

Micro Financing And Alleviation Of Poverty Reduction In India

Ms.Meena.ali

Assistant Professor, R.G.Kedia College of Commerce. hyderabad.

Abstract

The government of India has made certain moves that should help reduce the country's level of poverty. When seeking to provide their services to consumers in remote locations, commercial banks often run across obstacles. Ignorance on the part of customers, a scarcity of available personnel, and the dynamic nature of commercial banking operations all add to an atmosphere that is already difficult. Microfinance is a straightforward approach that might be used as a potential solution to this problem. This refers to the practise of offering low-interest loans to borrowers with low incomes, with the goal of enabling those individuals who do not have access to conventional banking services to begin or develop a business that will provide money for them. Microfinance has been generally recognised as an effective instrument for combatting poverty and supporting economic and social growth for about 30 years now, making it one of the most commonly used tools of its kind. The Indian government recognises the importance of microfinance as a weapon in its fight against poverty and as a means of assisting those with lower incomes in getting their businesses off the ground. Mohammad Yunus was the first person to come up with the idea that would later be known as "microfinance." He went on to establish the Grameen Bank in Bangladesh, which gives loans to people who are financially disadvantaged and encourages them to create their own enterprises. Since that time, a number of distinct iterations of microfinance have come into existence. Non-governmental organisations (NGOs), credit unions, cooperatives, associations, community banking, Self-Help Groups, ROSCAs, small companies, and village banking models are some examples of the types of organisations that fall under this category. One example of microfinance would be a company that offered its consumers with low incomes access to various financial services. The terms "microfinance" and "other" are often interchanged with one another. Microfinance is considered to fall within this group. The recent revolution in microfinance that has taken place in India has the potential to have a significant impact on the battle against poverty.

Keywords: *Microfinance, PovertyReduction, SHG's, and Revolution.*

Introduction

A rising number of people were compelled to live lives of abject poverty beginning in the latter half of the nineteenth century and continuing into the early decades of the twentieth century. As a direct result of the constraints imposed by the colonial government, unskilled artisans were coerced into working in agriculture. As a result, the nation was transformed into a province that was characterised by a reliance on agriculture, a shortage of skilled labour, and widespread inefficiency. As a consequence of this, resources such as labour, money, and expertise were dispersed in an uneven manner throughout the country. The term "poverty alleviation," which is also often referred to as "poverty relief" or "poverty reduction," refers to a broad array of measures that governments may enact in order to assist their inhabitants in climbing out of poverty. With a score of 0.123 on the Global Multidimensional Poverty Index (MPI) 2020, India has earned the position of #62 on the list of 107 countries. This places India in the category of having very high levels of poverty. According to the Global Hunger Index 2021, India has a very high degree of hunger, ranking 101st out of 116 nations with a score of 27.5. This indicates that India has a significant problem with hunger. In a recent research, it was shown that five out of the six persons who were deemed to be multidimensionally destitute were members of socially less privileged groups.

Microfinance institutions have a fair chance of helping the rural poor and tackling fundamental challenges related to rural development where traditional FIs have failed to make substantial strides. Self-help groups (SHGs), which are compact, informal, and uniform groupings with no more than 20 members, are financed by microlending. The members may engage freely and without having to worry about competing interests thanks to homogeneity. The members have little ability to take risks, little collateral to offer, and few chances for employment. After the group's founding, each member is required to contribute a set amount of thrift on a regular basis. It begins lending to members for little consumption requirements with this money. The working fund is little at first, but it challenges your patience and seeks to foster trust between everyone in the group. The organisation is forced to decide properly by limited resources and rising credit demand. The operating fund increases with time, and the organisation is also able to apply for loan from FIs. The committee continues to make decisions as before, but with additional resources.

The group's accountability for the amount borrowed from the bank grows as a result, as does its duty to keep an eye on the members. The functions of screening, monitoring, and enforcing repayment are largely passed from the bank's agent to the borrowers, or the group members themselves, in group borrowers programmes. The repayment of the rates is group-based systems are especially good in rural areas, and even in places with greater than average poverty rates. The influence of SHGs on social dimensions has been more obvious than on economic ones. Microfinance makes significant contributions to women's empowerment. The convenience with which the loan may be obtained compensates for the increased expenses. Although the loan amount is minimal, it helps the needy fulfil their needs. Even little amounts of loans assist the impoverished boost their income small loan amounts, along with financial discipline, guarantee that loans are issued more often, allowing credit demands for a range of objectives to be satisfied at shorter time intervals. This is a better technique for progressively reducing poverty than making a one-time loan for a productive item, which may not result in a continuous rise in income. Credit is essential for rural development and poverty reduction. The bulk of operating holdings in India are tiny, marginal, and unprofitable. The situation of other rural poor, who rely mostly on non-farm enterprises, is likewise insecure, as their resource and income status are much worse than that of small landholders. Perpetual poverty and a lack of appropriate financing have remained fundamental barriers to rural households' economic upliftment. Credit encourages capital investment and the adoption of new technology, ultimately leading to higher living standards owing to greater output and revenue. Microfinance Organizations and Their Roles in the World The National Agricultural Bank for Rural Development (NABARD), the Small Industries Development Bank of India (SIDBI), and the Housing Development Finance Corporation (HDFC) are just some of the mainstream financial institutions that are involved in the provision of microfinance. Other mainstream financial institutions that participate in the provision of microfinance include commercial banks, regional rural banks, credit cooperative societies, and others. On the other hand, institutions have risen up to fill the gap left by the absence of government.

Importance of Micro Finance In India

Since the 1970s, the concept of microfinance has been advocated in order to assist those who are economically disadvantaged and to advance the progression of the economy. In the context of the ongoing global financial crisis, when trust in the established banking system has been eroded, the relevance of this issue has expanded significantly. The provision of microfinance in India is an activity that is essential to the progress of the nation. It acts as a preventative measure against poverty for those living in rural areas. It works toward the goal of assisting economically disadvantaged communities in achieving better levels of asset development and income stability on both the household and community levels. The provision of access to funding for small businesses is seen as the part of microfinance in India that is considered to be the most essential. As was said before, microfinance in India offers a variety of services, including loans, insurance, and others. access to several types of savings accounts The provision of financial assistance in the form of loans to women is the core idea behind the microfinance movement. It acts as a tool for the empowerment of disadvantaged women because when women obtain independence, they are able to contribute directly to the well-being of their families and solve any gender imbalances. This means that it serves as a tool for the empowerment of disadvantaged women. The majority of those who benefit from microfinance are low-income women and their rural or urban homes. The Reserve Bank of India does not place any restrictions on the minimum or maximum sums of money that may be lent out. It is vital for the poor to have access to credit in order to maintain the typical disparity that exists between their income and their expenditure. It is also essential for those living in poverty to participate in activities that may generate revenue for them, such as making investments in low-profit farms and other types of small companies. measures to encourage self-employment should be expanded. They have limited access to standard banking channels as a result of the lack of resources available to them as well as the character of the government credit institutions. As a consequence of this, self-help organisations and microfinance institutions in India are paving the way for other traditional banking channels by catering to the credit requirements of the underprivileged. It has made important contributions to enhancing the quality of life for the underprivileged, which is a direct result of the poverty.

As a result, microfinance is not a financial system; rather, it is a vehicle for alleviating poverty and bringing about social change, particularly in raising the status of women in our society so that they may become self-sufficient. Microfinance is a vehicle for bringing about social change, particularly in raising the status of women in our society. Because there is a public interest in microfinance, it is acceptable as a real purpose for public policy. This is because of the public interest. Several of the Most Important Programs Started by the Government

1. Integrated Rural Development Programme 2. JawaharRozgarYojana 3. Jawahar Gram SamridhiYojana 4. Employment Assurance Scheme 5. Food for Work Programme 6. SampoornaGrameenRozgarYojana 7. Pradhan MantriGrameenAwaasYojana 8. National Social Assistance Programme (NSAP).

Microfinance And Poverty Reduction In India

Microfinance is the practise of providing financial services to customers with modest incomes, such as consumers and persons who are self-employed, who would not otherwise have access to banks and other services of a similar kind. It is a movement that, in a broader sense, seeks to create "a society in which as many low-income and near-poor households as possible have permanent access to an acceptable range of high-quality financial services." These services include not only credit but also savings, insurance, and the transfer of money. There is a widespread agreement among those who advocate for microfinance that expanding access to financial services would help pull people out of poverty. In addition to the pressures brought on by the market, national governments, non-governmental organisations (NGOs), and funders that see microfinance as an effective tool in the battle against poverty have actively encouraged the industry's spectacular development. the primary driver that is driving this vast and ever-increasing support for microlending shows that there may be significant national economic and social ramifications, which call for further examination.

Features and Principles of Sustainable Microfinance

Due to the following characteristics, microfinance is seen as a suitable instrument for funding small-scale endeavours and technical applications in rural regions.

- Grant credit for investments in modest ventures favoured by the underprivileged.
- Give the less fortunate the tools they need to develop their sense of self-worth.
- The ability to recoup its costs through interest.
- Permit underserved groups to create chances for self-employment.
- Be the most universally useful and incur the lowest cost per recipient.

The following are the fundamental tenets of sustainable microfinance:

1. It provides flexible customer-friendly services that low-income groups demand,
2. It and there are chances to streamline operations and cut expenses.
3. The company operates on a market-basis, charges market interest rates and fees, and
4. works to recoup the loan's expenses.

Microfinance's Contribution to Reducing Poverty.

Microfinance is all about providing financial services to those who are not serviced by the conventional and formal financial institutions. These people are considered to be economically disadvantaged. broadening the scope of the ways in which financial services may be provided. In order to provide these financial services, new distribution methods and channels. The financial services are required so that consumers can both use possibilities and improved management of their assets. Microfinance may be a powerful tool.

one of several tools for reducing poverty. Though it uses with caution notwithstanding recent assertions to the contrary a relationship between microlending and reducing poverty is not simple since poverty is a complicated issue. phenomenon and numerous limitations that the impoverished face generally have to manage We must comprehend when what kind of microfinance are suitable for the poorest. the method, strategy, and goods of delivery provided are connected and thus influence the potential customer. and the assurance of reducing poverty.

Those with a low income have limited access to traditional banking options. The need of collateral that is required by these organisations when applying for a loan is the greatest challenge that the poor face when attempting to get financing from conventional banking

institutions. Further, there are other steps involved in submitting a loan application. impoverished people bear the brunt of administrative requirements that ultimately lead to new corporate transactions. Financial institutions in the traditional sense are few. people are urged to lend them money Financial institutions, both formal and general, tend to prefer urban settings. Business on a grand scale is preferred in rural areas. Loans for non-farming purposes far outnumber those for farmers. Reasons why traditional financial institutions have few motives to provide loans to economically disadvantaged rural residents include the following. Administration management issues In rural locations, small farmers tend to be dispersed across a large area. It is more challenging to handle loans in regions with limited access to information technology.

1.Administrable difficulties2. Systematic risks3. Lack of information4. Repayment problems

Interlinked loan agreements are used by informal lenders to lower the risk of default, such as by developing business relationships with clients. Informal lenders are familiar with the area. This aids in their assessment of credit demands and the client's ability to pay back debt. Informal lenders are taking into account the even for the demands and requirements of tiny loan amount social media will be profitable for informal moneylenders. punishments like those that may be applicable to a family's members. These penalties might function as an alternative to the application of the law. Informal borrowers employ particular incentives to encourage repayment, such as through follow-up loans reward borrowers that pay back loans on time, with steadily expanding the loan amount.

Conclusion

The method for eradicating poverty and promoting economic empowerment, microfinance and microfinance have gained widespread acclaim. In rural regions, where the majority of the world's poorest people reside, microfinance is a method of reducing poverty. The problem of rural employment is typically connected to both the development of rural areas and the alleviation of rural poverty. A variety of options, such as farming and non-farming activities, wage and self-employment in the region, migration, and other forms of work, are all open to rural families as potential means of subsistence. Microfinance has established itself as a powerful and effective tool for combating poverty and fostering the growth of rural areas. We

are all aware that financial institutions are a significant part of our economy and that they play a significant role in the advancement of economic growth. As a result, India's financial institutions are quite strong, yet their activities are negative, and we are weak in their ramifications. However, microfinance plays a critical role in eradicating poverty in society. Many Indian banks have begun to lend money to microfinance institutions. It seeks to empower women, which is a significant step forward for the country's growth.

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