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The Effectiveness of Micro Finance Institutions in Alleviating Poverty

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ABSTRACT:

The goal of microfinance institutions is to alleviate poverty by giving credits to underprivileged economic groups. Based on our research, we have concluded that microfinance operations have a discernible and favorable impact on the living standards, empowerment, and alleviation of poverty among the impoverished, particularly in rural areas. Research already inexistence shows how microfinance affects household income, work, female empowerment, health, and education. This review of the literature investigates the connection between microfinance and the reduction of poverty by focusing on the effects that microfinance programs have on the poor as a stand-in for their effects on other socioeconomic variables. Research already in existence shows how microfinance affects household income, work, female empowerment, health, and education. We look at these characteristics because they affect important measures of poverty in different ways. Microfinance can effectively contribute to expanding credit availability in rural India. Recently, there has been a significant increase in interest in micro finance, particularly when it comes to more efficiently serving low-income people. In areas where traditional financial institutions have not been able to make major progress microfinance institutions have a high chance of reaching the rural Poor and addressing the fundamental problems of rural development. Funding for small, informal, and uniform self-help groups (SHGs) is a component of microfinance. These organizations' emphasis on turning a profit frequently gets in the way of these programs 'efforts to reduce poverty.

Key Words : Micro Finance, Self-Helf Groups ,Lining Standards

Introduction:

The microfinance revolution has altered perceptions about aiding the underprivileged. In certain nations, it has also significantly increased credit flows, frequently to extremely low-income households or groups. Microfinance Institutes (MFIs) seek to close the gap in rural areas, however research indicates that they only provide financial services to a relatively small portion of the poor's anticipated need. Additionally, research indicates that these initiatives can boost self-assurance. Microfinance is the provision of credit, savings accounts, and other financial services to the underprivileged. These services include working capital credit and additional basic financial services such as cash transfer, consumer loans, insurance, and pension plans. It is defined as giving the impoverished in rural, semi-urban, and metropolitan areas short-term loans and credit in very small amounts so they can improve their standard of life and level of income.

Microfinance, which offers the impoverished financial services like savings accounts, credit remittances, and insurance, has become a prosperous industry in several nations in recent decades. Globally, microfinance is becoming more and more significant. The bulk of the population's credit demand has been dependent on the unorganized sector due to its predominance in India and the informal rural banking institutions' influence on credit supply. In rural areas, the number of non-banking financial institutions offering credit-related services has rapidly increased.

Literature review:

Ms. Anu Bansal and Dr. Ajit Kumar Bansal (2012) a lot of attention has been paid to microcredit and microfinance as a means of empowering the Economy and reducing poverty. Fighting poverty can be achieved through microfinance, especially in rural areas where the majority of the world's poorest people reside .The ability to obtain small sums of finance at affordable interest rates allows those in poverty to launch their own small businesses. It demonstrates how the poor can improve their quality of life by increasing their ability to obtain and effectively manage microcredit, which can help them smooth out their Consumption, better manages their risks, progressively accumulate assets, grow their microenterprises, and increase their ability to produce revenue.

Hiderink and Kok (2009) The UN millennium goal to alleviate poverty by the year 2015 is far from fetch despite the enormous works that microfinance institutions are doing to contribute in this domain.

Helmes (2006) Even while microfinance has been praised for its potential to less en poverty and the risk of it in some parts of the world, an estimated three billion people worldwide do not now have access to any kind of financial services.

RESEARCH METHODOLOGY:

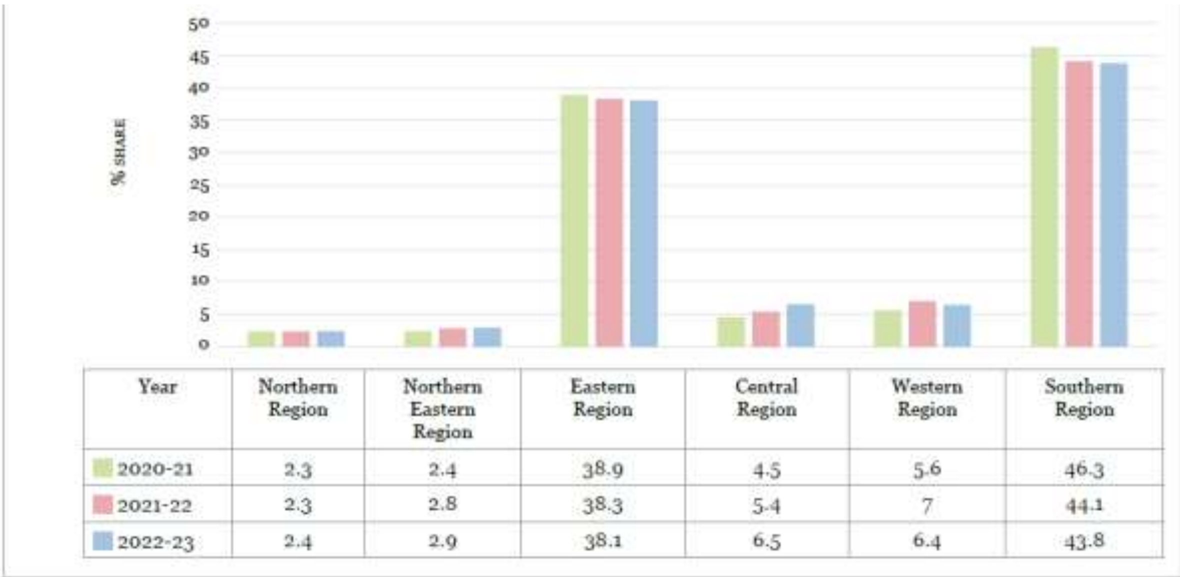
It explains the procedures, processes, and tools needed to gather and analyze data so that meaningful and precise conclusions can be made .A carefully designed research method are necessary to guarantee the validity and reliability of study findings. The ideal research design—experimental, descriptive, or correlation—will depend on the kind of study being done. The sampling techniques described in this section are meant to ensure the sample's representativeness and elucidates the various data collection techniques, such as surveys, interviews, experiments, and observations. In addition to addressing the instruments used for data collection, such as surveys and questionnaires, researchers also address ethical considerations to safeguard the rights and welfare of participants.

Region-wise Status of Bank Loan Disbursed to SHGs during 2020-21 to 2022-23

Region	2020-21			2021-22			2022-23		
	No. Of SHG	Total Loan Disbursed	Average Loan Disbursed	No. Of SHG	Total Loans Disbursed	Average Loans Disbursed	No. Of SHG	Total Loans Disbursed	Average Loans Disbursed
Northern	67,658	94,045	1,39,001	79,532	1,17,102	1,47,239	1,02,931	2,06,437	2,00,559
North eastern	68,116	1,03,651	1,52,168	94,871	1,84,636	1,94,618	1,23,602	3,13,764	2,53,850
Eastern	11,24,578	14,87,551	1,32,276	13,01,505	25,68,978	1,97,385	16,34,604	33.38,333	2,04,229
Central	1,28,617	1,05,428	81,971	1,84,322	2,16,983	1,17.720	2,78,359	4,63,673	1,66,574
Western	1,61,159	2,30,331	1,42,921	2,39,086	3,81,363	1,59,509	2,73,253	6,75,144	2,47077
Southern	13,37,266	37,86,063	2,83,120	14,,98,951	65,03,860	4,33,894	18,82,772	95,22,672	5,05,779
Total	**28,87,394**	**58,07,068**	**2,01,118**	**33,98,267**	**99,72,923**	**2,93,471**	**42,95,521**	**1,45,20,023**	**3,38,027**

Table1.Shows that the number of SHG'S are continuously increasing over the years

REGION WISE SHARE IN SHGs CREDIT LINK



% DISTRIBUTION OF SHG LOAN AMOUNT DISBURSED DURING THE YEAR

HYPOTHESIS:

- There is significant positive relationship between micro financial institution and reduction in poverty
- There is no significant relationship between micro financial institution and in an alleviating poverty

Objectives:

- To study the role of micro finance in India
- To Understand the working and challenges faced by Micro finance Institutions in India
- To study the various models of Microfinance

Micro finance in INDIA:

Early in the 1980s, the financial institutions, rules, and practices in place were insufficient to satisfy the needs of the under privileged. Poor people typically turn to the unorganized sector for borrowing. NABARD suggested implementing substitute policies, systems, and processes to protect the impoverished from the predatory practices of money lenders. Thus, the banking industry saw the introduction of microfinance. Giving the poor and low-income people and their micro businesses access to a wide range of financial services, including deposits, loans, payment services, money transfers, and insurance, is known as microfinance. Financial services (savings, insurance, funds, credit, etc.) given to low-income and impoverished clients in order to help them increase their income and, consequently, improve their standard of living is known as microfinance.

Features of Micro finance:

- It plays a crucial role in rural financing.
- It specializes in modest loans and mostly serves slow-income households.
- It is among them most sensible and successful strategies for reducing poverty.
- It encourages women to use electronic devices.
- It offers a motivation to seize the chances for self-employment.
- It is less profit-oriented and more service-oriented.
- It is designed to help farmers and small business owners.
- Due to their ease of repayment, poor borrowers rarely fail to make loan payments on time.

- India must setup several microfinance institutions.

Role and significance of microfinance:

1. Because of their low income and incapacity to understand banking policies and paper work, the poor are unable to receive banking services. A wide range of financial services, including deposits, loans, payment services, money transfers, and insurance, can be made available to low-income and impoverished people as well as their micro businesses through microfinance.
2. Through their NGOs, micro finance institutions help impoverished individuals form saving habits. Members of Self Help Groups (SHGs) receive advances and loans from banks using funds generated from savings and microcredit secured from them. As a result, microfinance organizations support the mobilization of savings and use them for their members' well being.
3. Those in poverty are unable to provide the collateral or counter guarantee needed for loans from the traditional banking system, and as a result, they are denied loans. Once more, exorbitant interest rates combined with onerous documentation and procedural requirements discourage the impoverished from applying for loans from banks. Microfinance removes all of these barriers and offer slow-income and rural populations' reasonable terms for financing.
4. Microfinance makes it possible for the less fortunate members of society to obtain loans at lower interest rates, enabling them to launch small enterprises, expand them, escape poverty, and become independent and self-sufficient. It encourages self sufficiency among the weaker segments of society by assisting them in achieving long-term financial freedom.
5. Self Help Groups (SHGs) act as intermediaries to provide microfinance. More than 50% of these groups are formed by women

LIST OF MICRO FINANCE INSTITUTIONS IN INDIA

1. Bank of Bandhan
2. SKS Microfinance
3. The Bank of Ujjivan Small Finance
4. Financial Services Janalakshmi
5. Financial Inclusion Bharat Limited(BFIL)
6. Financial Services Arohan
7. Small Finance Bank of ESAF
8. Bank of Suryoday Small Finance
9. Bank of Utkarsh Small Finance
10. Micro finance Fusion

HOW DO THESE MICRO FINANCE INSTITUTION WORKS:

1. Target Population: MFIs mainly work with underprivileged and economically disadvantaged groups, such as low-income people, women, and rural residents. Communities as well as small business owners. Their target audience is anyone who does not have official credit history, collateral, or enough income to be eligible for a traditional loan.
2. Financial Products and Services: MFIs cater to the demands of their target market by providing a variety of financial products and services. Micro credit(small loans), micro savings, micro insurance, and money transfer/remittance services are usually the main products offered. These goods are made to be easily obtainable, reasonably priced, and adaptable to meet the various needs of their customers.
3. Client Evaluation and Credit Assessment: MFIs have a client-centric stance and frequently employ non-conventional evaluation techniques to determine a prospective borrower's creditworthiness. To offset the lack of official credit history or collateral, they take into account alternative indications including character, community reputation, group lending, and social collateral. They are able to lend money to people who might not be eligible for typical bank loans because of this strategy.
4. Solidarity and Group Lending: A lot of MFIs use a group lending strategy in which people are arranged into self-help or small groups. By supporting one another and serving as guarantors for one another's loans, these organizations foster social cohesion and lower the danger of default. The MFI frequently provides financial literacy instruction and continuous support to group members.

CHALLENGES FACED BY THESE MICRO FINANCE INSTITUTIONS:

1. Limited cash Access: MFIs frequently have trouble finding reasonably priced cash to support their lending operations. They rely on a combination of financing, grants, and equity from commercial banks, investors, and benefactors. But finding reliable and inexpensive finance sources can be difficult, especially for smaller and more recent MFIs.
2. High Cost of Funds: Compared to traditional banks, MFIs usually have greater operational costs because of the nature of their business. They frequently Operate in isolated locations with inadequate infrastructure, deal with greater transaction costs, and pay for client outreach and financial literacy initiatives. These increased expenses may put pressure on MFIs 'interest rates, raising the cost of their services for customers.
3. Operational and Administrative Efficiency: The long-term viability of MFIs depends on preserving operational efficiency. Nevertheless, it can be difficult to manage a lot of small loans, handle paperwork, and put strong risk management procedures in place, particularly in settings with limited resources. Increased expenses and possible operational dangers are two outcomes of operational in efficiency.
4. Effective Asset and Liability Management: MFIs have difficulties in this area. Liquidity issues may arise from mis matched maturity profiles between their funding sources and loan portfolios. To maintain the stability and sustainability of MFIs, it is also necessary to manage credit, currency, and interest rate risks.
5. Client Over-indebtedness: The possibility of client over-indebtedness is one of the issues with microfinance. Without adequate credit assessment and supervision, borrowing repeatedly from different MFIs or unofficial lenders might result in a debt load that is difficult for consumers to repay. To reduce this risk, appropriate lending methods, client protection, and efficient credit risk management are crucial.
6. Social and Cultural Barriers: MFIs frequently operate in socially and culturally diverse neighbor hoods. Building trust and providing financial services successfully require an understanding of and sensitivity to local norms, traditions, and social dynamics. Social conventions, gender biases, and language hurdles might make it difficult to contact and assist minority groups.
7. Credit Risk and Loan Portfolio Quality: Evaluating customers' credit worthiness, especially those who lack

Models of Micro finance:

GRAMEEN MODEL:

It's one of the more effective microfinance models. Five people made up the initial group that the model started. There will be an obligatory contribution to the insurance fund and group savings. After making a contribution to the group, each member keeps their own bank account for savings and loans, and the bank will give them individual loans. The onus of repayment is with the individual. Loans are given out for six months to a year, with weekly repayment requirements.

INDIVIDUAL LENDING MODEL:

An individual does not need to be a member of a group to obtain loans on their own. Financial institutions are required to keep a careful eye on each borrower's borrowing situation. It works well for bigger, production-based businesses located in cities. Many developing nations, including Egypt, Indonesia, Senegal, and India, utilize this strategy.

THE GROUP APPROACH:

Financial institutions oversee the complete group approach financial process. Group management is used to oversee tasks like loan pay back , savings ,and loan repayment. Ten to twenty members, at most, may regularly save money that will be combined into a shared fund Financial organizations issue the loans in the collective name of the group. Financial institutions set the payback schedule for the group, and field employees check in and oversee it on a regular basis. This approach is referred to as the SHG Bank Linkage Programme in India, and it is a widely used model.

VILLAGE BANKING MODEL:

In the 1980s, the Foundation for International Community Assistance established this concept in Bolivia. A village bank is established by the formation of 30 to100 low-income members who want to better their standard of living. The bank receives capital from the MFIs and then lends money to its members. The total amount saved by each bank member is connected to the loan amounts. We pay back loans in installments every week.

CONCLUSION:

According to this article, microfinance is important in India. It should be included into the urban sector to support rural areas and offer more efficient, quick, and reasonably priced financing options. The use of InfoTech in microfinance is commendable, and with the development of computer and communication technology, it may be converted in to an easy-to-use tool that rural residents can adopt and use to obtain funding for proposed projects that would realize their vision of a rural economy. Therefore, by implementing a combination of information technology and micro finance, the rural economy may undoubtedly contribute to the expansion of the national economy. The overall performance of micro finance in India demonstrates that Micro finance has a beneficial impact on inclusive growth, which is crucial because micro finance opens up opportunities for all sectors of the economy. The bank connection initiative for SHGs is crucial to the empowerment of women.

To bring women into the mainstream of the economy, microfinance e services are being offered throughout India. The majority of socially excluded groups can easily access microcredit, savings accounts, and insurance services with the aid of various microfinance models. The microfinance organizations offer a variety of development initiatives, including financial literacy, education, capacity building ,livelihood enhancement, preventive healthcare, and more.

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