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A STUDY OF ROLE OF MICRO FINANCE IN RURAL DEVELOPMENT



Ranjana J. Mahajan
Assistant Professor

Short Profile

Ranjana J. Mahajan is working as an Assistant Professor. She Has Completed M-com., M-phil., M.A. and B.Ed. She Has Research Experience 7 Years.



ABSTRACT:

Most of the world's poor lack access to basic financial services that would help them to manage their assets and generate income. This is especially true for the extremely poor people who live in rural areas of developing countries. Management of even the smallest assets such as livestock can be crucial to very poor people, who live in precarious conditions, threatened by lack of income, shelter and food to overcome poverty, they need to be able to borrow save and invest and to protect their families against adversity. Micro finance is one way of fighting against poverty in rural areas. It puts credit savings,

Insurance and other basic financial services within the reach of poor people. The micro finance revolution started with the recognition that poor people needed access to loans and that they could be there funds productivity. It has also changed the perception that poor people are not credit worthy.

KEYWORDS

Micro Finance, Rural Development, specialized.

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INTRODUCTION

Micro finance is generally defined as a specialized set of financial tools available to poor households and small business many of whom work in the formal sector and do not access to financial services. Generally they have no formal employment status or document salary and have small credit needs and low saving generation. Although micro finance started out simply as small non collateralized loan. The term now covers a whole range of services provided to the poor including savings money transfers, payment services and insurance.

Micro finance activities usually involve

Small loans

Access to repeat and larger loans based on debt capacity and repayment performance

Secure savings

Affordable insurance policies

Micro finance customers live in both rural and urban area. The rural poor borrow for cattle fattening, dairy forming and bamboo making, grocery shop etc. whereas the urban poor borrow to become street vendors, service providers (Autorikshaw, Beauty parlor, Hairdresser, tailoring, snacks making, etc) small restaurant operator, canteen and artisans usually their activities provide a stable source of cash flow and income.

Nowadays MFIs offer deposit, savings, pension and insurance products. Micro insurance is growing day to day because borrowers need to insure assets such as farming equipment cattle and machineries that they purchase with micro-credit in fact MFIS are as important in providing savings vehicles and transaction services as they are in lending.

Micro finance has also come to be referred to as small scale financial services provided to people who work in agriculture, fishing and herding who operate small or micro enterprises, who provides services, who work for wages and other individual and groups at local level in rural areas as well as in urban areas.

More broadly micro finance refers to a movement that envisions a world in which 1000 income households have permanent access to range of high quality financial services to finance their income producing activities built assets, Stabilize consumption and protect against risk.

Sometimes called banking for the poor micro finance is an amazingly simple approach that has been proven to empower very poor people around the world to pull themselves out of poverty.

Poor households around the world have demonstrated their ability to use and pay for financial services through longstanding informal agreement such as savings clubs rotating savings and credit associations and mutual insurance societies. In India the poor can access credit institutions in numerous ways the poor in the absence of formal institutions often must resort to the informal sector which is characterized by monopolistic practices and exorbitant interest rates.

The micro finance movement was born to ease the suffering caused by poverty and to awaken the global economy sleeping giant, the undercapitalized productivity of the world's working poor micro finance helps people fight poverty on their own terms in a sustainable way poor people use micro finance services to reduce their vulnerability seize opportunities and increase their earnings. Indirectly micro finance improves schooling health and women empowerment.

Microfinance programs can help poor households smoothen consumption during an adverse shock. Access to credit of assets and replace productive assets destroyed in a natural disasters. But micro finance programs do more than help households cope with shocks they can also provide capital to create or expand micro enterprises. Micro finance thus helps households diversify their sources of income and reduce their vulnerability to income shocks micro finance programs have been especially important for women and households headed by women who often have difficulty in getting credit however micro finance institutions depending upon their size and diversification are unlikely to be effective against large shocks.

The availability of micro finance services enables poor households to move from reactive to proactive approaches, they can plan to mitigate risk most client are well aware of this benefit go to great lengths to repay their loans so that they do not lose access to future loans. Clients continued to repay loans even during and after the floods in Bangladesh. Evidence proved that micro credit has especially improved the lives of poor women by strengthening their bargaining position with their husbands boosting their self confidence and increased their economic and social as well as political participation. The strength of micro finance is not just in its appropriately structure products and services, delivery methodology and mechanism and other related aspects, but the real strength is stimulating the entrepreneurial sector or subsector through developing and linking with government schemes for farm and nonfarm market there are a few linkages initiatives visible in the markets but there is need for structure and large scale connectivity, (ex Automobile industry in India has grown tremendously due to backward and forward linkages that stimulated livelihood and financial markets)

There is a special need to look at the agro based sector or sub sector to create more livelihoods where value added entrepreneurship reduces our food losses generate employments demand for more financial services.

New paradigms of micro finance.

Micro finance clients are mostly poor and low income people including small formers or artisans. Very small amount of loans can help the working poor to start a business such as raising livestock by sewing or weaving baskets. Micro- Finance is tapping into a technological revolution that enables areas with different land phone service to leapfrog ahead to cell phones and broadband in addition as this takes place both philanthropy and capital market are paying careful attention the significance of micro finance beyond the lives it touches directly is that it has taught us what is necessary to vanquish poverty.

The study focuses on the impact of micro finance on the economic and social condition of rural population of Kelapur taluka in Yavatmal district. Researcher also tried to access the extent of empowerment of women because one of the primary concerns of micro finance is the improvement in the quality of life of rural women.

Since the nationalization of major commercial banks in 1969 there has been an increasing trust on rural lending by the nationalized bank since credit is a major input for development and also a alleviation programmes banks have played the role of active development agents in the implementation of the Integrated rural development program which was considered to be the world's largest ever poverty alleviation programme.

CONCLUSIONS

Results of this study show that there is a clear empirical evidence of impact of micro finance in the lives of poor. The intervention has marked significant change in the behavior of poor to save and on the other hand the SHGs have been able to mobilize a considerable quantum of credit with repeat support from formal financing institutions. Financing through SHGs has resulted improvement in asset status and increase in family income at the same time a reduction or no change in family income was also noticed after the intervention of SHGs

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