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Microfinance: An analytical study on the poverty alleviation tool in rural India

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Abstract

The financial system of a country plays a crucial role in promoting economic activity and fostering economic growth. The progress of a nation is not only determined by improved infrastructure and innovative methodologies, but also by its human development index. Microfinance serves as a source of financial services for entrepreneurs and small businesses that do not have access to banks and similar services. Microfinance is emerging as a powerful tool for alleviating poverty in the modern economy. Beyond the obvious correlation with poverty reduction, there is an indirect link to meet the needs of health, education, and sexuality. Microfinance funds may be used for both investment and production loans, as well as for other credit requirements such as housing and shelter improvements. Women make up the majority of customers of microfinance lending and investment fund services.

Microfinance is a broad category of services that including microcredit. Microcredit is the provision of credit services to financially disadvantaged clients. Microcredit is a component of microfinance, and the two are often confused. Microfinance has been recognized as a powerful tool for poverty alleviation in India.

Keywords: Entrepreneurs, financial system, poverty alleviation, microfinance, investment

1. Introduction

The microfinance account is seen as a specialized program aimed at empowering impoverished individuals and alleviating poverty. Due to the program's unique structure and its focus on reaching the impoverished, particularly those without employment, several queries naturally arise. A microfinance account is an essential component of a potent poverty alleviation program. Enhancing the availability and efficient organization of investment funds, credit, and protection offices may especially enable individuals with little financial resources to: address their expenses, manage uncertainties more effectively, accumulate assets gradually, and establish their own small-scale businesses. Microfinance funds are only a means to a goal, rather than an end in themselves. The primary aim of microfinance is to alleviate poverty. The government, non-governmental organizations (NGOs), and other financial institutions have implemented various welfare programs and initiatives to alleviate poverty. Microfinance has emerged as a significant approach to alleviate poverty worldwide by providing small loans and savings facilities to persons who are excluded from mainstream financial services.

1.1 The Definition of Microfinance

Microfinance is a financial service that includes microfinance insurance, micro-savings, and microcredit provided to severely impoverished people or groups that are ineligible for bank loans and lack collateral. Microfinance is the provision of a broad variety of financial services, including as deposits, loans, payment services, money transfers, and insurance, to poor and low-income households for their microfinance initiatives. In order to assist people who lack security or guarantee and are thus unable to get loans from banks, institutional Micro Finance was established. Institutional Micro Finance, whether formal or semi-formal, may be defined as an organization that provides Micro Finance services to assist impoverished individuals.

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1.2 The Importance of Micro-Finance in India

The guidelines explicitly mandate that government-run remuneration for company and independent work cannot achieve the expected objective. When people need assurance, they become ineligible for bank loans.

Despite the dissatisfaction with the formal monetary framework, many researchers have documented many significant factors, including the high cost of transactions and poor income resulting from low interest rates that focus only on credit repayment, political barriers, corruption, and low recoveries, among others. According to the study conducted by Ladies' Reality Banking in 1995, it was found that just 25 percent of persons who are already financially solid get gains from the official financial system. Furthermore, a significant portion of the population, namely 75 percent, lacks access to conventional credit institutions, leaving them dependent on informal lenders and family members for financial assistance.

The rise of Micro Finance as a more effective means of providing credit than traditional institutions is driven by its ability to effectively meet the credit needs of the poor. The Micro Finance scheme provides monetary services that support and empower socially and economically disadvantaged persons. Microfinance Finance facilitates the organization of capacity development, training, and empowerment programs for impoverished individuals.

2. Literature Review

Mishra *et al.* (2001) ^[7] analyzed the impact of Micro Finance program on pay and work of the members. With the end goal of study five SHGs were arbitrarily chosen from Faizabad locale in Uttar Pradesh, India and perceived the significant requirements and deterrents, which the gatherings were confronting and proposed a few measures to beat these obstructions and subsequently. It was seen from the investigation that the primary control of the retrogressive class individuals was agribusiness alongside work and so forth the greater part of the Female individuals were living underneath destitution line.

Manimekalai and Rajeswari (2001) ^[8] examined the variables which rouse the individuals from SHGs to join Micro Finance program and become independently employed. The examination additionally portrayed their financial profile. An example of 150 SHG individuals from Tiruchirapalli locale's five squares in Tamil Nadu was chosen with the end goal of the examination.

Raghavendra (2001) ^[9] evaluated the effect of Micro Finance program in Shimoga area of Karnataka state, India. The effect of program was estimated on part's financial and social strengthening. For this reason the essential information from three SHGs was gathered by utilizing Interview technique.

Helmes, (2006) ^[10] Although microfinance account has been quite respected to diminish destitution and weakness to it in certain locales of the world, it is assessed that there are as yet three billion individuals on the planet right now who don't approach any type of monetary administrations.

Hiderink and Kok (2009). The UN thousand years objective to ease neediness constantly 2015 is a long way from bring regardless of the huge works that microfinance establishments are doing to contribute in this space.

Chintamani Prasad Patnaik (March 2012) has inspected that microfinance appears to have produced a view that microfinance improvement could give a response to the

issues of rustic monetary market advancement. Microcredit development must be seen from a drawn out point of view under SHG structure, which underlines the requirement for a conscious approach suggestion for affirmation as far as innovation back-up, item market and human asset advancement.

3. Statement of the Problem

Poverty reduction has been the preeminent worry of strategy producers everywhere on the world. Monetary consideration of poor people and minimized class is a fundamental advance in such manner. Hence, monetary area arrangements which are pivotal for fair development and more extensive admittance to monetary administrations are a necessary advance in such manner. To accomplish this, experimental proof that connections admittance to monetary administrations to improvement results should be created. This has made the zone of Micro Finance a difficult one, taking into account strategy getting ready for viable monetary turn of events. Yet, in ground reality, admittance to fund by poor people, more vulnerable areas, underestimated, is restricted because of a few reasons. Information of the Indian economy shows that, a huge part of poor people and underestimated segments of Indian economy are monetarily rejected. They don't approach the different monetary administrations gave by the institutional set up, and admittance to monetary administrations isn't uniform all through the economy. This requires a decent system to operationalize monetary consideration. Writing on microfinance shows that, there is a requirement for the exploration and information to be adapted on actualizing microfinance and deciding its viability in India. To handle this issue adequately, substantially more examination is expected to quantify and follow the effect of microfinance on neediness easing. So this examination will zero in on the effect of microfinance on destitution easing of family units having a place with the monetarily more vulnerable segments.

4. Research Methodology

This investigation follows enlightening cum scientific kind of examination plan. Quantitative examination depends on the estimation of amount or sum. Subjective exploration is worried about subjective wonder, i.e., marvels identifying with or including quality or kind. It is significant that the optional sources, we have utilized, should be of importance and should be of acceptable wellspring of motivation. Subsequently, we attempted to get the greater part of the explores, which were peer-evaluated and utilized by different specialists for their examinations. This measure of choice guaranteed the nature of auxiliary sources.

5. Objective of the study

- To understand the conceptual framework of micro-finance.
- To understand the need of micro-finance.
- To analyze the effect of micro-finance initiatives on the rural community in India.
- To study the overall effect of micro-finance on poverty alleviation in India.

6. Role of Micro Finance Institutions

Destitution decrease device Microfinance can be a basic component of a successful neediness decrease procedure.

Improved admittance and effective arrangement of investment funds, credit, and protection offices specifically can empower the poor to smooth their utilization, deal with their dangers better, form their resources bit by bit, and build up their microenterprises. Microfinance is just a methods and not an end. A definitive objective is to lessen neediness. Government, NGOs and other monetary establishments have presented different government assistance plans and exercises to diminish destitution. Microfinance, by giving little credits and reserve funds offices to the individuals who are barred from business monetary administrations has been created as a vital procedure for diminishing neediness all through the world.

Ladies Empowerment In rustic regions ladies living underneath the neediness line can't understand their latent capacity. Microfinance programs are right now being advanced as a vital system for all the while tending to both neediness easing and ladies strengthening. A few projects were executed by different governments and non-administrative associations to inspire them both monetarily and socially. Microfinance can give a compelling method to help and engage helpless ladies, who make up a huge extent of poor people and experience the ill effects of neediness.

Improvement of the general monetary framework without lasting admittance to institutional microfinance, most helpless family units keep on depending on small self-money or casual wellsprings of microfinance, which restricts their capacity to effectively take an interest in and advantage from the advancement openings. Microfinance establishments (MFIs) can be little and medium undertakings at the core of provincial reasonable turn of events. Their improvement emphatically associates with rustic business advancement.

Independent work Poverty decrease through independent work has for quite some time been a high need for the Government of India. Microfinance is a trial apparatus in its general techniques. Monetary administrations could empower the poor to use their drive, quickening the way toward producing wages, resources and financial security. Notwithstanding, customary account establishments rarely loan downmarket to serve the requirements of low-pay families and ladies headed family units.

SHG-bank linkage program Indian miniature money is overwhelmed by the operational methodology Self-help Groups (SHGs). The methodology is famously known as SHG-Bank linkage model. This model is the prevailing model, started by the NABARD in the mid 1990s. SHGS contain a gathering of 15-20 individuals. The SHG-bank linkage program was imagined with the goals of valuable credit conveyance administrations for the unreached poor, building shared trust and certainty between the brokers and poor people and empowering

7. Conclusion

Microfinance has gained widespread recognition as a method for reducing poverty and promoting economic empowerment. Microfinance is an effective strategy for combating poverty, particularly in rural areas, which are home to a significant portion of the world's most impoverished persons. Rural development and poverty reduction are often closely linked to the problem of rural employment. Rural households use several strategies, such as agriculture and non-agricultural activities, local self-employment and wage employment, and migration.

Microfinance has shown to be a valuable and essential resource for national development and poverty reduction. Similar to previous technological advancements, it has successfully permeated the lower socioeconomic strata of society. There are several strategies for improving the conditions of poverty in India. Creating self-employment opportunities via microfinance is a strategy for combating poverty and addressing the problem of unemployment.

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