

An Overview of Rural Indian Microfinance

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Abstract

Rural areas are sometimes seen with contempt as unhealthy places to dwell, isolated havens for the poor, and homes primarily for the downtrodden. On the other hand, the term "micro" conjures images of just the little and the disadvantaged. One of the primary reasons why impoverished people stay poor is often described as being a lack of access to financing. This essay will shed light on India's rural economy as an expanding and dynamic sector that will help India realise its goal of becoming a developed nation. India may be split into two categories according to its level of development: developed India and undeveloped India. The underdeveloped areas need development.

One of the most successful and cost-efficient methods for tackling global poverty is microfinance. The results of this research indicate that there has been an increase in the history and views of rural credit in India in the form of microfinance, and that better governance is required to handle upcoming obstacles so that socioeconomic progress is feasible. The calculated structure, improvement process, extension of the SHG-connected microfinance program, assortments of microfinance administrations, and formative jobs of these foundations in country India are totally canvassed in the ongoing review. It likewise centers around the condition of microfinance and offers a strategy system to address the challenges Indian microfinance is currently confronting. The paper graphs the development of India's microfinance transformation as an intense weapon for rustic India's financial turn of events.

The study's objective is to determine the many elements driving rural India's development. It will center on how microfinance institutions may assist rural Indians so they can have equal access to opportunities for industrial and agricultural development.

Keywords: Financial services, economic empowerment, rural development, and microfinance.

INTRODUCTION:

According to the definition given in the bibliography, microfinance is "a type of banking service that is provided to unemployed or low-income individuals or groups who would otherwise have no other means of obtaining financial services." In other terms, it involves offering financial services to those who are below the poverty line, such as savings, credit, and insurance. By improving these people's conditions and assisting them in visualising their options for a living, microfinance is also defined as

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the development of social value for them.

This essay's major goal is to demonstrate how microfinance has been able to demonstrate its usefulness for rural residents while also attempting to grasp the wide definition of the phenomenon and its structure and purpose.

MICROFINANCE IN DETAIL:

Microfinance is also described as "an economic development approach that involves providing financial services through institutions to low income clients" (Bib) by the International Labour Organisation (ILO). It is also specified as "the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban or urban areas in order to enable them to raise their income levels and improve living standards" (The National Microfinance Taskforce, 1999). According to an article headlined "Microfinance - A small ideal with a big impact" (Bib, February 27, 2008), the reason the poor stay poor isn't because they're careless, instead because they don't have access to money. The definition of finance, on the other hand, is straightforward and states that it is the "management of money" (Bib). The act of managing money involves both earning and spending it. Now, the phrase "microfinance" is developed by combining the meanings of finance and money to mean, simply put, "we are financing the micro entrepreneurs."

THE CLIENTS OF MICROFINANCE:

This essay reflects low-income and impoverished populations, including those who may be self-employed or small-scale home-based business owners like farmers or small industrialists in rural areas. Microfinance for the underprivileged refers to lending to those who have little or no access to conventional financial institutions. Contrary to urban people who may rely on other traditional financial institutions for the maintenance of their companies, such as merchants, craftsmen, suppliers, and street vendors, etc. It is said that the less probable it is that you would have access to traditional official financial institutions, the poorer you are likely to be. Additionally, it seems that informal financial arrangements are more costly and unfair for the average individual who is impoverished. Therefore, the strength of microfinance reflects the less strong people in our society—those who are excluded.

Key Micro Finance Principles:

1. Financial services other than loans are required by the poor.
2. A potent weapon in the struggle against poverty is microfinance.
3. Creating financial institutions for the underprivileged is what microfinance entails.
4. Microfinance has the potential to pay for itself and must do so in order to reach very many disadvantaged people.
5. Establishing long-lasting local financial organisations that can draw domestic deposits, convert

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them into loans, and provide other financial services is the goal of microfinance.

6. Microcredit isn't always the best solution. Other types of help could be effective.
7. Interest rate limitations harm individuals since they make it more difficult for them to get
8. The role of the government is to facilitate financial services, not to actively deliver them.
9. Donor monies should not replace private capital; rather, they should supplement it.
10. The lack of strong institutions and management is the main constraint.
11. Microfinance works best when performance is measured and reported.

Microfinance's goals include:

Different goals for microfinance are set by the organisations that support microfinance institutions across the globe. The following is a list of the most significant ones.

1. Encourage socioeconomic growth at the local level through a community-based strategy
2. Promote the growth of self-help organisations among the populace and use them to promote sustainable development
3. Give the underprivileged people instruction on how to earn a living.
4. Encourage community involvement and responsibility sharing in activities.
5. Support initiatives for the handicapped
6. Advance and promote women
7. Encourage environmentally responsible resource management and sustainable agriculture
8. Plan and direct the networking of grassroots organisations.
9. Gain advantages by cutting costs and using local resources as inputs for livelihood activities.
10. Increase family income and the number of pay days.

MICROFINANCE TYPES AND DEVELOPMENT PROCESS IN RURAL INDIA:

The vast majority of people in rural India depend on agriculture and small businesses like fishing, raising domestic animals for profit, and so on. Due to a lack of financial means, they are unable to make agriculture and business successful.

Only a small percentage of rural Indians develop their fields using capital-intensive methods. The majority of rural residents struggle to maintain their small businesses for an extended length of time since they do not have enough money on hand. One crucial instrument that significantly contributes to poverty reduction and rural impoverished people's economic progress is microfinance. In order to

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strengthen them and develop the microfinance programme, it is necessary to exchange experiences and resources that will aid in understanding both successes and mistakes.

SHGS: SELFHELPGROUPS

In India, the Self Help Groups (SHGs) are the most popular microfinance model. In this instance, Self Help Group members pool their tiny savings on a daily or weekly basis at a certain sum, and SHGs provide loans to members for a predetermined duration.

SHGs are basically official, volunteer organisations made up of 15 to 20 members working towards shared goals. Individuals from homogenous groups with similar socioeconomic origins and vocations voluntarily form a community and pool their resources for the betterment of all the group participants. The resources of the group-operated revolving fund are augmented by outside funding given by MFIs or banks. Thus, saving comes before borrowing among the members. NABARD has facilitated and provided significant assistance for the scheme, which includes commercial banks' lending directly to SHGs rather than via bulk loans to MFIs. If SHGs are shown to be effective for at least six months, the bank typically extends loans in an amount that is four times greater than their savings.

IBPS: INDIVIDUALBANKING PROGRAMMES

Microfinance institutions provide loans to individual consumers via Individual Banking Programmes (IBPs), despite the fact that these individuals may sometimes be arranged into joint liability groups, credit cooperatives, and saving cooperatives. Through cooperatives, this paradigm is becoming more and more common. All borrowers in cooperatives are either direct or indirect members of the organisation since they belong to the cooperative society. Cooperative participation determines creditworthiness and loan security, with member savings and peer pressure thought to be major determinants. Along with loans to intermediaries, Ahmadabad-based MFI BAXIS also provides joint liability group and individual lending loans. This strategy is used by Bank of Rakyat in Indonesia, probably the largest and most successful microfinance institution in the world.

CONCLUSION:

Microfinance is a multifaceted industry that functions as a whole. There are several stakeholders, and each one is responsible for carrying out a certain task. At the middle is the client. The micro level is the second level, when MFIs, NGOs, SHGs, and Grameen work together to provide financial assistance to specific consumers. Meso-level apex organisations like NABARD, SIDBI, and other nationalised banks provide infrastructure, information, and technical support to players at the micro level. Around all of these levels, there is a macro level of authorities, rules, and financial conditions. Microfinance is a field where new opportunities and challenges are always arising. Recently, microfinance has received negative press for the wrong reasons.

Numerous microcredit borrowers in India have killed themselves as a consequence of high interest rates and harsh debt collection practises. These clients should also get post-loan technical and

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professional help to guarantee the survival of their microenterprises. If the government and MFIs cooperate, microcredit may considerably help to reduce poverty.

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