



---

## Micro-finance Guided Economic Elevation and Elimination of Poverty in India

---

Dr. Santosh Kumar Tripathi

Principal

Marwar Business School, Gorakhpur

### Abstract

Micro finance is a term of recent origin. It is reflective of at least two elements which are left over: (i) savings and (ii) mobilization of savings. Wider range of services is included when we talk of micro finance on a global scale. On one hand it emphasizes the need for the access to loans and on the other hand, the capacity to save. There are 230 crore people in the world and nearly 30 percent of them are below poverty line. Looking at this magnitude of the problem, micro finance becomes even graver at the international level. Development finance and alternative finance are its other names. New wave of financial evangelists views poor at the customers who are in need of diversified financial products. In developing economies and particularly in rural areas, many activities that would be classified in the developed world as financial are non-monetized: that is, money is not used to carry them out. This is often the case when people need the services money can provide but do not have dispensable funds required for those services, forcing them to revert to other means of acquiring them. Often money is needed for the purposes; by a chunk of the population like lifecycle needs such as weddings, funerals, childbirth, education, home building, widowhood and old age, personal emergencies such as sickness, injury, unemployment, theft, harassment or disasters such as fires, floods, cyclones and man-made events like war or bulldozing of dwellings, investment opportunities: expanding a business, buying land or equipment, improving housing, securing a job.

**Keywords:** Micro Finance, Mobilization, Customers, Financial Products etc

## **Research Methodology**

The research paper based on secondary data collected.

## **The Objective of Study:**

The purpose of this article is to provide a comprehensive review of literature on microfinance in the areas of approaches to Microfinance; issues related to self sufficiency of MFIs and socioeconomic impact of microfinance.

## **Data Collection**

Data has collected from newspaper, books, magazines, reports, and websites.

## **Introduction**

Banking and Finance industry is the backbone of the country. Today there are so many banks and financial institutions aimed at improving life for the weaker, sub-dued and down trodden sections of the society. Breaking the vicious circle of poverty and, oversized share of deprivations, womens' access to education and eradication of domestic violence is of utmost priority. Life cycle needs, emergency needs and investment needs need to be taken care of by this network of BFSI in the country. Consumption and investment is the main issues in a developing country. Microfinance is a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. For some, microfinance is a movement whose object is "a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and fund transfers."<sup>[1]</sup> Many of those who promote microfinance generally believe that such access will help poor people out of poverty. For others, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses.

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Microcredit is one of the aspects of microfinance and the two are often confused. Critics may attack microcredit while referring to it indiscriminately as either 'microcredit' or 'microfinance'. Due to the broad range of microfinance services, it is difficult to assess impact, and very few studies have tried to assess its full impact.<sup>[2]</sup> Proponents often claim

that microfinance lifts people out of poverty, but the evidence is mixed. What it does do, however, is to enhance financial inclusion.

### **Advantages from Micro Finance**

- Poverty reduction, poverty relief, or poverty alleviation, is a set of measures, both economic and humanitarian, that are intended to permanently lift people out of poverty. Measures, like those promoted by Henry George in his economics classic *Progress and Poverty*, are those that raise, or are intended to raise, ways of enabling the poor to create wealth for themselves as a conduit of ending poverty forever. In modern times, various economists within the Georgism movement propose measures like the land value tax to enhance access to the natural world for all. Poverty occurs in both developing countries and developed countries. While poverty is much more widespread in developing countries, both types of countries undertake poverty reduction measures.
- Cost reduction is clearly the place to begin when developing survival strategies if you are facing serious financial difficulties. But many of you have adopted intensive production systems and have already reduced costs to the bare minimum over the last several years while prices of inputs continue to rise rapidly. This leaves little room for advice on how to weather financial stress through cost reduction.
- The wealth, comforts and services people enjoy, in the environmental, social, economic and political ecology is often referred to as standard of living. As a matter of assessment, the following parameters should be incremental in a person's life: food, shelter, clothing, assets, and accessories, access to public transport, leisure time, education, life expectancy, freedom, diseases, stability, safety, climate and geography.
- The no. of employment opportunities which the corporate provides is the measure of corporate social responsibility. With the increase, increases the level of investment in human and physical investment, level of productivity, income and demand and hence more job prospects.
- Both these sectors can be improved by improving the terms of employment, offering work assurance, social benefits, security and medical benefits.

## Challenges

- With the advent of privatization, job prospects are falling and so is personal income which leads to financial losses of mainly middle income households. As the disposable income decreases, demand for goods and services in the market also decreases leading towards imbalance in the equilibrium position and hence the crises.
- Governments of developing countries like India practice deficit financing, which means more public expenditure than public financing. But, most self employed people tend to evade taxes which increases the burden on the ex-chequer and hence the crunch.
- When the demand for goods and services decreases, a decline in the consumption pattern is observed which adversely affects business profits too and mostly they thrive on customers only.
- Disasters both natural and manmade are responsible for great economic loss as they uproot the buildings, transport systems, water bodies, and affect agriculture.
- Deforestation is destroying natural habitats causing loss of wildlife, which results in disruption of food chain. When food chain gets broken, cannibalism and sub-urban uprooting can take place leading towards the colonialism again.
- Breakdown of constitutional machinery, border skirmishes, full-fledged war, physical, cyber and global terrorism and emergence of organized both in rural and urban areas originating from smuggling of drugs, medicines, human trafficking, organs, weapons and gold are also major reasons for failed states e.g. Pakistan.
- Pandemics which mean epidemics which spread due to panic, like SARS, Swine Flu, Influenza, Bird Flu and COVID are such examples which have the impact and capacity of halting global systems, causing panic and chaos and destroy forests.
- As a well known fact, only 2% water on Earth is fresh and nearly 8 billion people are thriving on it. This calls for the need of restoration of inland water systems. For the farm industry, more no. of market gardens have to be created to resolve price, availability and logistics issue.
- Out of 1.38 billion Indian population, nearly, 0.2 billion are illegal immigrants from South East Asian Economies like Bangladesh, Nepal, Bhutan, Burma, Sri Lanka. Economically deprived out of them live in refugee camps and rest dwell in ‘ pakka’ constructions. This causes the problem of formation of illicit and coalition governments and further ruckus.

- As we have seen recently, in this ongoing covid-19 situation, how merely due to fear and panic, the govt. services went for a toss. There weren't enough doctors, beds, medicines, masks, alternate public transport systems, only 2% of it companies were actually capable of a fully work from home adaptation and it seemed as if the Covid-19 alone has thrown open the reality of a developing economy.

## **Literature Reviews**

Here are some excerpts from some renowned persons in the field of Micro Finance in India and abroad and some major summits in the field in recent years. According to Chanda Kocchar, Ex-CEO, ICICI Bank (2005), Micro Finance has been deliberately chosen to alleviate poverty from the face of the planet forever. In the past two decades, it has emerged as an industry to cater to the financial needs of the poor whom banks have turned down due to lack of collateral. According to Sandhya Kulbir, AVP, SKS Micro Finance (2016), Micro Finance is a tool for poverty reduction and low income improvement. According to Vishvanath Kalaiah, Micro Economist, (2010), Micro Finance is a strategic imperative for human capital productivity and sustainable macro economic development. According to Lindsay Yahooi Kall, Social Activist, Ghana Revolution, (2005). Micro Finance is based on several propositions like financialization, commercialization, neoliberalism and inclusion. Micro Finance as a development tool is a function of client indebtedness and developmental partnership. (Karnani, 2009).

## **Conclusion**

The history of micro – finance in India is much longer than the developed nations. For many other countries the experience of extending credit on a systematic and large scale basis to rural population is new, which gives them a fresh start without retrofitting new programs into the existing regime. In India, credit demand in rural sector was mostly met by the co-operatives by the mid 1960s. Though commercial banks supported agri- business and marketing, the credit flow to the rural sector was never sufficient to meet demands. One of the objectives of nationalization was also to increase the credit flow towards the rural population. To overcome this problem, govt. of India announced economic and financial sector reforms. This paved the way for the new private sector banks and other micro finance companies to flourish their business in India, remove restrictions on private investors.

## References

### Journals

- 1) Armendáriz, Beatriz; Morduch, Jonathan (2010) [2005]. The economics of microfinance (2nd ed.). Cambridge, Massachusetts: MIT Press. ISBN 9780262513982.
- 2) Branch, Brian; Klaehn, Janette (2002). Striking the balance in microfinance: a practical guide to mobilizing savings. Washington, DC: Published by Pact Publications for World Council of Credit Unions. ISBN 9781888753264.
- 3) De Mariz, Frederic; Reille, Xavier; Rozas, Daniel (July 2011). Discovering Limits. Global Microfinance Valuation Survey 2011, Washington DC: Consultative Group to Assist the Poor (CGAP) World Bank.
- 4) "Central Tool Room, Ludhiana, Ministry of MSME, Government of India". [www.ctrludhiana.com](http://www.ctrludhiana.com). Retrieved 14 August 2018.
- 5) Entrepreneurial Development in India. Mittal Publications. 1 January 1990. ISBN 9788170991908. Retrieved 10 April 2018 – via Google Books.

### Newspaper

- 1) Times of India
- 2) Indian Express
- 3) Economy Times