Chinese Traditional Medicine Journal

ISSN : 2693 6356
2023 | Vol 6 | Issue 1

INSTITUTIONS OF MICROFINANCE AND THE PROGRESS OF RURAL AREAS

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Article Info

Received: 01-11-2022 Revised: 20 -12-2022 Accepted: 14-02-2023

Abstract
Microfinance allows low-income and marginalized people who lack access to conventional banking to build wealth, broaden their sources of income, and become more resilient in the face of economic hardship. Microfinance refers to a wide range of financial services targeted on low- and middle-income earners and their small businesses, including loans, deposits, payment services, and insurance. Microfinance institutions have had a significant impact on the lives of the poor around the globe, raising incomes and improving living conditions in rural, semi-urban, and urban areas alike.
Keywords: Microfinance, Women's Self-Help Groups, Agricultural Expansion, and the Fight Against Poverty

INTRODUCTION

Microfinance, in its first iteration, meant giving small loans to low-income families so that they could take part in productive activities or build their small businesses. Reference: (F.A.J. Bouman et al., 1990) Microcredit, microsavings, and microinsurance are now all included in the broader category of "microfinance." As a consequence, the goal of microfinance is no longer limited to the provision of small loans but rather the coordination of microfinance with other forms of development.Microfinance has risen to the forefront of public welfare policy as a strategy to promote economic growth in undeveloped areas and social groups.

Microfinance institutions (MFIs) offer a wide range of financial services to low-income and working-class individuals and their microenterprises, including deposits, loans, payment services, money transfers, and insurance.

In the dictionary definition of micro-finance, it refers to "financial services such as savings, insurance, funds, credit, and other financial products that are supplied to poor and low- income customers to assist them in increasing their income and consequently improving their quality of life."

A 1999 report by the National Micro-finance Taskforce concluded that "the poor remain poor not because they are lazy, but because they do not have access to financial resources."

Micro-finance refers to the distribution of very tiny amounts of savings, loans, and otherforms of capital to low-income people in rural, semi-urban, and urban areas.increase in income and better living conditions"

IMPORTANT FEATURES OF MICRO-FINANCE

1. Micro-finance is a critical component of

2. It is one of the most successful and well-justified Poverty Alleviation Strategies available today.

3. It offers an incentive for low-income persons to pursue self-employmentoptions if they areavailable.

4. It is more concerned with providing services than with making a profit.

5. It is intended to provide assistance to small business owners and producers.

6. Because they are simple and God-fearing, poor borrowers are seldom defaulters on their loan payback obligations.

7. India requires the establishment of a number of microfinance organisations.

OBJECTIVES OF THE STUDY

The precise aims of the research are as follows:

1. To examine the role of microfinance businesses in thesocial and economic development ofIndia; and

2. To examine the role of microfinance firms in the growth of the Indian economy.

3. To determine the role played by microfinance via SHGs in the advancement of social and economic development.

3. To investigate the role of SHGs in India's rural development efforts.

ROLE AND SIGNIFICANCE OF MICRO-FINANCE

Micro-finance contributes to social and economic development of the nation in the following ways:

1. Because of their limited financial resources and incapacity to deal with banking processes and documents, poor individuals are unable to receivebanking services. Microfinance enables a broad variety of financial services, including as deposits, loans, paymentservices, money transfers, and insurance, to be made available to low- income and working-class people, as well as their micro-enterprises, via a single channel.

2. Microfinance institutions, via their non-governmental organisations (NGOs), help disadvantaged individuals build saving habits. A portion of the financial resources created via savings and microcredit received from banks is used to give loans and advances to membersof Self-Help Groups (SHGs). As a result, microfinance organisations aid in the mobilisation of savings and the use of these funds for the benefit of its members. Poor individuals are unable to get loans from the traditional banking system because they lack the necessary collateral or counter-guarantee, which they cannot provide. Once again, high interest rates, as well as lengthy loan application and paperwork processes, discourage impoverished individuals from seeking

financial assistance from banks. Microfinance removes all of these stumbling blocks and offers low-interest loans to rural and low-income people on favourable conditions.

4. Micro-finance enables the weaker sectors of society to get loans at lower interest rates, enabling them to start their enterprises on a small scale, build their businesses, and eventually lift themselves out of poverty and become self-sufficient and independent. It contributes to the development of long-term financial independence among the weaker sectors of society, and as a result, it encourages people to become self-sufficient.

The provision of micro-finance is made possible via the intermediation of Self-Help Groups (SHGs). In the United States, more than half of all Self-Help Groups (SHGs) are started by women. They now have better access to financial and economic resources as a result of this.It is a significant step forward in providing better protection for women. Asa result, microfinance provides underprivileged women with economic and social empowerment.

6. Typically, the rural sector relies on non-institutional organisations to meet their financial obligations, and as a result, they are abused in a variety of ways. Micro-finance has shown to be effective in reducing poverty.

EXISTENCE OF MICRO FINANCE IN INDIA

The term "microfinance" was first used in the 1970s, at the same time as organizations like the Grameen Bank of Bangladesh, founded and run by microfinance pioneer Muhammad Yunus, were laying the groundwork for the modern microfinance industry. In the early 1970s, the Self Employed Women's Association ("SEWA") of the state of Gujarat founded the Shri Mahila SEWA Sahakari Bank, an urban cooperative bank, with the aim of providing banking services to low-income women who were self-employed or otherwise financially independent. In the 1980s, the concept of SHGs (or self-help groups) was developed, and these informal organizations were given the responsibility of providing savings and credit services to its members. Due to its size and population (about a billion people), India's GDP is in the top 20 of the world's economies. However, there are over 400 million people who live in poverty, or about 60 million households. Predictions also show that just around 20% of these households have access to formal funding, highlighting the underserved nature of the informal economy. Another major issue is the large proportion of rural residents who lack access to reliable financial intermediary services like banks and savings institutions. Giving the poor access to credit under fair terms has the potential to significantly alleviate poverty. Therefore, microcredit is crucial in the context of India. Concerns and difficulties prohibit microfinance from reaching the most vulnerable, as shown by the fact that approximately 60 million households are living at or below the officially defined poverty level and that more than 80% of the population cannot receive credit at reasonable rates. As the graph below shows, the prospects of unskilled and illiterate people have not increased at the same rate as the rest of the economy despite globalization and economic liberalization. Institutions involved in microfinance have a crucial role in reducing economic inequality and making significant contributions to rural development, both of which are crucial to the expansion of the economy as a whole.

MICROFINANACE AND POVERTY REDUCTION FOR RURAL DEVELOPMENT IN INDIA

According to government data, more than a quarter of India's population is poor. The World Bank estimates that between 260 and 290 million people in India are living in extreme poverty; this number jumps to over 390 million when measured against the international poverty line of those surviving on less than $1.90 per day in India. roughly half of India's poor, or roughly 133 million people, live in only three states: Uttar Pradesh, Bihar, and Madhya Pradesh. The widening gap between urban and rural communities in India has resulted in three-quarters of the country's poor living in rural areas. The Indian government has madepoverty reduction a top priority, investing heavily in infrastructure, social development (especially education and health), and rural livelihoods. To reduce poverty, microfinance institutions (MFIs) focus on enhancing rural communities. Most people living in poverty are able to slowly increase their wealth by investing in companies and real estate. The provision of financial services has the potential to encourage the economically disadvantaged to take charge of their own lives and speed up the process of buildingwealth.

Banks and other lenders often avoid giving loans to low-income households or those run by women because of the perceived high default rate associated with such borrowers. However, many families with self-employed breadwinners experience fluctuations in income over time. Lenders would rather deal with fewer, larger loans than a large number of smaller loans since the former reduces administrative costs while the latter does not. They're also on the lookout for guarantees, something that's out of reach for many low-income families. Repayment rates are higher and loan funds are put to better use whengiven to low-income borrowers who are given access to rapid, responsive financial services at market rates, as shown by recent success stories in providing finance to small businesses and manufacturers. This is hardly unexpected, considering that they can only realistically get funds via the black market.

Community banks, non-governmental organizations (NGOs), and credit groups all around the world have found success in providing microenterprise loans, making microfinance one of the most effective strategies for alleviating poverty.

MICROFINANCE AND SELF HELP GROUPS (SGHs) FOR RURAL DEVELPOMENT

Microfinance in India is mostly based on two approaches: the Self-Helpgroups technique and the Grameen system. An SHG is an unofficial group with typically 10-20 members that meets once a

week. The members of the SHG have come together with the express objective of facilitating the provision of savings and credit services to its members. These benefits are made possible by members pooling their money to establish a shared fund. In order to empower members, the SHG process and social involvement are intended to be instruments of empowerment, building the capacity of members to eventually conduct and manage SHGs on their own behalf, and enabling them to have greater autonomy in financial decision-making as well as broader social participation. Meetings of the SHG are scheduled to take place at regular intervals and at a predetermined hour. Members of the group are recruited from the same socioeconomic tier as one another, and they operate on the principle of equal participation and contribution from all members. At any one moment,the groups are headed by one of the group's lead members; this position is often rotated to allow for capacity development among all members. A structured meeting process is used to ensure that all financial transactions, group decisions, and activities are accurately recorded and kept up to date. Once founded, SHGs are urged to form alliances with other SHGs and, ultimately, with financial institutions in order to get access to more financial aid and resources.

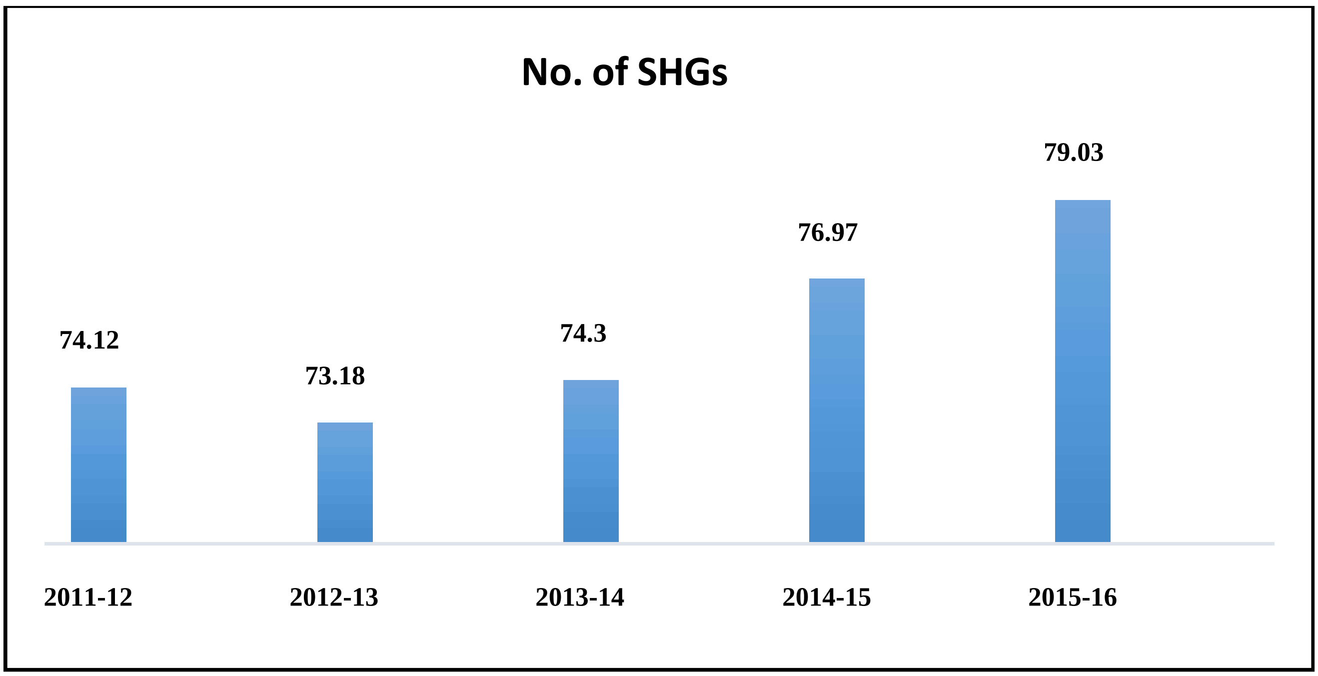
This programme, which began as a pilot programme in 1992 to link 500 SHGs with banks and has grown exponentially over the last two decades to provide regular savings opportunities to over 97 million rural households through the network of 74.12 lakh SHGs that are linked to a variety of financial institutions.

SHG Savings with Banks as on 31st March

2011-12		2012-13		2013-14		2014-15		2015-16	
No. Of SHGs	Amount	No. Of SHGs	Amount	No. Of SHGs	Amount	No. Of SHGs	Amount	No. Of SHGs	Amount
74.12	7016.34	73.18	8217.25	74.30	9897.42	76.97	11059.84	79.03	13691.39

Table 1. Progress of Micro-Finance in India (Amount Rs. In crore /Number in lakhs)

Source: Report on Micro-finance.



MICRO-FINANCE – CHANGING THE FACE OF POOR INDIA

Micro-finance is emerging as a significant tool for poverty reduction in the new economy, particularly in developing countries. In India, the Self-Help Groups (SHGs) – Banks Linkage Program (BLP) dominates the microfinance industry. The BLP is designed to provide a cost- effective system for delivering financialservices to the "unreached poor." When referring to microfinance consumers in India, words such as "small and marginal farmers," "rural craftsmen," and "economically disadvantaged groups" have been used to describe them in broad terms.

In recent years, a more sophisticated form of micro-credit distribution has emerged, emphasising the supply of financial services in conjunction with technical support and agricultural business development activities. When compared to the broader SHG bank linkage movement in India, private MFIs have had a verylittle impact on the ground. There has been a recent trend of major micro-finance institutions transitioning into "Non-Bank Financial Institutions," which we have observed (NBFCs). This shift in the faceof microfinance in India looks to be a good development in terms of the potential of microfinance to attract more money and, as a result, broaden the reach of its services. There are three groups of the population that are in need of micro- credit or micro- finance, according to the need for finances. People without land andengaged in seasonal agricultural employment, as well as manual labourers employed in forestry, mining, domestic industries, construction, and transportationare among those at the very bottom of the income and asset distribution scale. Firstly, this section wants spending credit during the months when they do not have labour job as well as for eventualities such as sickness and accidents. They also need loans in order to acquire modest productive assets like as cattle, which theymay then use to create more revenue for themselves.

In the next section are small and marginal farmers, rural craftsmen, weavers, and those self- employed in the urban informal sector, such as hawkers, vendors, and employees in home microenterprises, among other groups. This category is mostly in need of credit for working capital, with a minor portion of that credit also being used to meet consumption demands. The agricultural sector also requires term loans for the acquisition of new productive assets, such as irrigation pumpsets, bore wells, and animals in the case of farmers, as well as equipment (looms, machines, and work sheds) in the case of non-farm employees.

This market category consists of small and medium-sized farmers who have invested in commercial crops such as excess paddy and wheat, cotton and groundnuts, and others who are involved in dairying, poultry, and fisheries among other activities. Maintaining provision stores, repair workshops, tea shops, and a variety of service businesses are examples of non-farm activities. These individuals are not necessarily impoverished, despite the fact that they live just over the poverty line and have little access to formal credit.

These are the individuals who need financial assistance, which is madepossible via micro-finance. Right now, thedifficulty is that it is SHGs who are doing this, and steps should be taken to ensure that the large financial institutions also show up and begin contributing funding to these individuals and organisations. This would result in a better India and will undoubtedly help to realise the ambition of our late Prime Minister, Mrs. Indira Gandhi, of decreasing poverty in thecountry. As Adam Smith put it, "Whenyou have a little, it is sometimes simple to obtain more, but the greatest problem is in getting the little." India is now confronted with a significant challenge in terms of poverty reduction. In India, over 25 million people live in poverty or below the poverty line. India is one of the poorest countries in the world because of its low per capita income, high population pressure, prevalence of massive unemployment and underemployment,low rate of capital formation, misdistribution of wealth and assets, prevalence of low technology and poor economic organisation, and instability of output in agriculture production and related sectors.

CONCLUSIONS

By enabling the poor, and especially low-income women, access to loans and the formal financial system, these organizations have expanded the possibilities of institutional finance. The government is concerned about the uneven expansion of microfinance throughout the country and the considerable variation in interest rates paid to members.

Microfinance, a crucial component of poverty reduction programs, may make a major contribution to fixing the problem of inadequate housing and urban services. The challenge is in figuring out how much leeway to provide the credit instrument so that it may accommodate the various credit demands of low-income borrowers without forcinglenders to bear an unfeasibly high expense of monitoring its end-use. The time period between the launch of a new economicactivity and the beginning of the creation of positive profits is identified as one in which the consumption loan is especially useful. The impoverished have been proved to be capable of repaying loans and willing to accept higher interest rates via successful microfinance operations. Microfinance organizations should provide possibilities for the poor to save, since the poor are also savers.

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