standards since doing so promotes economic growth.

Keywords: *- Microfinance, schemes, rural development, Self-Help Groups, credit*

Introduction: -

Microfinance, often known as microcredit, is a kind of banking service offered to jobless or low-income people or organizations that would not otherwise have access to financial services. While lending is the primary activity of organisations involved in microfinance (microloans can range in size from $100 to $25,000), many banks also provide other services including checking and savings accounts, micro-insurance products, and some even offer financial and business education. Microfinance's ultimate objective is to provide poor individuals with the chance to achieve self-sufficiency. Because most people who are impoverished or have few resources are unable to conduct business with regular financial institutions, microfinance services are offered to jobless or low-income people.

People can obtain acceptable small business loans through microfinance in a secure way that adheres to moral lending principles. Despite being widespread, the bulk of microfinance transactions take place in poor countries like Uganda, Indonesia, Serbia, and Honduras. Numerous microfinance organisations priorities assisting women in particular. Microfinance groups support a wide range of initiatives, from giving small company owners access to the fundamentals—like bank checking and savings accounts—to startup funding and training initiatives that impart investment concepts. These courses may concentrate on technical or professional skills like accounting, cash flow management, or bookkeeping. In contrast to normal financing scenarios, where the lender is mostly interested in whether the borrower has sufficient collateral to service the loan, many microfinance groups place a strong emphasis on supporting business owners. In the past, microfinance has prioritised offering a very uniform lending product.

Like everyone else, the poor require a variety of financial tools to be able to accumulate assets, control consumption, and hedge against hazards. The idea of microfinance has therefore expanded, and our present task is to create effective and dependable ways to offer a wider range of microfinance solutions. Microfinance is the provision of financial services to the underprivileged and those with low incomes in order to help them improve their income and raise their standard of life. Examples of these services include savings accounts, insurance funds, and credit.

It has a significant impact on India's growth. It serves as a vaccination against poverty for those who reside in rural areas. Its goal is to assist economically disadvantaged areas in achieving higher levels of wealth development and income stability for both households and entire communities. The bulk of the population still lives in rural areas, which lack infrastructure and have little growth, according to a report from the year 2018. Only 65.97% of the officially available data came from reliable sources. India, the second-most populous nation, has about 60% of its people dependent on the agricultural sector, which causes underemployment and, in turn, lower per capita income.

Financial Services Included in Microfinance: -

Microloans: -

Microloans are notable because they are given to borrowers without any kind of security. The goal of microloans should be to help borrowers go beyond smaller loans and become qualified for conventional bank loans. Microloans are significant since no collateral is required for their provision. The promise of a security for loan repayment by the borrower is optional. It provides a better total loan payback rate than standard banking products, and because it is a sustainable process, it increases the likelihood of future investments. Most significantly, it provides people with a calm and stress-free way of life.

Micro saving: -

Small business owners can manage savings accounts with no minimum balance thanks to this. It aids users in developing a sense of financial responsibility and a desire to save money for the future. Entrepreneurs may manage savings accounts with no minimum balance thanks to micro savings accounts. These accounts support users' development of saving motivation and financial discipline. The benefit of micro savings is that it allows low-income individuals and small business owners to manage their accounts with no minimum balance requirements. People are not required by these accounts to keep a particular quantity of money in their accounts.

Microinsurance: -

Micro insurance is a sort of protection offered to microloan borrowers. The rates for these insurance plans are cheaper than for conventional insurance policies. The benefit of microinsurance is that it serves as a mechanism to shield the underprivileged from any potential misfortunes, such as accidents, chronic illnesses, etc. It addresses all threats that low-income or disadvantaged individuals worldwide may encounter.

Objectives of the study: -

1. To examine the role of microfinance in economic development.
2. To analyse the significance of microfinance in poverty alleviation and rural development.

Role of Micro-Finance in Social and Economic Development: -

In the following manner, microfinance assists in the economic and social advancement of the country: -

1. Due to their low income and inability to manage banking processes and documents, the poor are unable to

receive banking services. A comprehensive range of financial services, including deposits, loans, payment services, money transfers, and insurance, can be made available to low-income people and their microbusinesses through microfinance.

2. Through its NGOs, microfinance institutions encourage impoverished individuals to save money. Members of the Self-Help Groups are given loans and advances using the money earned via savings and microcredit received from banks (SHGs). As a result, microfinance organisations assist in using savings for the benefit of its members.

3. Because security and credit guarantees are needed for loans from the traditional banking system, poor individuals are unable to provide these and cannot, therefore, get loans. Once more, high interest rates and complicated procedures discourage the poor from obtaining loans from banks. All of these barriers are removed by microfinance, which also offers cheap financing to the impoverished and rural people.

4. Microfinance makes it possible for the less affluent members of society to obtain loans at lower interest rates, enabling them to launch small enterprises, expand those firms, and escape poverty. It supports self-sufficiency among the less fortunate segments of society by helping to establish their long-term financial freedom.

5. Self Help Groups serve as the intermediaries for the provision of microfinance (SHGs). Self Help Groups (SHGs) are created by women in greater than 50% of cases. They now have easier access to economic and financial resources. It represents a step toward giving women more security. Therefore, micro-finance gives low-income women more economic and social influence.

Microfinance and Poverty Reduction for Rural Development in India: -

Beyond a quarter of the people of India lives in poverty. According to the World Bank, there are between 260 and 290 million impoverished people living in India. If poverty is defined by the international standard of those making less than $1 US a day, that figure rises to about 390 million. More than 133 million of India's impoverished live in three states: Uttar Pradesh, Bihar, and Madhya Pradesh.

Three-quarters of India's impoverished live in rural areas, which is confirmed by the widening gaps between urban and rural areas. The approach for reducing poverty in India emphasizes infrastructure, social development (particularly in the areas of education and health), and rural livelihoods. Microfinance Institutions focus on the component of poverty alleviation that involves improving rural livelihoods. The majority of poor individuals manage resources over time to build their homes and businesses. Financial services might empower the underprivileged to take the initiative and hasten the process of amassing resources, income, and financial security.

Low-income families and households led by women seldom ever receive financial assistance from traditional financial institutions. Regardless of size, the income for many homes with independent contractors is unstable. The impoverished require a huge number of small loans, while lenders prefer to deal with large loans sparingly in order to save administrative expenses. Additionally, they seek assurance, which many low-income households do not have.

However, over the past ten years, effective efforts to finance small business owners and producers have shown that, when provided access to fast, responsive financial services at market rates, the poor will repay their loans and use the proceeds to enhance their income and assets. This is hardly surprising considering that their only practical option is to borrow money from the black market.

Self Help Groups (SGHS) and Micro Finance Institutions for Rural Development: -

The Grameen system and the self-help group technique are the two most popular microfinance strategies in India. An SHG is a non-official organisations with 10 to 20 members. The SHG's members have banded together specifically to provide its members with access to credit and saving services. Members pooling their money to establish a shared fund enables this. The procedure and social engagement of SHGs are meant to be tools of empowerment, increasing members' capacity to eventually conduct and administer SHGs on their own and giving them more freedom in financial and social decision-making. SHG meetings are scheduled to occur at predetermined intervals and times. Group members are chosen from the same social and economic strata, and they all contribute equally to group activities. One lead member at a time chairs the groups; this position is often rotated to provide capacity growth for all participants. The agenda for meetings is set, and complete, current records of all financial transactions, group decisions, and activities are kept. SHGs are encouraged to connect with other SHGs when they are created and eventually with financial institutions to have access to more financial aid.

Impact of Microfinance on Poor India: -

In the new economy, micro-finance is growing as a potent tool for reducing poverty. Self-Help Groups (SHGs) - Banks Linkage Programme, which aims to provide a cost-effective framework for delivering financial services to the underserved poor, dominates the microfinance industry in India. Indian terminology has been used to broadly characterize microfinance consumers, including small and marginal farmers, rural craftsmen, and economically disadvantaged groups. Recently, a more sophisticated form of microcredit distribution has emerged, emphasizing the integration of financial services with technical support and the growth of agricultural businesses. Private MFIs have had a less impact in India than the larger SHG bank linkage initiative. Large microfinance organisations, however, have recently begun a trend of becoming Non-Bank Financial Institutions (NBFCs). In terms of the ability of microfinance to attract additional money and hence improve the outreach, this shifting face of microfinance in India looks to be favourable. There are three groups that need money when it comes to the need for microcredit or microfinance. These are what they are:

1. Those who lack access to land and work in seasonal agriculture as well as manual laborers in the forestry, mining, domestic, construction, and transportation industries are at the absolute bottom of the income and wealth ladder. First and foremost, this section needs credit for expenditure during the months when they are unemployed and for unforeseen events like illness. Additionally, they require finance to buy minor productive assets like animals that will allow them to supplement their income.
2. Those who lack access to land and work in seasonal agriculture as well as manual laborers in the forestry, mining, domestic, construction, and transportation industries are at the absolute bottom of the income and

wealth ladder. This section needs credit for consumption in the first place, both for unforeseen events like illness and the months when they don't have labor job. In order to buy minor productive assets like animals that they may use to make extra money, they also require loans.

3. Those without land who work seasonally in agriculture and manual laborers employed in forestry, mining, domestic industries, construction, and transportation are at the very bottom of the income and asset scale. First and foremost, this section needs credit for expenditure during the months when they are unemployed and for unforeseen events like illness. Additionally, they require finance to buy minor productive assets like animals that will allow them to supplement their income.
4. These are the individuals who need money, and microfinance makes that possible. The current issue is that SHGs are the ones carrying out this activity, thus attempts should be made to get the larger financial institutions to show out and start funding these individuals. This will result in a better India and unquestionably realize our late Prime Minister Mrs. Indira's goal of lowering poverty. Adam Smith once said: "It is sometimes simple to gain more when you have a little, but the biggest problem is to get the little." India is now having a difficult time alleviating poverty. In India, almost 25 million people live in poverty. India is one of the world's poorest nations as a result of its low per capita income, high population growth pressure, widespread enormous unemployment and underemployment, low rate of capital creation, unequal wealth and asset distribution, high prevalence of low technology, weak economic organisations, and unstable output in the agricultural and allied sectors.

Conclusions: -

Microfinance organisations have pushed the boundaries of institutional finance, brought the underprivileged into the official financial system, allowed them to obtain loans, and helped them battle poverty. It has been noted that the expansion of microfinance has been uneven across the nation and that members are being charged a range of interest rates, which is cause for worry. Microfinance may help with the issue of inadequate housing and urban services as a crucial component of programmes to reduce poverty. Having a level of flexibility in the credit instrument that would enable it to satisfy the various credit needs of low-income borrowers without placing an intolerably high burden on the lenders to monitor its end-use is the difficulty. Microfinance organisations have pushed the boundaries of institutional finance, brought the underprivileged, particularly the underprivileged women, into the official financial system, and made it possible for them to get credit and combat poverty.

It is observed that microfinance has had an asymmetric growth. As a crucial component of programmes to combat poverty, microfinance may help address the issue of inadequate housing and urban services. Developing a degree of flexibility in the credit instrument that would enable it to satisfy the various credit needs of low-income borrowers without placing an unreasonably high burden on the lenders to monitor its end-use is the difficulty. Consumption loans are shown to be particularly crucial during the waiting time between starting a new economic activity and generating revenue. The impoverished return their debts and are prepared to pay higher interest rates if they can access credit, as shown by successful microfinance businesses. Since the impoverished also save, microfinance should provide them savings options.

The study's key policy recommendation is that MFIs should be more selective when choosing board members. The board's ability to oversee management and keep it on course can be improved by increasing diversity, often by recruiting more independent, foreign, and/or female members (i.e., focusing on social performance). Increasing the board's diversity may also result in a better understanding of the requirements of low-income clients and establish strong ties with the resource providers who are crucial to the MFI's purpose. According to our study, founding board members can also be advantageous, although as the MFI ages, the benefits of such board involvement tend to diminish.

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