

## Original Article

# Impact of Micro Financing On Rural Development: Empirical Evidences from Ranchi District

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*Micro financing is a widely recognized development strategy for country's rural development. It is a process in which the lower strata of the society are also given fair chance to avail financing or banking services. It aims at economic growth, ensuring equality in the society, poverty reduction and employment generation which ultimately leads to achievement of Sustainable Development Goals. The global microfinance market was estimated at \$187 billion in 2022 which is expected to grow at \$488 billion by 2030. In India the concept was popularized in 1974 with the establishment of Self- Employed Women's Association (SEWA) in Gujarat. Since then every State has adopted their own strategy of microcredit for rural development of their area. In this context this paper aims to bring into lights some empirical evidence from the Ranchi district of Jharkhand, assessing the impact of micro financing on rural development. In this study 200 households are selected purposely from the rural areas of Ranchi district and they are investigated through structured questionnaire. Additionally Factor analysis is used to determine the important indicators of rural development.*

**Keywords:** micro finance, Sustainable Development Goals, rural development.

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### Introduction:

International Labor Organization (ILO), defines microfinance as "an economic development approach that involves providing financial services through institution to low income clients". Microfinance may be extremely important in helping the improvised and low – income people in country like India, where 70% of the population lives in rural areas and 60% of them are dependent on agriculture, according to World Bank estimates. A wide range of financial services , including deposits , loans , payment , processing , money transfers , insurance , savings account , microcredit and more are provided to the underprivileged and low income population through microfinance . Given that a sizeable portion of the population lives in poverty and that a sizable portion lacks access to traditional banking institutions, microfinance is crucial in emerging nation like India. The self Help Group (SHGs) Bank Linkage Programme and Microfinance Institution (MFIs) are the two main techniques that define the microfinance sector in the India. In India, the microfinance sector is primarily driven by Self Help Groups (SHGs) and Bank linkage programmes, which are designed to offer affordable financial service to the impoverished who have not yet reached. This paper aims to highlight different aspects of Micro financing through explanatory method and also determine the important indicators of rural development which explain the impact of micro financing on rural development. The indicators are identified through factor analysis. For this the data were collected from rural household of Ranchi District who are availing the facilities of Micro financing and their responses were recorded on 5 point Likert scale.

**Review Of Literature:** By offering modest loans and financial services to resident of the state that assist them in starting their businesses, microfinance and small financing schemes play a crucial role in reducing poverty in Jharkhand. Chauhan and Oraon (2017) describe how microfinance, working with Self Help Groups, helps rural Jharkhandis by offering savings product loan and other financial services.



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This help many people especially women and marginalized communities, realize their dreams of becoming entrepreneurs. Their study is for Gumla district, clearly illustrated how microfinance, which benefits both rural residents and banks or leading agencies can close the gap between the supply and demand of credit. Kumar Lal (2019) examines the way in which the microfinance empowers women in Jharkhand's communities. The financial organization that offer microfinance services enables women in the state in obtaining small loans and credits to help launch their own businesses. Microfinance programmes that encourage women to start their own businesses not only promotes gender equality and women's active engagement in the public sphere, but hey boost human capital and workplace resources, which benefits the state's economy. In-depth research is done by Jha and Nandurkar(2020)on how Large Area Adivasi Multipurpose Cooperative Societies (LAMPS) against poor Jharkhandi farmers in building marketing infrastructure for their agricultural products by given them access to sufficient financial resources. The study unequivocally shows that how microfinance and the ability of Co-operative like LAMPS to offer small loan to underprivileged segments of the community have assisted Jharkhand in uplifting its tribal people, farmers and women by providing the funding required to engage in highly commercialized entrepreneurship and agriculture.

An empirical study by Chatterjee and Das (2016) examines the various skill sets of micro entrepreneurs from the district of Dhanbad, Bokaro, and Ranchi and how they foster the growth of entrepreneurial activity and the state's entrepreneurship and socioeconomic growth backwardness in spite of being the location with abundant industrial bases and mineral resources. According to the analysis, 46.2% of the population of the state is below the federal poverty level and does not have access to official credits for performing any kind of entrepreneurship, reversing the state from boosting the economy. In her study on the impact of microfinance in empowering the people of Jharkhand's Deoghar area, Priyadarshani (2017) identifies some of the main obstacles as being a lack of financial resources, financial literacy, and financial awareness, that prevent resident of the state from keeping a steady income. The study's conclusions advocate for the requirement of microfinance services in the state of Jharkhand to help these individuals obtain capital to launch different businesses. In their 2020 study, Kumar, Behera and Bihari explore innovative methods that help individuals in Jharkhand develop their entrepreneurial abilities. They talk about how microfinance has emerged as the most important and successful instrument for reducing poverty, enhancing skills and generating money for the community. More people are encouraged to pursue entrepreneurship by microfinance service activities and as a result guarantee more revenue production and societal economic empowerment. Numerous individuals who engage in the farming industry leverage the financial services that microfinance organization offer to connect entrepreneurial and agriculture developing a system of product marketing.

## Objective of the Study

To study in brief the history of Micro-financing strategies of the world.

1. To identify important indicators of rural development that link them to Micro-financing.
2. To study the rural household's perception about how micro-financing impacted their rural development.

## Origin of Micro financing Strategies

It is believed that the idea of microfinance began to take shape in the late 1970s. Despite the fact that microfinance has a lengthy history, it has been suggested that its main use dates back to the turn of the 20<sup>th</sup> century .It is said that in both rural and urban Europe established credit banks in the 1990s. These establishment were acknowledged as Credit Unions Peoples-Banks. The aim of these organisations was to give the underprivileged individuals who were disregarded by the large banks and financial organisations simple or easy access to financing. Additionally, it is mentioned that in Bangladesh, Brazil, and a few other nations, a small number of experiential microfinance programmes had begun by the early 1970s.As previously indicated, the microcredit was founded on peer group lending, in which loan repayment was the responsibility of the group members.After 1970, a few banks and financial institutions were among the first to implement a microfinance programme. The organization founded by a Latin American law student is called ACCION International. This organization was founded with the intention of aiding the impoverished living in Latin American cities and rural areas. It is recognized as one of the most significant and effective microfinance organizations in the world in 2008. Africa and the United States of America make up its networking partners. The Mahila SEWA cooperative bank, a SEWA bank, was founded in 1973 with the intention of facilitating easy access to financial services. SEWA stands for "The Self Employed Women's Association." According to the most recent information available, this bank can serve around 30,000 customers. The Grameen Bank was founded by Dr. Mohammad Yunus in the year 1983 who began experimenting in lending financial services to the poor women population in the village of Jobra, Bangladesh. He has served as a professor of economics at Chittagong University in the 1970s. This bank is unlike the lending cooperatives and the Credit Unions 7 that have been around for years. Since the time the Grameen Bank was established, innovation in Microfinance continued and financial services to the poor never stopped. It is stated by the World Bank that estimated number of 160 million people in developing countries are services by microfinance, Grameen Bank in Bangladesh established by Dr. Muhammad Yunus in 1983. This bank is stated to serve Approximately more than 400,000.

## Micro financing in India:

Major stakeholder in India’s microfinance ecosystem include the followings :-

Government at the federal, state and local levels; Banks (commercial , rural and cooperative); microfinance institutions (MFIs); non-governmental organizations (NGOs); Self Help Group (SHGs); and governing /promoting agencies such as NABARD and the Reserve Bank Of India (RBI). In India, the principal forms of microfinance institutions and community based programmes and direct benefit transfer. ( Chindambaranath , premchander & Raj, 2013). There are 76.97 lakh SHGs in India as estimated in 2015 and 58% of them have credit outstanding (NABARD, 2015). Furthermore, it is estimated that the nation is home to 268 microfinance institution. (132 Societies/ Trust and 91 Non-Banking Financial Companies) (Sa- Dhan, 2014). West Bengal (45), Tamil Nadu(33) and Odisha (29) are the three states having the most MFIs (Sa- Dhan,2014). It is claimed that lending money to small business owners has shown to be profitable during the past 10 years. Since they were the underprivileged, small business owners were able to prove that they could repay their loans, which increased their assets and income.They met the necessary financial services norms and policies with efficiency and timeliness. Additionally, it has been shown that microfinance is one of the most successful methods for reducing poverty because community banks, nonprofit organisations, and local savings and credit groups all over t he world have shown that these microenterprise loans are profitable for both lenders and borrowe rs.

## Status of Microfinancing in Jharkhand:

When compared to other Indian states, Jharkhand’s microfinance plan performance has been lacking. According to NABARD’s 2014-2015 status report, Jharkhand’s microfinance initiative are currently in dismal shape. For instance, there were less saving-linked Self Help Group (SHGs) in Jharkhand during the previous fiscal year. According, there was no improvement in the saving balance of current saving based SHG groups (the only state in the eastern area not exhibiting progress). 2015 saw a decrease in Jharkhand’s SHG loan volume and number, while non-performing assets (NPAs) surpassed 15% (25.57%)(NABARD,2015). Jharkhand has also been designated as a priority state, with a potential for 2,20,893 additional SHG formation overall.

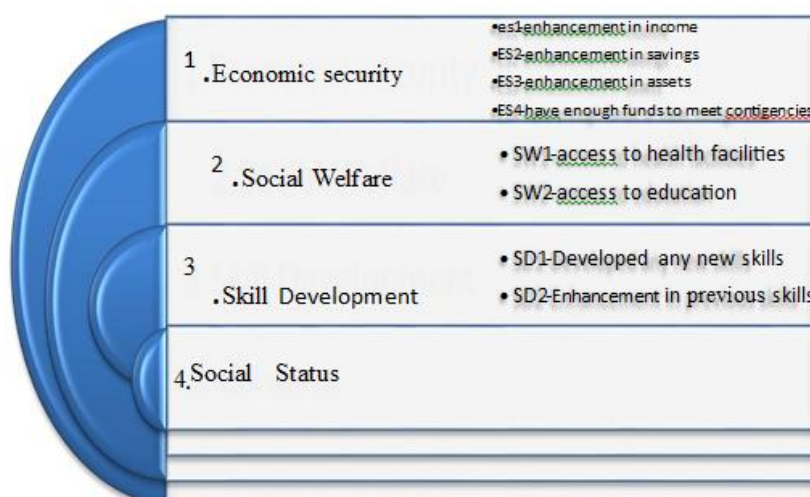
## Indicators of Rural Development:

A variety of indexes were developed to gauge the state of development overall. These include the Multidimensional Poverty Index (Oxford Poverty and Human Development Initiative, 2010), th e UN Human Development Index (UNDP, 2016), and the Gross Domestic Product (GDP) (Worl d Bank, 1997).Nevertheless, none of them are intended for use in rural areas, among other drawb acks.This implies that its application in assessing the efficacy of Rural Development programmes, pinpointing areas of focus for public investment, or facilitating decisionmaking across a wide range of circumstances cannot ensure satisfactory outcomes.

Two distinct indices, the Abreu Rural Development Index (Abreu, 201) and the Kageyama Rural Development Index (Kageyama, 2008), have been created in this context in an effort to evaluate Rural Development.

The foundation of both indexes is the use of several variables categorised into four areas: social welfare, the environment, the economy, and demographics.The main distinction is that Abreu's i ndex employs a geometric mean to prevent the substitution impact that a very high score in one o f the dimensions could have, whereas Kageyama's index aggregates the various indications in an additive manner (just taking the arithmetic mean of the four dimensions)

As different literature suggests different indicators for Rural Development, this study includes 4 dimensions of RD. Keeping in mind the aim of this study and linking micro financing with rural development, these indicators are



## Research Methodology:

A purposive sampling technique is used in this study, where 200 households are selected from the rural areas of Ranchi District who are availing the facilities of Micro financing. The sampling unit in this study is the household where the responses were collected from the head of the family. Data is collected through structured questionnaire which consist of various questions related to how micro financing impacted their rural development. Their responses were recorded on a five point Likert Scale, starting from “Strongly disagree”, “disagree”, “Neutral”, “Agree” and “Strongly Agree”. These data were processed through factor analysis which is a method of data reduction and data summarization.

## Data Analysis

As the following table indicates that for the first factor, the Economic Security, only two variables, the enhancement in income and savings contributes significantly. Similarly for the second factor, that is social welfare both the variables access to health facilities and education contributes significantly. For skill development, both the variables, development of new skills and enhancement in previous skills, contributes significantly. Lastly the factor of social status indicates that there is enhancement in social status for the households.

**Table 1: Factors of rural development**

Factor 1		Factor 2		Factor 3		Factor 4	
Economic security (ES)		Social Welfare (SW)		Skill Development (SD)		Social Status (SS)	
Variable	loading	Variable	loading	Variable	loading	variables	loading
ES1	.966	SW1	.945	SD1	.956	SS1	.795
ES2	.967	SW2	.936	SD2	.949		
ES3	-.181						
ES4	-.104						
Eigen Values	1.946	1.904		1.714		1.064	

Table 2 indicates that 41% of the respondents agreed that there has been increase in their income due to availing the micro credit facility and 20% of them disagreed on this question. 5.5% of them strongly agree and only 5% strongly disagree on this. Similarly maximum respondents, 36.5% were neutral on the question of whether their savings has increased due to micro financing or not. For the third variable, whether there is enhancement in assets due to micro financing, 29% of respondents strongly disagreed whereas 25.5% agreed on this. Again for the last variable, enhancement in social status there is mixed response where 33% people agreed and 33% of them disagreed on this.

**Table 2: Factor 1- Economic Security**

Variable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
ES1	5%	20%	28.5%	41%	5.5%
ES2	6.5%	19.5%	36.5%	35.5%	2%
ES3	29%	24.5%	21%	25.5%	0
ES4	1.5%	33%	32.5%	33%	0

Table 3 provide description about the second factor-social welfare. It indicates that 40.5% of the respondents agreed that there has been increase in their access to health facilities after availing micro financing facilities, nobody strongly disagreed on this. Similarly 38% of the people agreed that there has been increase in their access to education due to micro financing and none of them strongly disagreed on this.

**Table 3: Factor 2- Social Welfare**

Variable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
SW1	0	16.5%	26.5%	40.5%	16.5%
SW2	0	17%	29.5%	38%	15.5%

Table 4 provide description about skill development. It indicates that 33.5% agreed that due to micro credit they are able to develop new skills in them. Here 13% of them disagree on this statement. Similarly 30.5% agreed that there has been enhancement in their previous skill due to microfinance and 16% disagree on this.



**Table 4: Factor 3- Skill Development**

Variable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
SD1	6.5%	13%	28.5%	33.5%	18.5%
SD2	8%	16%	29.5%	30.5%	16%

Table 5 describes the social status factor. It indicates that 41% of the respondents agreed that there has been enhancement in their social status due to availing the microfinance facility. Here 14% disagreed on this whereas 33.5% remained neutral on this.

**Table 5: Factor 4- social status**

variable	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
SS1	2.5%	14%	35.5%	41%	7%

### Conclusion:

The findings of the study indicate that micro financing can be a powerful tool for the rural people and those who do not have direct access to banking facilities. The maximum people of the rural areas have the perception that microfinance has helped them in increasing their earnings, savings, and the funds are enough to meet any contingency. They also agreed that micro finance has positive impact on their access to education and health facilities, improving their previous skills and developing new skills. Also they found themselves at better social status in the society after availing the micro credit from different institutions. Therefore the government should take important steps in order to improve Micro financing institutions in Ranchi as well as in Jharkhand, so that no one will be left out in this process of development.

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