

# Importance of Micro Finance in the Evelopment of Village Cottage Industry

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## Abstract:

The handicrafts, small scale and medium scale industries manufacturing play a dominant role in programmes for rural development. The promotion of these industries leads to an improvement in social and economic conditions; and an overall balance of rural and urban industrial activities, which in turn, retards migration of labour from rural to urban areas. Socioeconomic improvement in the rural set up is crucial which need improvement in the allied sectoral activities. Rural development is a holistic approach of development. There are so many item to analyze the r ural development issue. Here two items ( self-employment and micro-finance) have chosen to elaborately discuss about it. Self-employment and micro-finance closely related with each other in the rural development aspect. It's a case study on Jari embroidery industry which is non- agricultural base. Methodology of the study followed simple random sample techniques for survey within jari workers family and units. Major findings are mainly rural women are involved in this work in family and joint sectors but in unit sectors young male are engaged. Working female also connected with SHGs to enhance their livelihood.

## Introduction:

Microfinance, also known as microcredit, is a financial service that offers loans, savings and insurance to entrepreneurs and small business owners who don't have access to traditional sources of capital, like banks or investors. The goal of microfinancing is to provide individuals with money to invest in themselves or their business.

Microloans are typically lower than the average business loan (ValuePenguin reported this figure to be \$713,000 in the fourth quarter of 2016). According to the SBA, the average microloan is about \$13,000, but some reach up to \$50,000.

## History of microfinance

While the concept has been used globally for centuries, Bangladesh's Muhammad Yunus is the pioneer of the modern version of microfinance, according to Kiva, a crowdfunding-based microlending organization inspired by Yunus' work. While working at Chittagong University in the 1970s, Yunus began offering small loans to destitute basket weavers. Yunus carried on this mission for nearly a decade before forming the Grameen Bank in 1983 to reach a much wider audience.

Joseph Blatchford, former head of the Peace Corps and a UC Berkeley law student, is also credited with building up the modern-day microfinancing

efforts. Blatchford founded nonprofit Accion as a volunteer project in 1961, and in 1973, the organization began offering small loans to entrepreneurs in Brazil to see if a one-time influx of money could help lift them out of poverty. The operation was a success: 885 loans helped create or stabilize 1,386 new jobs. Accion expanded the model to 14 other Latin American countries over the next decade.

### **Micro financing institutions**

Microfinance is available through microfinance institutions, which range from small nonprofit organizations to larger banks. These institutions include for-profit companies, like General Electric Consumer Finance and Citi Microfinance, as well as nonprofit organizations, such as Kiva, Accion and BRAC.

They offer small loans and help set up and maintain a savings account. They also assist borrowers in obtaining insurance for a variety of needs, such as death, illness or loss of property.

### **The downsides of microfinance**

According to the most recent data from the World Bank, "the microfinance industry is estimated at \$60 to 100 billion, with 200 million clients." However, there is much criticism on the concept.

Microloans are smaller than traditional bank loans, but they have much higher interest rates. Many believe the loans are not enough to start a successful business and only provide basic needs, like food and shelter, which eventually lead to more debt.

However, there are many ways to ensure timely repayment on the loans. According to Investopedia, many micro lenders allow borrowers to work

together to repay their loans, helping each other when needed. This holds borrowers more accountable for their repayments, which in turn leads to better credit and sets them off on the right foot.

**Village Financial Services Ltd.** is a microfinance company registered as an NBFC-MFI under Reserve Bank of India under section 45 IA. Village Financial Services (VFS) has started Micro Finance Operations in the financial year 2005-2006 having its head office at Kolkata (West Bengal). Since then, VFS has grown and has touched the lives of many underprivileged and backward section of our society by providing them credit for income generating activities and helping them to become economically self-sufficient, sensitizing women about empowerment issues and bringing about a qualitative change in them and their families related to standard of living & their own status in the society.

Village Financial Services Ltd. (VFS) began its journey in microfinance operations in 2006, and is today recognized as one of the oldest and the most reputed microfinance institutions of Eastern India. Expanding services and operations to eight states in India, VFS has carved a rare distinction of being the first microfinance company in Eastern India to be registered as NBFC-MFI under section 45-IA of the Reserve Bank of India. It is also the first ISO certified microfinance company in India.

### **Eligibility and Documentation:**

You can be as young as 20 years or as old as 60 years to avail a micro loan from L&T Financial Services. Currently we lend loan to women borrowers.

We will be taking into consideration your income generating capacity to accept your application for a micro loan.

The process is quite simple. We just need your Aadhar Card and also your Voter's ID card/Ration Card/MGNREGA Card to process the micro loan.

## **Programs conducted by VFS**

### **Growth and empowerment**

It is not only credit services, Village Financial Services regularly engages in different credit plus or support services for our customers. These services are provided directly by VFS or by its group companies.

The customers of VFS are women. As it is well known, that in India, women are mostly dependent on their husbands. In case of any unfortunate event of death of her husband, the family becomes helpless. There are thousands of examples where the widows are not permitted to stay in her husband's house, having to leave home along with their children.

Keeping this in mind VFS has tied-up with an insurance provider to introduce the facility of life insurance for the husbands of our customers, so that in the case of any untimely death, the wife can get financial support. All our customers are also covered under the insurance scheme as well.

Apart from insurance, VFS also provides various training programs to our customers. We also organize different workshops on different social issues at regular interval.

Broadly these customer training programs can be classified into two categories:

### **Customer Development Training:**

Keeping in mind the pitiful condition of rural women, our Customer Development Training empowers women by developing leadership qualities, building business skill and developing good business sense. We also organize different workshops on different social issues in a regular interval.

### **Customer Awareness Training:**

The Customer Awareness Training is designed to spread awareness on financial literacy, market conditions, business operations and multiple borrowings

### **Methodology**

The customers of VFS are exclusively poor women, who are engaged in or willing to start income generating activities (IGA) but do not have any access to main stream financial institution.

Our operation methodology is to adopt a mechanism of forming JLG (Joint Liability Group), a joint group effort towards self-employment, where different members of similar socio-economic profile and living in the same neighborhood (one representation per family), form a group of five (5) working for the development of all. After taking the loan the members are bound to the organization individually and as a group for repayment.

### **The process includes-**

- Area Selection
- Group Formations
- Financial Transactions

Timeliness is of utmost priority in VFS and is maintained meticulously.

All the services are provided to the customers at their doorstep such as preliminary training, documentation for loan sanction, collection of loan repayment instalments, insurance claim settlement etc.

### **Conclusion:**

Cottage industries occupy an important place in the economy of India. India is a predominantly agricultural country. About eighty per cent of our country's population depends on agriculture. Economy is the most important aspect of the rural development and self employment and micro - finance systems are efficient indicators of economic development. At the end of the research article it is proved that to increase economics capacity of rural area need to involve employment system (self, wage and causal) of grass root level people and there is no scope to avoid rural female also. For the development of quality of life of rural people more need stress on eradication of illiteracy, improvement of sanitation condition, and enhancement of other basic needs. Through the Jari embroidery industrial work economic disparity can reduce in rural area.

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