International Journal of Advances in Engineering and Management (IJAEM)
Volume 5, Issue 4 April 2023, pp: 426-429 www.ijaem.net ISSN: 2395-5252

Contribution of Micro-Finance on Socio-Economic Development of Rural Community

Dr.Bishnu Narayana Sethi
Lecturer in Economics
Laxminarayan Degree College, Kodala (Odisha)

Date of Submission: 01-04-2023 Date of Acceptance: 10-04-2023

ABSTRACT: Microfinance organizations were founded to encourage community saving and borrowing, which are the two fundamental financial activities. The main goal of microfinance is to lower community members' levels of poverty. Programs for microfinance are mostly targeted at the poor, the weak, the marginalized, and women. The goal of the study was to determine how microfinance impacted the socioeconomic growth of rural communities. The quantitative design served as the study's foundation. Data was gathered cross-sectionals from the district of Syangja's 8 microfinance institutions. The respondents were chosen using a process known as purposeful sampling. The data's perceptual analysis revealed that microfinance significantly contributed to societal development and change. The study's samples included microfinance's that have been in operation for 2 to 20 years and include a wide range of social activities. To deliver the services more successfully, microfinance's internal management has to be improved.

KEYWORDS:Contribution, Microfinance, Rural community, Socio-economic development

I. INTRODUCTION

Microfinance is a development instrument that helps the extremely or exceptionally poor start or grow their enterprises by granting or providing financial services and products such very modest loans, savings, micro leasing, micro insurance, and money transfers. It is primarily utilised in developing nations because SMEs lack access to other financial support options (Robinson, 2003). Village banks, cooperative credit unions, state-owned banks, and social venture capital funds for the underprivileged are examples of informal financial institutions. These organizations are those that offer small and medium-sized businesses loan and savings services. They tap into rural savings and operate according to straightforward, locally derived procedures that the general public can easily comprehend (Germinis, 1991). During the 1980s, microfinance programmes have grown in acceptance and popularity on a global scale as a means of providing financial services to the underprivileged. It is one method of the development projects' anti-poverty instrument. In many developing nations, numerous institutions have been disbursing microcredit and collecting on their debts. The Grameen Bank's group lending strategy was widely embraced by organizations throughout the world (Robinson, 2003). In comparison to other developing nations, Nepal is only recently experiencing institutionalised microfinance development.

Microfinance is a means to assist reduce poverty in rural regions where there is no formal banking system. The number of people living in poverty varies according to research, however some estimate that between 300 million and 360 million people worldwide are living in "absolute poverty" (Premchander, 2009, p. 1). Moreover, studies have found that more than 2 billion people lack access to conventional lending institutions (Hudon, 2009, p. 17). Having access to financial resources enables individuals to generate income and reduce global poverty. Microfinance is a system that provides modest loans to the underprivileged in order for them to build their own small companies, produce income, and alleviate poverty. It can also encourage entrepreneurship, social innovation, and economic growth in underdeveloped areas (Lazar & P., 2008, p. 34).

The resources of poor households, particularly their biggest resource, their "labour," are locked up in inefficiency, keeping them trapped in the poverty cycle. Financial liquidity restrictions are one of the causes, but there are other factors as well. For instance, these impoverished peasants may have more relatives who are eager to assist in farming. But if they are unable to purchase better farm inputs and superior crop types, their operations become ineffective and unprofitable (Taiwo, June, 2012). Several governments and aid organisations view a lack of financial services as one of the most significant barriers to effective and successful production faced by disadvantaged households. A considerable portion of the rural inhabitants in emerging nations can be supported by agricultural finance, which also helps to eradicate poverty. On the one hand, it gives people the chance to make a living, and on the other, it gives them chances to live respectably (Coady, Grosh, &Hoddinott). The state must establish a sufficient policy framework for a capable and affordable rural financing market in order to assist agricultural and rural development (Barrett & Clay, 2003, p. 177). The vast majority of peasants in developing nations do not have access to the banking or microcredit systems (Schady, 2002). Microcredit has the potential to contribute to expanding client access to financial services and cooperative proximity.

Financial services for the poor, especially those in rural regions, may enable farmers to acquire cutting-edge equipment and high-yield crop varieties. The provision of financial services and goods has an indirect impact on the living conditions of the underprivileged. Improved health, better education, better agricultural methods, and employment possibilities are just a few of the issues that microfinance for agriculture has the potential to address (Komives, Halpern, Foster, &Wodon, 2005). Innovative goods tailored specifically to rural needs and poverty reduction are already being introduced by rural microfinance products in various parts of the world.

II. METHOD

Purposively chosen microfinance’s from the subject areas were used in this descriptive research study. Eight microfinance institutions in all were chosen to collect data. Five-point Liket's scale was used in the construction of the structured question. The branch manager, executive officer, and programme managers were chosen for an in-depth interview to learn more about their perspectives on how microfinance has helped rural communities improve economically and socially. The information was analyzed using a frequency table.

III. RESULT & DISCUSSION

The study examined 8 microfinance organisations in Nepal's Syangja area. The institutions typically operated for two to twenty years (mean 12.3750). In order to conduct microfinance initiatives, they covered 5-58 VDCs. According to the institutions' figures, they were serving about 12,000 households. The results showed that between 50% and 92% of microfinance members requested loans for agricultural, small-scale manufacturing, artisanal, and petty trade purposes.

The information in the table below, which explores the impact of microfinance on recipients' socioeconomic condition, was gathered from microfinance managers. In total, 25% agreed, followed by 75% strongly agreeing, on the role that microfinance plays in improving beneficiaries' income status. The study by Taiwo, "Analysis of loan obtained by the respondents from MFIs shows that around 64% of them have benefited from one or more forms of loans from their respective microfinance banks," supports this finding (June, 2012, p. 134). In a similar vein, micro finance acknowledged that the community members had utilized the loan funds for the intended purposes. Overall, 100% of microfinance participants thought that microfinance may be a useful tool for reducing poverty. "With regular loan repayment for clients' developmental needs, microfinance institutions can actually lift individuals out of poverty. This has a significant impact on how much money customers save and how much they earn. The MFI has significantly contributed to the growth of small and medium-sized businesses, which has increased employment and raised household income " (Taiwo, June, 2012, p. 156). It is important to create microfinance institutions in rural regions so that they can offer lending and savings services to those in need. The micro finance industry itself firmly agreed with the remark. According to their experiences, microfinance had to charge a higher interest rate on loans than the other banks, thus they disagreed with the mainstream banks' decision to charge the same interest rates as microfinance. It was also intriguing that members of low income groups were timely repaying their debts, which contributed to the growth of microfinance's customer base across all income levels. Overall, 87.5% of microfinance institutions were unwilling to offer loans for household-level expenses like food, children's schooling, small home repairs, farming, fishing, medical issues, and other crises. Microfinance was interested in funding only industries where farmers could make money; only industries that were productive, therefore they prevented borrowers from using loan funds for regular expenses. It was also an excellent idea to lessen farmers' needless borrowing obligations.

International Journal of Advances in Engineering and Management (IJAEM)
Volume 5, Issue 4 April 2023, pp: 426-429 www.ijaem.net ISSN: 2395-5252

Around 88% of the microfinance sector reported that the Nepali government has provided excellent support for the implementation of their programmes. Yet, 100% of microfinances did not believe that 10 million Nepalese rupees would be enough to operate the microfinance.

The major goal of microfinance was to improve the socioeconomic standing of women. Women are restricted to household tasks and don't have enough chances to leave the house and participate in other activities. If women are educated or given more authority, they can support or give more power to their family members and effectively manage the children's health and education. In contrast, Nepal is experiencing an increase in male migration; under these circumstances, women must assume total responsibility for managing the household and children. In order for them to be able to earn money based on their skills, the microfinance programme offers skill-based training.

SD = Strongly disagree, D = disagree, N = Neutral, A = Agree, SA = Strongly Agree							
Statements		**SD**	**D**	**N**	**A**	**SA**	**Total**
Microfinance has improved the lot of the low-income group in service area	N				2	6	8
	%				25.0	75.0	100.0
Funds disbursed are applied for the purpose for which they were given	N				6	2	8
	%				75.0	25.0	100.0
Microfinance is really the answer to poverty alleviation if properly practiced	N				1	7	8
	%				12.5	87.5	100.0
More microfinances should be established, particularly in the rural areas of the country	N			1	1	6	8
	%			12.5	12.5	75.0	100.0
Microfinances charge same interest rates as the mainstream banks	N		8				
	%		100.0				
Microfinances charge higher interest rate than the mainstream bank	N				6	2	8
	%				75.0	25.0	100.0
Low-income group repay loans extended to them by microfinance s satisfactorily	N				7	1	8
	%				87.5	12.5	100.0
Households use loans be given to them for food, children education, minor house repairs, farming, fishing, health matters and other emergencies	N		7		1		8
	%		87.5		12.5		100.0
The Government has done enough to support microfinance sector in Nepal	N		1		7		8
	%		12.5		87.5		100.0
Main customers are women	N			1	1	6	8
	%			12.5	12.5	75.0	100.0
Bank provides services in the areas of money transfer, savings etc	N		5		2	1	8
	%		62.5		25.0	12.5	100.0
Total Rs.10 million capital base is adequate for the operations of microfinance	N		8				8
	%		100.0				100.0
Many microfinance are fail as a result of fraud and insider abuse	N		7		1		8
	%		87.5		12.5		100.0
Easy to facilitate loan packaging to Group membership	N				2	6	8
	%				25.0	75.0	100.0
Microfinance can really promote business development and bring about economic development	N				5	3	8
	%				62.5	37.5	100.0

Because microfinance's have made a commitment to lowering the degree of poverty in society, they are involved in more social development initiatives than just saving and credit.

Economic and social improvement are closely related, thus they should be initiated together. According to the survey, 87.5% of microfinance initiatives failed to meet their objectives due to fraud and insider wrongdoing. So, it was also advised to create an extremely efficient management staff that could function transparently, visibly, and with a focus on results. For areas without convenient access to large banks, microfinance institutions offer banking services. They also offer economic and social services to help people modify their social standing so that it is less political, corrupt, and opaque. 100% of microfinances concurred that these loans aided in business promotion and brought about economic transformation. According to Okibo and Makanga's research, "Majority of the client respondents 86.9% reported that their living standards had improved" (2014, p. 91), this conclusion is corroborated by their findings.

IV. CONCLUSION

Microfinance institutions are created with the aim of assisting in local community socioeconomic development. Microfinance organisations worked to improve people's economic standing by offering skill-based income-generating opportunities in addition to saving and lending. Because rural areas have less developed infrastructure than metropolitan areas, the importance of microfinance is felt there more than in cities. Activities related to microfinance are more successful at lowering the poverty rate. It has encouraged people to save money and use credit responsibly. By giving the necessary facilities, microfinance has boosted commercial activity. Because of their unique sustainability plan, microfinance organizations acknowledged that they charged higher interest rates than the other banking institutions. To improve managerial capabilities and boost the efficiency of community services, it was vital to keep an eye on the government's microfinance initiatives.

REFERENCES

[1]. Barrett, C., & Clay, D. C. (2003). How Accurate Is Food-For-Work Self-Targeting in the Presence of Imperfect Factor Markets? Evidence from Ethiopia. Journal of Development Studies, 39(5), 152-180.

[2]. Coady, D., Grosh, M., &Hoddinott, J. (n.d.). Targeted Anti-Poverty Interventions: A Selected Annotated Bibliography. International Food Policy Research Institute Mimeo.

[3]. Germinis, D. (1991). Financial systems and development: What role for the formal and informal sector? Paris: OECD development centre.

[4]. Hudon, M. (2009). Should Access to Credit be a Right? Journal of Business Ethics, 84, 17-28.

[5]. Komives, K., Halpern, J., Foster, V., &Wodon, Q. (2005). Water, Electricity and the Por: Who Benefits from Utility Subsidies. World Bank.

[6]. Lazar, D., & P., P. (2008). Micro finance and poverty eradication: Indianand global experiences. New Delhi: Pondicherry University; New Century Publications, Pondicherry.

[7]. Okibo, B. W., &Makanga, N. (2014). Effects of micro finance institutions on poverty reduction in Kenya. International Journal of Current Research and Academic Review, 2(2), 76- 95.