

**MICROFINANCE:
A TOOL FOR POVERTY ALLEVIATION IN INDIA AS A
DEVELOPING NATION**

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Abstract

Microfinance concept has already given positive result for poverty alleviation, poverty eradication and or poverty reduction in developing countries. Grameen Bank in Bangladesh founded by Prof. Mohammad Younis has shown the great results in Bangladesh. In India SKS, Spandana, Grameen Koota, Swadhaar etc MFIs are serving the rural as well as urban population base. It was found out the related literature that microfinance has a positive impact on poverty reduction and so, it is an effective tool for poverty reduction in many countries. In general to its expectation, when services are designed to meet the needs of clients, microfinance had positive impacts, not just on clients but on their families and on the wider community. It was recommended among others that more reports need to be geared towards institution building including the strengthening of groups especially Self Help Groups [SHGs]. There is also the need for the development of more effective Management Information System [MIS] to promote the consolidation of sustainable financial service delivery through well performing Self Help Groups [SHGs].

Key Words

Microfinance, Microcredit, Poverty alleviation

1. Introduction

The literature confirms that most microfinance programs do not serve the poorest. However, there are some institutions that do, and the evidence indicates that the poorest can definitely benefit from microfinance in terms of increased incomes, and reduce vulnerability. There is also evidence to support the premise that it is possible for a microfinance institution to serve the poorest and also achieve financial sustainability. Most developing countries especially those in Asia are faced with severe economic hardships and deteriorating levels of economic performance. The World Bank (2001) also observes that poverty in developing countries is shifting toward South Asia and Sub-Saharan Africa. It is widely accepted that one major cause of poverty in developing countries is lack of access to productive assets like fertile lands, cattle, capital etc. One strategy in many developing countries has been to implement Microfinance programs to offer credit to the poor.

Microcredit refers to small loans, whereas microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services (savings, insurance, etc)". Therefore microcredit is a component of microfinance in that it involves providing credit to the poor, but microfinance also involves additional non-credit financial services such as savings, insurance, pensions and payment services.

2. Objectives-

The main objective of this research work is that to understand and study the role and significance of microfinance as a effective and efficient tool for poverty alleviation in rapid developing countries like India.

3. Methodology

The complete research paper is based on secondary data sources i.e. newspaper, magazines, selected reference books by scholars, internet.

4. Role and Significance of Microfinance

Here the researcher is discussing some of the important factors which focus the microfinance is a effective and effective tool for poverty alleviation

1. Poor people who cannot access formal financial services of organized sectors because of meager income and unstable income and inability to handle banking procedures. Microfinance gives a wide variety of financial product such as credit deposits money transfer insurances etc.
 2. Microfinance institutions helps to develop saving habits among poor population. The financial resources generated through savings and credit offered from commercial banks is channelized to provide loans and advances to the members of Self Help Groups (SHGs).
 3. Loans from the organized market require collateral guarantee which poor people cannot offer so they remain far from the credit, loans and such other facilities. Again too much procedures and formalities high lending rates acts as a deterrent to poor people accessing banks for loan. Microfinance thus away with all these hurdles and provide finance to rural population on easy terms and conditions
 4. Microfinance is offered through the intermediation of Self Help Groups (SHGs). More than 50% of SHGs are formed by women. Now they have greater access to financial and economic resources. It is a step towards economic security and empowerment for women. Thus the microfinance empowers poor women economically and socially.
 5. Microfinance allows the poor section of the society to get credit , loans at cheaper and reasonable rates which help them to set up their business activities on small scale, grow their business and get out of poverty and be economically self-sufficient and independent.
 6. In India the mass poverty found in rural area which depends on non-institutional agencies for their financial requirements whereby they are exploited and discriminated. Microfinance is a institutional credit offering to the rural based poor people at their doorsteps with minimum formalities, favorable terms and conditions and so on
- Seed capital products are to be introduced and established for clients having expertise to run the business but no capital to start with. Although it involves a high risk, certain percentage of total credit disbursement budget may be allocated under this head to enable upcoming graduates from professional colleges not only to start their micro businesses for getting self-employed but also for creating employment opportunities for others.
7. Microfinance institutions must have an inherent ability to absorb losses by keeping an adequate proportion of funds for financing deficits due to non- performing debts. Micro credits are not collateralized; microfinance banks soundness heavily depends on the efficiency of the collection system and the capital

base of these banks is lower compared to that of commercial banks. They need to start deposit mobilization to enhance their power to sustain losses. Some microfinance institutions criticize that harsh regulations and liquidity crunch are not letting them extend financial services.

8. Microfinance banks need a better infrastructure for improved outreach to their target clients. But, they do not have enough branches, facilities and saving products to attract individual businesses. They have yet to establish their own resource base for the long-term sustainability of their business.

Summing up microfinance programs continue to have strong support from political spectrum. But, the success of microfinance has been marred by severe criticism of high interest rates, unchanging levels of poverty and a failure to cater effectively the target groups. Despite problems, the sector is making progress and the addition of the new MFBs over the last few years has brought significant changes in pattern of loan disbursement. The millennium target of halving the poverty is still a distant dream. The current world recession, surging food scarcity, war on terrorism and, political uncertainty have also increased level of poverty. More vigorous efforts are needed to expand outreach of microfinance program and to make it an effective vehicle through which country's poor be lifted up from an evidently sedated socio-economic status.

5. Conclusion & Suggestions.

It can be said that micro finance and micro credit is an effective and efficient tool for poverty alleviation or poverty reduction in developing countries like India. With some government efforts and policies the outcomes of micro finance will be better than before. Even the NGOs the public trusts can serve the poor section of the societies for financial betterment. The organized sector or formal sector particularly commercial Banks should cater the financial services to the poorest section of the society.

6. References

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