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Micro Finance: A Way Out for the Poor

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Abstract – Today, one day, financial institutions dominate traditional banks because they provide services which are widely accepted by the poor because of simple processes. Such organizations may be state-based, non-governmental. Such financial problems are often as high an interest rate as all the poor face as they approach the Microfinance Institutions (MFIs) to take out micro-credits conveniently and end up having more money to repay due to high interest rates. They are very important in the financial sector. This research aims to examine how the microfinance services provided to individuals, organizations are working. The success of microfinance in recent years and now is demonstrated in this analysis. Focused financial services for poor and small businesses that lack access to traditional finances are individually provided by microfinance.

Keywords: Microfinance, Interest, Securities, Debt, Self-Help Group (SHG), Nongovernmental Organizations (NGO), Financial Services, Poverty, India

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INTRODUCTION

Microfinance refers to financial services on a small scale that include both loans and deposits for people unable to access money. Non-loan, but also savings, insurance, and fund transfers include microfinance. The creditor has enough collateral to support the loan here. The borrower In the 1970s Muhammad Yunus was a leader in Bangladesh in the modern micro financing form, founding a microfinance banking bank called Grameen bank, which now serves more than 7,000,000 poor Bangladeshi women. In India, 188 million accounts represent 18% of the total population were the highest percentage. The bad some conditions such as life cycle needs, personal emergencies, accidents, incentives for investment. Microfinance is a financial service provision that is historically without access to banks and related services to poorly-income customers, including self-employment and consumers. More generally, it is a campaign whose goal is' a society where as many of the poor and nearly poor families as possible permanently have access to a reasonable range of quality financial services that not only provide credit, but also investments, insurance and fund transfers.' Microcredit emphasizes the distribution of loans to low-income consumers, typically as small micro-enterprise loans and revenue-generating activities. Sometimes, the use of the word ' microcredit' implies an inadequate saving value for the disadvantaged. In the majority of cases it includes collecting mandatory deposit sums that are only intended to guarantee these loans in the provision of savings services under' microcredit' schemes. There may be further voluntary savings, but consumers have limited access to their savings. These savings are the major capital source in financial institutions. Microfinance is seen and can be clearly differentiated from charitable as a method of socio-economic development. Families who are poor or unable to produce the cash-flow to pay back a loan should be so generous beneficiaries. Financial institutions are best served by others.

LITERATURE REVIEW

Dr.Ajit KumarBansal, Ms.AnuBansal (2012) The policy for the elimination of poverty and for economic development has been widely recognized in microcredits and microfinance. Microfinance is a way of combating poverty, especially in rural areas that are home to most of the world's poorest. Accessing low loans at reasonable interest rates gives disadvantaged people the chance to develop their own small business. It shows that access and efficient distribution of microloans will help the poor smooth their consumption, manage their risks more efficiently, grow their assets gradually, expand their micro businesses, increase their sales potential and improve their quality of life.

Chintamani Prasad Patnaik (March 2012) It has examined that the view that microfinance may offer a solution to the challenges of developing rural financial markets seem to have emerged from development of microfinance. The creation of micro-finance is, without a doubt, crucial for improving access to finance for the unnerved and under-served poor and low-income households and their companies. There are proposals to play an important role in such a project for self-help groups. But it is important that groups should be structurally focused to meet the needs of new businesses. In the long-term sense of the SHG system, the process of microcredit must be looked at, stressing the need for deliberate policy consequences in favor of ensuring the development of technology, consumer markets and human resources.

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.

Crabb P (2008) Examines the relationship between the success and degree of economic freedom of microfinance institutions in their host countries. Most microfinance institutions are not self-sustaining at present and research suggests that the economic environment in which the institution operates is an important factor in the institution's ability to achieve this goal by pursuing its aim to meet the vulnerable. It analyzes the viability of the micro lending institutions through a broad cross-section of institutions and countries. The results show that the main function of microfinance institutions is in countries with relatively low levels of economic overall freedom and that various economic policy factors are important for sustainability.

Helmes, (2006) Although microfinance was widely admired in some regions of the world to reduce poverty and insecurity, it is estimated that there are still three billion people in the world who have no access to any type of financial services.

ROLE OF MICRO FINANCE INSTITUTIONS

1. Microfinance can be an important factor in poverty reduction. Poverty Reduction Tool Improved access to the poor for installations, including savings, credit, insurance, helps them easily use services provided by MFIs and lets them manage their risks. MFIs aim at reducing poverty eventually. The state, the NGOs for the benefit of the needy, is introducing various welfare programs and activities. Microfinance has been developed as a key strategy to reduce poverty worldwide through the provision of small lending and savings facilities for those excluded from traditional financial services.

2. Empowerment for women Microfinance is now based both on poverty and empowerment of women. In rural areas, women are not able to develop their own ability with the aid of self-help groups (SHGs), living below the poverty line. This presence has tremendous social and economic consequences. Even the people below the poverty line now have their basic comforts and resources for involvement and empowerment in various aspects. In order to develop them socially and economically, numerous programmes have been developed by both governmental and non-governmental organisations. As is well known, women are not allowed to make family decisions. Microfinance will help empower poor women who belong to the poor and are partially suffering from poverty.

3. Development of the global financial system Most poor family units still depend on small self-finance funds, which restrict their capability to effectively seize interest and benefit from development opportunities without unchanged access to institutional microfinance. Microfinance may contribute by organizing money-related markets to the development of the general budgetary system. In the heart of the realistic development of countries, microfinance organizations (MFIs) can be a small and medium enterprise. This progress is strongly linked to the growth of rural enterprises.

4. The Indian Government has been in great need of poverty reduction by voluntary work for a long time. Over a time of business development, poor people tend to maximize capital. Financial services can allow the poor to leverage their initiative by speeding up the income, asset and economic security generation process. Yet financial institutions seldom lend the market to meet the needs of low-income families and women's households. The main approach is then to make the rural poor autonomous by funding money-related foundations. In this way, microfinance allows the aspirations and creates the trust of the poor by enabling resources to be used.

5. The Indian microfinance institutes are governed by the approach of self-helping groups in India. NABARD launched this dominant model at the beginning of the 1990s and now for a few days. This SHG model also connects women's informal banks to meet all microfinance customers world-wide. A party of 15-20 participants is included in the SHGS. SHGs are in some way credit companies connected to a business bank rather than to an apex cooperative bank and, when they are linked to the banks, SHGs have a right to collect their individuals ' installments from the fund. The linkage program for the SHG-bank was developed with the goals of additional

lending agencies for unaccountable poor people, to build confidence among financiers and poor people and to enable them to manage their accounts, both on credit and on credit and to maintain an important and structured money-keeping system for the poor. The linkage program consolidates adaptability, affectability and response to the informal credit recognition system for the skilled, regulatory and money-related assets of the formal budget segment that are strongly dependent on the total quality of the disadvantaged, closure of successful social capability, and a general strengthening process that leads to empowerment The linkage program consolidates the

6. Microfinance is the scheme for low-wage customers in monetary administrations, including customarily open consumers and self-employed persons, to handle the account and related governments. This plan is all the more detailed and is focused on the problem "of a world in which however many poor and nearly poor family units as reasonably expected will have enduring access to budget administrations, including investments, investment funds, insurance and reserve exchanges."

7. Everyone out of poverty. The dynamic growth of microfinance has been promoted through both exhibiting forces and aware activities of national governments, NGOs and contributors who perceive micro-financing as a persuasive instrument for the elimination of poverty. The ability to push forward this massive, growing microfinance funding has shown that there are huge domestic monetary and social consequences, which should be further studied.

- Micro Finance-highlights and Principles: Microfinance is considered to be a sufficient instrument for financing small scale activities in the rural areas on account of the accompanying highlights.

- Provide credit for interest in small scale exercises picked by the needy individuals.

- Empower the poor to be self-confident that They can accomplish something.

- Can pay for itself with the interest earned.

- Allow to develop opportunities for self-employment to the underserved people.

- Have the most of the utilities and the least cost per beneficiary.

1. The principles of sustainable micro-financing are as follows: It enables flexible customer friendly services that are preferred by low-income group.

2. It has opportunities for operations to be more transparent and cost reduction (standard, simple process of loaning, decentralized credit approval, cheap offices and local staff).

3. The company operates at average rates and fees on the market.

4. It aims to recover the loan costs.

SUSTAINABLE MICRO FINANCE-FEATURES AND PRINCIPLES:

The following features, microfinance is considered an appropriate means of funding small-scale rural / technological activities.

(a) Provide credit for small-scale investments chosen by the poor.

(b) Encouraging the vulnerable to allow themselves to do something.

(c) Can pay the interest earned for themselves.

(d) Allow the under-served people to develop their own work opportunities.

(e) Have the widest utility per beneficiary and the least cost.

Sustainable micro financing is focused on:

i) it provides versatile and customer-friendly service to the low-income group;

ii) it offers incentives for operations to be streamlined and cost reduction (normally easy lending procedure, decentralized loan approval, cheap offices and local community staff);

OPPORTUNITIES IN MICROFINANCE

- Microfinance as development tool

- Women oriented financing

- Microfinance tool for rehabilitation

- Commercialization of MFI

- Microfinance sector as an opportunity for commercial banks
- Automation of microfinance system

CHALLENGES IN MICROFINANCE

- High interest rate and high transaction cost
- Barriers for conventional banking
- Inadequate investment in agricultural and rural development
- Low level of technical understanding of banking and finance
- No innovative mix of products by microfinance institutions.

ROLE OF MICROFINANCE IN POVERTY REDUCTION:

The aim of microfinance is to provide financial services to the poor who are not served by traditional formal financial institutions–to expand the limits of financial services. Innovative distribution mechanisms and methodologies are important for delivering these financial services. The needs of financial services that enable people to benefit from opportunities and to manage their resources better. Among many for alleviating poverty, microfinance can be an effective tool. However the equation of microfinance and poverty alleviation should be used with caution-in spite of recent claims, as poverty is a complex phenomenon and many limitations the poor have to contend with. The distribution system, approach and products offered are interlinked, and in their turn affect the outlook and potential of poverty alleviation. It is necessary to understand how and when microfinance is ideal for the vulnerable. The poor have difficulty accessing formal banking services. The principal challenge that the poor have to face when attempting to get loans from traditional financial institutions is the demand that the institutions press for collateral. In addition, there are many bureaucratic processes involved in the process of securing a loan, which lead to additional transaction costs for the poor. Official financial institutions are not encouraged to give them money. Formal financial institutions typically prefer to urban rather than to rural, large over small and non-agricultural preferences over agrarian loans. Formal financial institutions have little incentives to lend to the rural poor for the following reasons:

Administrable difficulties: Small rural farmers often live geographically scattered, in areas with poor communication facilities, making loan administration difficult.

Systematic risks: Agricultural production is associated with some systemic risks, such as drought and floods, which is reflected in a high covariance of local incomes.

Lack of information: The absence of standardized information, Standard lending tools, such as financial statements or credit histories, do not exist in these areas.

Repayment problems: For example, during the harvest season, repayment of the working capital may only be required once a year. In the other hand, for the following reasons, informal moneylenders use linked credit contracts to reduce default risk, such as maintaining business relations with the clients; this means that the use of informal loans is relatively easy, convenient and locally accessible on households of low income.

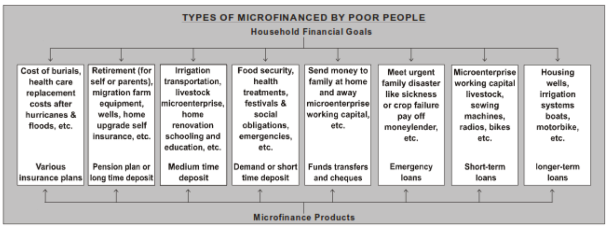
> Informal money lenders are provided with local information to help them determine their customer's credit needs and credit value.

> Informal lenders even for small amounts of loan take account of consumer needs and requirements.

> Informal money lenders would benefit from social activities like those among family members. Such fines will override legal enforcement.

> Informal borrowers use specific opportunities to raise repayment, for example, lending regularly to lenders who repay quickly, with the credit size growing slowly.

While many rural poor people in developing countries get their loans from the informal financial sector in rural areas; there are some fundamental restrictions on this market. There is no free flow of some local information; it seems to be segmented and only exchanged in certain classes. In many rural communities it is common. In general, local economies are the foundation of the informal lending market, thus restricting local capital constraints and covariant risks. Since most of the world's poor have no exposure, their assets and revenues can be generated by basic financial services. We have a role to play in investing, preserving, saving and shielding their families from poverty alleviation. The credit criteria of the poor, which have led to the new development of micro-finance in developed countries, are not also met by both financial sectors. Microfinance is expected to reduce the above stated shortcomings of the formal and informal financing institutions, and to be a major credit partner for the poor in the developing world.



FEW SCHEMES OF A GOVERNMENT OF INDIA:

In India, there are so many proposals to elevate the poor. One of these is NABARD in the agricultural area and SIDB in the manufacturing, service and business. The microcredit services are primarily run by NABARD. Diversification of programs is the achievement of the Micro-credit programme. Since January 1999, the SIDBI microfinance scheme has been operating with a RS 100 crore corpus and a network of approximately 190 valued MfIs / NGOs evaluating capacity. The scheme, which supports over 9 LAKH beneficiaries, has authorised a total of RS. 191 crore up to 31 December 2003. The program calls for equity support from NGO / MFIs to make use of SIDBI funding. Yet due to their poor financial condition, they find it difficult to handle the required equity support. The problem has been exacerbated by a decline in deposits fenestrate. A new scheme of the Micro Finance System is being launched by the Development Commissioners (Small Scale Industries) office of SSI's Ministry, to address limitations in the existing SIDBI scheme whose reach is currently very limited. In order to expand the reach and ensure the long-term survival of NGOs / MFIs and establish Intermediaries in identifying sustainable projects, it is assumed that the role of government can be crucial.

CONCLUSION

While these are financial advantages and disadvantages. Microfinance is more effective in poverty reduction in a country although the rate of interest is high because a large number of women are encouraged to set up their own businesses and earn loans without individuals. Even the lenders are at risk of missing paying the loan because this method doesn't take securities from customers, but the NABARD microfinance scanning platform Eshakti, which is registered with Aadhar Card, the banker knows what the customer's information is. The microfinance sector also has its own merits and demerits dealing with various organisations. And, if there are significant interests and creditors flee, all borrowers and financial lenders are lossed in order not to pay.

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