

# Role Of Micro Finance in Rural Development

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**Abstract**—Microfinance institutions are a boon for the rural economy. Today, where there is no bank, microfinance institution is present as its alternative, and where there is a bank, it is following its footsteps. Microfinance, also called microcredit, is a type of banking service provided to low-income individuals or groups who wouldn't have access to financial services. While institutions participating in microfinance most often provide lending—micro loans. The methods of giving loans by banks and microfinance institutions are different, but their aim is same, i.e. how to bring the rural economy back on track as the economy of the country has to be improved then the economy of the villages will also have to be improved, in which the main focus is technology. Today microfinance institutions are mostly using traditional methods. In today's online and A.I era, if speed, accuracy and transparency are required then technology will have to be used as much as possible so that people have maximum trust in microfinance institutions.

**Index Terms**—Microfinance, microcredit, economy, technology, artificial intelligence

## I. INRODUCTION

Microfinance is a type of alternative to banking. It works almost like a bank. Whose main work is giving loans to provide savings and insurance. These organizations are not just limited to giving loan, it is also working for improving the standard of living of people, women empowerment and poverty reduction. Today, it has become a means of providing livelihood to the rural people. Micro finance has an important place in the rural economy. Microfinance has more than 3 crore client and is also working for poverty alleviation in underprivileged sectors, which can bring harmony and uniformity in the social society. In 1974, Shri Mahila Sewa Sahakari Bank was established to provide financial services to women in the unorganized sector. In the beginning it was started only for women but gradually microfinance institutions started working for all categories. Micro finance organizations have largely benefitted specific category of people in many ways:

1) Poverty alleviation - Today, through loans, rural people can start their own business and by making this business successful, they can also increase their income ultimately increasing their standard of living. People in rural areas are doing different businesses with help of loans like animal husbandry, poultry farming, goat rearing. This became possible because now loans are easily available through microfinance institutions.

2) Loans for micro and small-scale industries - Now a days, loans for micro and small-scale industries are being provided in rural areas by microfinance institutions, through which people can start their small business. These loans are also divided into simple installments. Its main objective is to improve the standard of living of the people and strengthen the rural economy.

3) Financial Inclusion- Information related to finance is reaching rural people through micro financial institutions. People are becoming aware about banking facilities and schemes due to which financial literacy is increasing among the rural people. More and more loan accounts and savings accounts are being opened in the villages. Due to which the benefit amount of government schemes now comes directly into their account. This became possible because today financial literacy is visible among rural people. Microfinance institutions have also made people aware about financial literacy in rural areas.

4) Awareness about savings- People have been made aware about savings through microfinance institutions. They have been made aware about the benefits of saving through different schemes. Rural people were told how they can use their savings properly. And at the same time, they were also made aware about how to save. Savings can be made daily, weekly, and monthly and people are constantly being made aware about how to use it at the right time. Today, the village women are saving through SHG in the village. This saving is used to help someone in times of emergency or need. If the habit of saving is continuous then it cannot become a burden on anyone. Therefore, it is explained to the people how to include

saving in their habits and teach how one can save unnecessary daily expenses and use them properly. It is explained at the rural level what important contribution savings can make in their daily life.

5) Women Empowerment - Microfinance institutions are also working for the empowerment of women. The main thing is that loans are being given to women so that they can use it properly. If we look at earlier times, maximum loans were given to men, misuse of which is seen even in today's society. Now many microfinance institutions are giving loans only to women through many programs so that they can do small jobs and become self-reliant. If seen today, women have been given more rights in microfinance institutions than men. The microfinance institution has also seen the benefit of this, the loan is returned on time by the women and the loan is utilized properly. Therefore, the government is also providing loans to women through other means at low interest rates.

Although, there are many advantages of a microfinance company, there are also many disadvantages. Microfinance companies are increasing their reach in rural areas, due to which people's inclination towards banks is decreasing. Many times, rural people are exploited in the name of loans. Rural people are being cheated and are also being subjected to mental and physical torture by the micro finance companies. And many times, their officers and employees also loot people in the name of loan and interest. If we talk about loan interest rate then it is also high. Free and Fair data is not published by the microfinance company and many times the government and people are also misled by showing their false data.

## II. RESEARCH METHODOLOGY

The study is based on secondary data available and collected from various case studies, reports, articles and reports. Descriptive research has been used in my journal. How microfinance institutions are lagging behind in today's times has been discussed in this article.

## III. LITERATURE REVIEW

Micro finance institution is such an institution where small amount loans are given to people who do not want loan from a banking service. Sometimes even a

bank cannot provide these services. Today it helps people deprived of banking services in villages and rural areas. Today not only loan service is being provided by the micro finance company but other services are also being provided like savings, insurance services, group lending, agriculture loans and training etc.

If we talk about micro finance services then it's services are -

1) Micro credit - Micro credit means such credit amount which is very low in amount. Such amount is given to those individuals who are deprived from banking services. After many years of independence, many areas are still deprived from banking services but in those areas micro finance company provides loan to individual for their small need which is very less in amount. But this loan is easily available to rural persons. Wherever banking services are available, money is taken from institutions like micro finance. The biggest reason for this is that from here loan is easily available. Due to many documents and rules in the same bank, the people of the village do not want to take this service or are not able to take it. Small loan amounts are immediately given to the concerned persons by the microfinance company. If they get this amount on time, their work gets easily done on time and the loan amount is also returned with time. Many times, there is excessive delay in availing the services of banks, people prefer to take loans from microfinance companies.

If we talk about micro credit loan, the main examples are agriculture loan, bike loan, medical loan or emergency loan, loan for animal husbandry, loan for micro small medium enterprises, loan for daughter's marriage, or loan given for education. goes. If we talk about the loan amount, it is quite less.

2) Micro Saving - To inspire the habit of saving among people, small savings are also organized by micro finance companies. This saving is done on daily, weekly or monthly basis. This saving is also done so that the money can be used in case of emergency so that people do not have to extend their hands to anyone. This emergency can happen to anyone and that time only their savings amount are useful to them. If we talk about how this, saving is done then this amount can be done individually or by forming a group, in which if anyone has an emergency, everyone comes together to help them. Small amounts together become a big amount which helps someone in times of

trouble. Saving is very important for everyone. Many times, it has been seen that people spend unnecessarily due to which they do not have the habit of saving. If only these small expenses are included in saving, then it comes in handy in times of emergency. The benefits of these savings are made aware to the people in many ways by the microfinance company in which people are explained through awareness campaigns, camps, demos, benefits.

3) Insurance - As we all know how important insurance is for today's daily life. But even today, if we look at rural and entire India, the number of people getting life insurance is very less. Today many types of insurance are also being done by the Government of India. Awareness about which is being created today by the microfinance company. If seen today, there are two main types of insurance being provided by the government in life insurance. In which the first is Pradhan Mantri Jeevan Jyoti Bima Yojana and the second is Pradhan Mantri Suraksha Bima Yojana. Both of these are made available at minimum premium. Today, awareness regarding insurance is being created by the microfinance company in which the benefits of insurance are explained. And today, information about how to get insurance done, where to get it done, what will be the amount of premium and how to get the insurance amount in case of an accident is being given by the microfinance company.

4) Financial literacy - Today, microfinance companies are making rural people very aware about financial literacy. Financial literacy today is a task for the village because even today the village people are not much aware about banking services. Or even those who have knowledge about banking services are not able to take advantage of them. Even today, rural people shy away from going to the bank due to which they are not aware of banking services. Financial literacy work is also being done by the microfinance company. People are also getting information about Banking Products, Banking Services, Online Banking, Banking Facilities, Banking Transactions, Credit Card, Insurance, ATM Card, Online Transfer etc.

5) SHG Loan- Most of the microfinance companies are providing loans to members by forming SHGs. This SHG happens in small groups. Here, instead of giving individual loans, loans are given to the entire group. It is the job of the group to provide the amount in the form of loan to the needy members. Which is used by the members for running small businesses,

animal husbandry, children's education and health. The installment of this loan is divided into easy installments and its interest is also lower than other loans. It is the responsibility of every member of the group to repay the loan within the time limit. If seen here, today microfinance companies are making an important contribution in increasing the income of rural people. They get this loan easily and without much paperwork, due to which they easily complete their required work and this loan is repaid by them on time with interest.

If we talk about microfinance today, it is proving to be a boon for the rural people. People are taking advantage of it more and more. Instead of taking loans from moneylenders or middlemen, people are taking loans from finance companies due to which the loan needs of rural people are being easily fulfilled. In old times, rural people used to fall prey to middlemen or moneylenders due to which they lost their land, jewels and valuables. With the advent of microfinance companies, rural people do not fall into all these clutches. Taking loan through banks has become very difficult and due to the long process and paper work of banks, rural people are moving away from banks due to which they have more faith in microfinance companies as they provide easy loans on time and at the time of need.

#### IV. BENEFITS AND CHALLENGES

Microfinance has numerous benefits in rural areas that contribute to economic and social development:

-Economic Empowerment - One of the most significant advantages is economic empowerment, which allows low-income individuals to become entrepreneurs and manage their finances effectively. Microfinance institutions (MFIs) provide small loans that enable people to start or expand small businesses, generating income and employment opportunities in their communities.

-Financial Inclusion - Another advantage of microfinance is financial inclusion, which provides financial services to those who are typically excluded from formal banking systems. By offering loans, savings, and insurance services, MFIs enable individuals to build assets and manage financial risks. This contributes significantly to poverty reduction efforts.

-Women Empowerment - Microfinance has also been a powerful tool for women's empowerment. In many societies, women are often excluded from economic activities and denied access to formal financial services. However, MFIs target women as their primary clients by providing them with the resources and support needed for starting small businesses and becoming financially independent.

-Social Development - Moreover, microfinance promotes social development by increasing access to basic services such as education, health care, and clean water. With increased income from microloans provided by MFIs, individuals can afford these necessities while improving their standard of living.

-Self-Sustainability - Finally, the self-sustainability model of MFIs ensures that microfinance remains a sustainable solution for financial inclusion in rural areas. These institutions generate enough revenue to cover operational costs while remaining financially viable in the long run.

So, microfinance promotes self-sustainability among communities through an inclusive approach to finance management.

#### Challenges of Microfinance in Rural Areas

Microfinance is a crucial tool for providing financial services to low-income individuals in rural areas. While MFIs have shown a median return on equity of 8.1% in 2016, their financial viability remains a concern due to high operational expenditures resulting from costly credit risk management systems and small loan portfolios. Yet, over indebtedness among borrowers is a common problem faced by microfinance institutions. This is because borrowers frequently seek funds from various sources due to their constant need for money. Several challenges:

-Lack of Infrastructure - One major challenge is the lack of basic infrastructure in many rural areas, such as roads, electricity, and internet connectivity. This poses a significant obstacle for microfinance institutions (MFIs) looking to reach remote areas and provide much-needed financial services.

-Limited Financial Literacy - Another challenge is the limited financial literacy of many low-income individuals in rural areas. Without a solid understanding of loan terms and effective financial management skills, it can be difficult for borrowers to make informed decisions about borrowing money. MFIs must provide financial education to their clients

to ensure they understand the risks and benefits of taking out loans.

-High Operational Costs - In addition, operating in rural areas can be expensive due to high transportation costs and the lack of infrastructure. This presents a significant operational cost challenge for MFIs who must keep their costs low while still providing affordable services.

-Limited Collateral - Furthermore, collateral requirements pose another obstacle for low-income individuals in rural areas who often lack assets that can be used as collateral. To mitigate this risk, MFIs must develop innovative solutions to assess creditworthiness without relying on traditional collateral-based lending.

-Limited Regulatory Framework - Finally, regulatory oversight for microfinance institutions is still evolving in many countries which poses regulatory challenges for MFIs operating in these regions. Lack of oversight can also lead to unethical practices by some microfinance institutions that may harm borrowers' interests.

Overall, addressing these challenges will require innovative solutions from both MFIs and policymakers. And, we also need to make Microfinance programs succeed in helping those who need it most.

#### V. CONCLUSION

If we talk about microfinance company today, it has come in front of everyone as a kind of alternative to banking. Especially if we talk about rural people, it has emerged as a good alternative to banks, due to which not only the economy of the country is getting stronger but the income of the rural people is also increasing day by day. In which today microfinance company has an important contribution. Today, reaching banking facilities everywhere is a very difficult task for the government, that is why the country needs microfinance companies. Microfinance companies are also regulated by RBI. If the government takes some more important steps and strengthens the microfinance companies, then this can be a good alternative for the rural people. If we talk about the number of microfinance companies today, it is around 97 in India. This microfinance company is also working under Non-Banking Finance Company. Today RBI can further strengthen the microfinance companies by

bringing changes in its policies. So that it can provide loans to rural people at easy installments and low interest rates. Moreover, banks have a limited capacity and banks cannot be available everywhere and not all functions can be done by banks. Therefore, today microfinance companies can work especially keeping in mind the rural people. Today many big companies of India have also entered the microfinance sector. The government and RBI should encourage them. Due to which many more companies can come to this area and micro finance facilities can reach the rural people. Because even today it is very difficult to work in this field, big companies do not want to come into these fields. They think that you are a profit making business and the chances of recovery of their loan are also less. Therefore, the government should bring changes in its policies and join hands with RBI to bring big companies towards microfinance. Due to which not only the situation in the country will improve but the income of rural people will increase. Because if India has to develop rapidly then it will have to take the rural sector along with it.

#### VI. SUGGESTIONS

As we all know what benefits are provided by microfinance institutions through loans in rural areas. But, if seen, the use of digitization has been very less here. Even today, no information can be obtained through digital medium at the village level due to which the possibility of transparency in doing transactions through microfinance institutions is quite less. And it is also seen continuously how people are being made victims of fraud. Today, due to lack of online access, people are dependent on the employees of microfinance institutions. In a way, most of this operation is being done in offline mode. Due to which embezzlement of money is being seen more. If the government and RBI together take some concrete steps, then a lot of change can be seen in the microfinance institutions and questions cannot be raised on microfinance institutions. Today credit cards are being used by other institutions, the government and RBI should also pay attention in this regard. More and more transactions should be online. Offline transactions are more likely to embezzle money and it is also riskier in rural areas.

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