

## ROLE OF MICROFINANCE IN RURAL AREAS

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### ABSTRACT

In India, microfinance is crucial to the country's development. It serves as an anti-poverty immunization for rural residents. Its mission is to assist economically disadvantaged communities in generating assets and securing income at the family and community levels. Microfinance was seen as necessary due to the absence of infrastructural development in rural regions. By creating a savings habit in rural residents, microfinance activities have proven to be highly effective in lessening social problems in the economy, such as impoverishment. The directed at improving people's livelihoods and economic well-being in remote regions, which are typically isolated and thinly populated, is known as rural development. Rural development is usually concentrated on the extraction of land-intensive natural resources like agriculture and forestry. Microfinance was deemed necessary due to the absence of infrastructure development in rural areas. By instilling savings habit in rural folk, microfinance operations have proven to be very effective in eliminating social problems in the economy, such as poverty and impoverishment. Microfinance does have the ability to boost self-employment and the establishment of micro firms in both developed and developing countries. With the support of microfinance, households can improve their chances of making more money and providing for their family.

### INTRODUCTION

Traditionally, microfinance was thought to consist solely of providing microloans to disadvantaged households with the goal of aiding them in engaging in creative endeavours or swiftly establishing their own small business. Microfinance is characterized as a sequence of economic benefits rendered for poor and low-income people, such as savings, insurance funds, and credit, in order to help individuals increase their income and thus enhance their standard of life. As a result, the priority of microfinance had already shifted from supplying micro-loans to incorporating this with other development initiatives. Microfinance has become the primary aim of public welfare policy, and it is increasingly being used to accomplish development in rural areas and other underdeveloped segments of society.. It is absolutely critical to India's development. For rural residents, it works as an anti-poverty vaccination. Its mission is to support economically challenged communities in attaining improved asset creation and economic security at the family and community levels.

For such a vast population of the world's poor, India is likely to have higher requirement for microfinance. As an outcome, it's crucial to examine the changing face of microfinance in India for rural development. Microfinance is the process of providing extremely tiny loans to extremely impoverished families in order to encourage them to indulge in productive activities. A micro finance bank is a financial entity that provides tiny loans, or micro credit, to individuals who are often from the poorest segments of society. Borrowers are given loans to start a business, restore their homes, and enhance the overall living conditions of their family and communities.

Microfinance is viewed as a tool for socioeconomic development, and it is distinguished from gifts. When it comes to rural development, despite the expansion of credit infrastructure, credit flow to the poor, particularly poor women, has remained low. As a result, the National Bank for Agriculture and Rural Development (NABARD) was established with the mission of formulating better rural credit policies, providing technical assistance, additional liquidity to banks, coordinating rural credit institutions, and pursuing other development initiatives. One of the fastest recent growths was seen in the Indian microfinance sector.

### **Need For Microfinance**

The word "microfinance" was coined in the 1970s, when institutions like Bangladesh's Grameen Bank and microfinance innovator Muhammad Yunus were pioneering and establishing the current sector of microfinance. In India, the Shri Mahila SEWA Sahakari Bank was founded in the early 1970s by the Self Employed Women's Association (SEWA) of Gujarat with the goal of providing banking services to the needy. Microfinance has a tremendous impact on rural growth. With the support of Microfinance, a poor group of society can start their own micro business and create new work prospects. The rural economy relies heavily on microfinance. The word "microfinance" is now used to describe a wide range of official and informal agreements that provide financial services to the underprivileged. Poor people have been largely or entirely excluded from the formal financial system for millennia. As a result, a wide range of unofficial, community-based financial arrangements were created to satisfy the poor's need for credit.

Microfinance entitles the poor and disenfranchised in society who lack access to traditional banking to acquire assets, diversify livelihood options, increase income, and minimise their insecurity to economic hardship by letting them to acquire assets, rebalance livelihood opportunities, and increase income. Microfinance is a broad term that refers to a range of financial products provided to low-income households and their micro-businesses, such as loans, deposits, payment systems, and insurance benefits. Microfinance institutions had also contributed significantly to the poor in rural, semi-urban, and urban areas, focusing on improving their income and living criteria. Microfinance is an important tool for enhancing the rural economy. However, this industry faces a myriad of problems. It is critical to investigate the hurdles in order to make sure that the Indian growth story continues. The main issues in rural financial markets included a lack of credit in rural areas, a lack of modern agricultural technology, a lack of rural savings capacity, and the prevalence of usurious moneylenders. In such cases, microfinance allows underprivileged members of society to gain financial inclusion. In the absence of microfinance, the poor in rural India would fall prey to moneylenders who charge exorbitant interest rates on credit, robbing them of their savings. Microfinance varies from traditional banking in that, apart from traditional banks, it places a bigger reliance on the principles of cooperation, equality, and mutual self-help. Microfinance primarily targets rural Indian women, with more than 90% of its customers being self-help group members. Micro-credit is predominantly used for direct investments by self-help groups, and it encourages credit facilities for clients who require

limited amounts of credit and are less creditworthy for larger loans. Moreover, MFIs in India face a variety of challenges, including political meddling.

The objectives of the study are as follows:

- To investigate the goals of microfinance
- To take a glance into the various types of loans offered by microfinance institutions.
- To learn about the issues that rural people face.
- To review the effect of microfinance on rural development
- To scrutinise the issues that microfinance recipients face.

## REVIEW OF LITERATURE

**ShindeKeshav conducted research on the topic "Impact of microfinance and self-help groups (SHG) on Rural Market Development" in 2014**

According to their analysis of the NABARD survey, poor households require access to consumption loans in order to pay for unexpected costs, financial services, and goods in addition to preserving small surpluses through frugality. This article's focus is larger as an effort is made to assess certain crucial elements of women's empowerment, which is broadly described as an increase in the freedom to choose and take action to form one's own life. For the impoverished, the advantages of increased income, spending, and savings matter. Closed with suggestions for further research, concentrating on a literature review on SHGs, interviews with the leaders of other NGOs and programmes supporting SHGs, and the experiences of other top NGOs taking part in the creation of SHGs.

**Devi S. Kavitha (2014) reviewed the topic "Micro Finance and Women Empowerment." The topic in this article is the presentation in a succinct and applicable manner of several decision-making processes.**

The promise of social and economic advancement for women in developing countries throughout Asia, Latin America, and Africa provided the initial impetus for microfinance. These countries have patriarchal cultures with gender-biased cultural practises that impede women's emancipation. If poor women can generate and manage their own income, they may feel even more empowered. According to research, the amount of credit given to women has a significant impact on their families' standard of living. Given the significance of their assistance, microfinance firms frequently conduct business with the spouses of their female clients. Many microfinance programmes cater to men as well, because any strategy to combat poverty cannot focus solely on one gender or series of events

**Magali J. John (2014) conducted research on the topic "The Influence of Leadership, Corporate Governance, and Regulations on Credit Risk Management: A Study of Rural Banks."**

Magali J. John (2014) conducted research on 'The Tanzanian Study of Rural SACCOS.' This study investigated quantitatively and formally the impact of leadership, corporate governance, and legislation on credit risk management in rural SACCOS. This study found that effective credit risk management in rural SACCOS is dependent on strong corporate governance, competent leadership, and legislation. The study also discovered that 65 percent, 54 percent, 46 percent, 38 percent, and 98 percent of rural SACCOS confirmed the presence of good reelected leaders, loan collection effectiveness, creativity and innovation among leaders, annually audited reports, and the presence of their by-laws, but not their printing and distribution to members. This article describes how rural SACCOS should practise excellent leadership, good governance, and should abide by their bylaws in order to properly control credit risks. Political influence should be avoided and the government should strictly regulate rural SACCOS.

**Ugiagbe Ernest Osas (2014) conducted research on the topic "A Survey of the Perception of Microfinance Institutions" by Female Service Users in Benin City, South-South Africa.**

He assessed this paper to investigate the struggles of managerial identity in relation to the process of becoming/being the perceptions of micro finance Institutions' services by women service users, and how micro Institutions' services affect the businesses of micro credit loan beneficiaries. Management is based on the assumption that management is concerned with the acquisition of female participants, and senior management personnel from microcredit institutions were interviewed. The participants for the study on the bad services and attitude of officials of microfinance institutions and other institutions were chosen using the cluster and simple random selection techniques. Problems like sexism, severe economic conditions, and regressive tax systems have a negative impact on the businesses that loan recipient's start, which indirectly undermines the objectives of the microcredit programme to reduce poverty. Informants were the union presidents who had their unions registered. The study only addresses The outcome shows that the goals of poverty reduction through microcredit schemes are being severely impacted by bad services and attitudes of officials of microfinance organisations as well as other issues including regressive tax regimes, a challenging economic environment, and patriarchy.

**MafukataMavhungu Abel, Kanchea Grace, and Dhlandhara Willie (2014)**

Factors Influencing Poverty Alleviation among Microfinance Adopting Households in Zambia" The purpose of this paper is to investigate the factors that have the greatest influence on poverty alleviation among microfinance adopting households in Zambia. Ninety-nine (n=99) respondents were chosen at random and on purpose from among 340 microfinance adopters of the so-called Micro Bankers Trust programme, which operates a microfinance business in Kabwe, Zambia. Face-to-face interviews using a semi-structured questionnaire

instrument were used to collect socio-demographic primary data. The majority of respondents believed that microfinance had improved their well-being in some critical areas. The empirical model's findings revealed that microfinance did indeed alleviate poverty for some respondents. The conclusion reached in this paper is that microfinance does help the poor.

**TadeleHaileslasie Rao P. MadhuSudana (2014)**

An organization's success or failure is determined by its ethical behaviour in business practises, and MFIs are not an exception. TadeleHaileslasie Rao P. MadhuSudana (2014) studied the topic "Corporate governance and Ethical issues in Microfinance Institutions (MFIs) - A study of Microfinance crises in Andhra Pradesh, India" and came to this conclusion. It was remarkable and noteworthy given how bad the crisis was. The industry hasn't taken any lessons from the microfinance disasters that occurred in other countries in earlier years. Finally, this study offers recommendations for resolving the current microfinance issue that have been established in the literature as viable solutions.

**AdesanyaOluwasanya The topic of "The Role of MicroFinance Bank in Poverty Alleviation in Nigeria" is one on which Tony has conducted study. (2014)**

The fact that the federal government has a strategy in place to pursue the microfinance initiative through the CBN with increased vigour is fantastic. It is excellent that the federal government has made the strategic choice to aggressively pursue the microfinance programme through the Central Bank of Nigeria. According to the policy, about 65% of those who weren't previously enrolled in the banking system must have unrestricted access to modern financial services. The main objective is to dramatically reduce the level of poverty in our country. This essay discusses the challenges associated with putting the microfinance policy into practise and suggests solutions.

**Microfinance and its Impact on Poverty Alleviation: A Case Study of Some Microfinance Banks in Edo State, Nigeria, by Anthony Ilegbinosa and GodstimeIkechukwuOpara (2014) A Case Study of Some Microfinance Banks in Edo State, Nigeria, Examining the Impact of Microfinance on Poverty Alleviation**

Understanding the relationship between microfinance and poverty alleviation in Nigeria requires an understanding of how effective microcredit is as a tool for wealth creation and capital accumulation among the underprivileged population and low-income earners in the context of its current practise in Edo State in particular and the nation as a whole. Microfinance can help end poverty by encouraging the rise of wealth and the following self-sufficiency. Our research revealed that approximately 70% of the sampled population agreed that microfinance has a positive relationship with an improved standard of living for those who receive these microcredits; 78 percent attested that they obtained some type of credit from microfinance banks to establish their small scale businesses, without which it would be impossible to do so; and roughly 30% accepted that microfinance has a strong relationship with poverty overall.

**According to GunappaMudakappa, "Micro Finance and Women's Empowerment: An Impact Study of SHGs" (2014).**

In regard to microfinance, the study examined three facets of women's empowerment. Numerous elements, such as social, economic, and psychological ones, are at work. Due to women's access to microloans, each of the three groups has shown a stable growth trend. Many research participants said they needed more instruction and training to increase their income. This is a good development since it shows how access to microfinance through self-help groups has positively impacted rural women's social empowerment and general well-being.

**Institutions for microfinance regulation Susan Thomas and Renuka Sane (2013)**

As a result of government efforts to finance them, the delivery of loans to the poor had never seen much development. The accessibility of credit to the impoverished has been considerably increased by other programmes, including Joint Liability Groups (JLGs) and for-profit MFIs. Despite complaints about their outrageous interest rates and coercive credit collection practises, the general poor continued to use MFIs. It was because MFIs fared significantly better than illegal money lenders. The study came to the conclusion that microcredit regulation should be handled by a different agency. Only then would lending to individuals based on credit scores and credit bureaus be a reality in India.

**In 2013, Lakshmisha and Suresh looked into the significance of microfinance and microfinance programmes in empowering rural women in India.**

They claim that by reducing women's reliance on payday lenders, giving its members easy access to credit and savings accounts, and producing minor economic benefits, microfinance has been successful in empowering women.

**The significance of microfinance organisations in reducing poverty was examined by Mohanty, Mohapatra, and Khuntia**

**(2013).**

This research suggests that microfinance may help the rural poor by eliminating poverty, empowering women, encouraging opportunities for self-employment, and bolstering financial institutions through the integration of the financial market.

**Rao and Priyadarshini (2013)**

They claim that formal financial institutions were unable to reach the weaker portions of rural society because of information asymmetry, moral hazard, and enforcement issues. Microfinance institutions are believed to offer traits that aid in the resolution of problems like moral hazard and adverse selection in a way that other organisations have not been able to. The study's goal was to evaluate how effectively microfinance solves the moral hazard and adverse selection problems that currently exist in rural lending institutions.



**The complete growth of the microfinance industry in India, according to Srinivasan's (2012) report, was shown.**

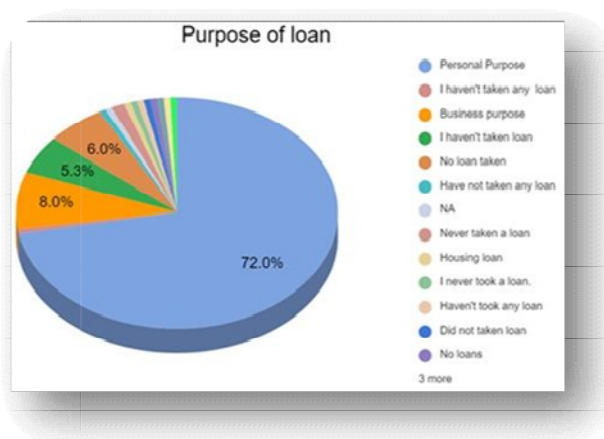
It provides detailed and in-depth evidence of the industry's multiple positive and negative consequences on the economy and society. The report included the most recent statistical data on the sector's growth and model development. It provides new perspectives and industrial advances while presenting existing issues from multiple aspects

**In 2012, Meganathan and Arumugam looked into how microfinance affected rural development in Puducherry.**

They examined socioeconomic factors in their study piece. The writers chose 120 SHG members from Puducherry's Ariyankuppam block. According to the total social effect indicator score, joining SHGs improved the social circumstances of rural women, including their sense of confidence, communication skills, capacity for decision-making, and access to a variety of utilities.

### Data Analysis & Interpretation

Purpose of the loan	No of respondents	Percentage
Business purpose	12	8
Personal Purpose	108	72
Other	30	20
Total	150	100

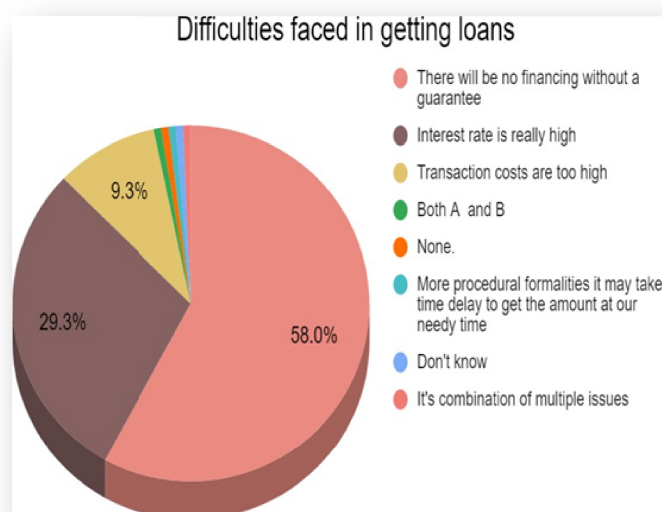


### Interpretation

From the above graph it is clear that 72% of the total respondents have taken loan for personal purpose 8% for business purpose and 20% for other purposes.

### Difficulties faced in getting loans

Difficulties	No of respondents	%
There will be no financing without a guarantee	87	58
Interest rate is really high	44	29.3
Transaction rate is really high	14	9.3
Others	5	3.3
Total	150	100



### Interpretation

From the above graph it is found that 58% of the respondents have faced difficulty in that there will be no financing without guarantee. 29.3% of the respondents faced difficulty because the interest rate is really high. 9.3% faced difficulty in transaction costs are too high. 3.3% faced difficulty in others.

### RELIABILITY TEST

#### Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	No of Items
.945	.943	12



The reliability of scale is performed and the coefficient of Cronbranch's Alpha is found to be 0.943 for 12 items for the research study which shows that the items are strongly correlated for internal consistency. Cronbach's Alpha of higher than 0.70 is regarded as a good indicator of scale reliability.

Item Statistics	
Items	Mean
Increased social acceptance	3.29
Increased self-assurance	3.33
Income contribution to households	3.40
Participation in household decision - making with husband	3.35
Improved control over resources, politics, and development efforts	3.27
Improved ability to deal with unexpected household disruptions	3.35
Public awareness of new government policies and programmes	3.35
More emphasis on self- and child-education	3.40
Family's standard of living has improved.	3.43
Reduces the family's poverty level	3.39
Increased independence and willingness to make decisions	3.39

### Independent Sample T test

Group Statistics						
	Gender	N	Mean	Std. Deviation	t Value	Sig.
MFS	Male	67	33.49	10.746	.207	.839
	Female	83	33.86	10.627		
MFIS	Male	67	10.96	3.273	.692	.773
	Female	83	11.33	3.239		
ROLE OF MFI	Male	67	36.10	9.469	.665	.653
	Female	83	35.12	8.634		

#### Gender

H0: There is no significant difference between male and female with respect to MFS, MFIS and role of MFI.

#### Interpretation

The above table shows the result of hypothesis test. As the P value is more than .05, it failed to reject the null hypothesis. It was found that gender has no significant difference between male & female respondents with respect to MFS, MFIS & the role of MFI.

## Marital Status

H0: There is no significant difference among the marital status with respect to MFS, MFIS and role of MFI

Anova

		Sum of Squares	df	Mean Square	F	Sig.
MFS	Between Groups	.583	1	.583	.005	.943
	Within Groups	16885.310	148	114.090		
	Total	16885.893	149			
MFIS	Between Groups	33.844	1	33.844	3.256	.073
	Within Groups	1538.316	148	10.394		
	Total	1572.160	149			
ROLE OF MFI	Between Groups	85.954	1	85.954	1.062	.304
	Within Groups	11981.006	148	80.953		
	Total	12066.960	149			

One way Anova has been used to analyse the above hypothesis. The F value indicates that there is no significant difference between marital status and MFS, MFIS, and MFI role because the significant value is greater than 0.05 and the H0 is accepted.

## Educational status

H0: There is no significant difference among the educational status with respect to MFS, MFIS and role of MFI

		Sum of Squares	Df	Mean Square	F	Sig.
MFS	Between Groups	634.263	5	126.853	1.124	.350
	Within Groups	16251.630	144	112.859		
	Total	16885.893	149			
MFIS	Between Groups	54.059	5	10.812	1.026	.405
	Within Groups	1518.101	144	10.542		
	Total	1572.160	149			
ROLE OF MFI	Between Groups	513.481	5	102.696	1.280	.276
	Within Groups	11553.479	144	80.232		
	Total	12066.960	149			

For analysing the above hypothesis, one way Anova has been used. The F value shows that there is no significant difference among the educational status with respect to MFS, MFIS and role of MFI since the significant value it shows above 0.05 and the H0 is accepted.

## FINDINGS & SUGGESTIONS

- It has been found that the problems faced by microfinance beneficiaries are problems in developing SHGs, inadequate understanding of microfinance schemes, credit facilities are not easily accessible, banks require a longer time to approve loans, scarcity of training programmes, loan amount is insufficient, material costs are too high for the production of goods and services, and work shed is not available.
- It has been found from the study that microfinance institutions provide different types of loans for the people in rural areas. Microfinance institutions usually provides loan for personal purpose, business purpose and for other purposes like educational loan, home loan etc...
- The impact of microfinance on the development of rural people are it aids in the development of rural people's entrepreneurial skills, it helps in making people in rural areas self-employed, it acts as a method of rural India's financial inclusion. It also helps in providing operational help to people who are running the firm, it enables rural people to increase their income and also helps in improving their living standards. It also helps in creating job prospects for people in rural areas. It also helps in providing better employment opportunities for the unemployed people in rural areas. It also helps women in rural areas in contributing their income to their households and also participate in household decision making along with their husband.
- The primary goal of microfinance is to alleviate rural poverty. Microfinance alleviates rural poverty by providing capital for the establishment and expansion of micro-enterprises. Microfinance contributes to poverty eradication by providing poor people with income-generating opportunities, increasing the income of poor members of society, and assisting poor households in maintaining consumption during times of adversity. It also aids in the improvement of household possession. It also places a greater emphasis on human capital formation, raising poor people's living standards, improving families' food consumption patterns, and assisting in the reduction of family poverty levels.
- The main issue that people in rural areas faced was that they were unable to obtain microfinance from banks and other financial institutions due to the high risk of loan default due to a lack of collateral.
- It has been discovered that banks will only lend to people in rural areas if they have collateral or a guarantee for security. Banks will not make loans to rural residents without collateral or guarantee because they believe they will be unable to repay the loan on time.

- From the study it has been proved that microfinance has a greater impact on the improvement of living standards of rural people and also in boosting their income level.

## SUGGESTIONS

- It is proposed that MFIs provide more assistance to people living in rural areas.
- It is recommended that MFIs make rural residents comfortable using their services by correcting their prior errors.
- It is stated that the government provide assistance to MFIs.
- It is suggested that the government take the necessary steps to assist rural people in freely banking and overcoming the difficulties they face.

## CONCLUSION

Microfinance organizations have pushed the boundaries of institutional finance, brought the underprivileged, particularly the underprivileged women, into the formal financial set-up, and made it possible for them to urge credit and combat poverty. Concerning, it's been noted that microfinance has grown in an asymmetrical manner across the state, with members paying a variety of interest rates. As an important component of programs to combat poverty, microfinance can help address the difficulty of inadequate housing and concrete services. Finding tier of flexibility within the credit instrument that will enable it to satisfy the varied credit needs of low-income borrowers without placing an unreasonably high burden on the lenders to observe its end-use is that the difficulty. Consumption loans are discovered to be particularly crucial during the waiting period between starting a replacement economic activity and generating income. The impoverished return their debts and are willing to pay higher interest rates if they'll access credit, as shown by successful microfinance businesses. Since the impoverished also save, microfinance should offer them savings options. Although the microfinance sector in India is way smaller than the banking sector, it's highly fragmented and lacks links between MFIs. As thorough examination of both small and huge MFIs may produce crucially important data for extra industry consolidation. The longer term success of the microfinance sector depends plenty on the initiatives taken by the microfinance providers and therefore the policy directions provided by the regulators. In general, the regulatory bodies are very supportive towards the event of the microfinance sector in India. However, the commercialization and profit-driven motive of the for-profit MFIs drifted them from their social objectives. It impacted daily livelihood, social networks, dignity and self-worth of the poor households and increased the chance of defaults and non-repayment of loans. Therefore, it's necessary that the MFIs exhibit more maturity and align their objectives with the broader objective of the world and also the country at large.