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Micro Finance - Poverty Reduction Tool

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Abstract:

The year 2005 was dubbed the International Year of Small Loans by the United Nations. Since then, funding has been an effective tool for reducing poverty. Microfinance is a financial services provider for low-income customers, including consumers and self-employed, who are often denied access to banks and related services. In general, the organization aims to "provide a middle ground for many poor and impoverished families to permanently have access to adequate housing for a range of high-quality financial services, including not only debt but also savings, insurance, and money transfer." Those who promote small grants often believe that such benefits will benefit the poorest of the poor. The strong growth of the microfinance industry not only enhances market power but also through the conscious actions of national government, non-governmental organizations (NGOs) and donors who see small funds as an effective tool to eradicate poverty. The strong pressure of these large and growing subsidies has shown that the national economic and social impacts are significant and need to be considered in more detail. This paper argues that Micro Finance of money can be considered important factors in effective poverty reduction. It shows that the affordable and effective provision of small loans can enable the poor to use it more easily, manage their risks better, gradually build their assets, develop their small businesses, improve their ability to earn money and enjoy an improved quality of life. Small-scale financial services can contribute to the development of resource allocation, market promotion, and adoption of better technology; thus, microfinance helps to promote economic growth and development

Introduction:

Microfinance is the provision of financial services to low-income customers, including consumers and self-employed, often unable to access banks and related services. In general, the organisation's goal is "to make the world poorer than the poorest households to permanently access the appropriate range of high-quality financial services, which includes not only debt but also savings, insurance, and transfers." Those who promote small-scale financial support often believe that such access will help the poor to break free from poverty.

Microcredit emphasizes the provision of credit services to low-income customers, often in the form of small loans for small businesses and lucrative services. The use of the term 'microcredit' is often associated with insufficient savings for the poor. In most cases, the provision of savings services in 'small debt' schemes only involves the collection of liabilities Deposit rates are intended to provide collateral for such loans. More voluntary savings may be collected but customers have limited access to their mandatory savings. These savings become a major source of income for financial institutions.

Microfinance is considered a tool to promote economic well-being and can be openly discriminated against by charities. Poor families, or very poor, are less likely to be able to make the money needed to repay a loan, they should be recipients of charities. Some are better served by financial institutions.

Sustainable Micro Finance-Features and Principles:

Micro Finance is considered as a sufficient tool to fund technical activities / applications in rural areas due to the following:

(a) Providing credit for investment in indigent employment programs.

(b) Empower the poor to build confidence that I can do something.

(c) It may repay itself with interest earned.

(d) To allow for the development of employment opportunities for the unemployed.

(e) Have the most comprehensive service and the least cost per beneficiary.

The principles of sustainable micro-financing are as follows:

(i) Provides flexible customer services selected by the low-income group,

(ii) You have the opportunity to simplify operations and reduce costs (easy borrowing is a common process, loan approvals, inexpensive offices, and the use of staff from local communities)

(iii) It operates on a market basis for charging interest rates and market costs, and

(iv) Attempts to repay loan costs.

The Role of Microfinance in Reducing Poverty:

Microfinance is about providing financial services to the poor who are not employed by mainstream financial institutions - it is about extending the limits of the provision of financial services. The provision of these financial services requires new delivery mechanisms. Financial services requirements that allow people to take advantage of both opportunities and better manage their resources. Low income can be one of the most effective tools available to many to alleviate poverty. However, it should be used with caution - despite recent requests, the balance between low income and poverty eradication is not straightforward, as poverty is a complex phenomenon and many challenges that the poor often have to face. We need to understand when and what kind of money is best for the very poor; the delivery channel, how it is made and the products offered are all connected and contribute to the hopes and promises of eradicating poverty. Access to legal banking services is difficult for the poor. The biggest problem the poor have to take when trying to borrow from an official financial institution, is the need for collateral by these institutions. Additionally, the process of obtaining a loan involves many administrative processes, resulting in additional costs for poor trade. Legal institutions are not encouraged to borrow from them. In general, official financial institutions reflect preferences in urban and rural industries. large over small commercial, non-agricultural over agricultural loans.

Financial institutions have limited benefits for rural borrowing for the following reasons:

•Administrative difficulties:

Emerging farmers in rural areas often live in isolated areas, in areas with poor communication facilities. making debt management difficult.

• Systemic Risks:

Agricultural production is associated with certain systemic risks, such as droughts and floods, which are reflected in the high level of environmental exchange that is thought to be beneficial. Poor, or very poor families will not be able to make the money needed to repay the loan, they should be the ones to get the loan. Some are better funded by financial institutions.

• Lack of information:

Lack of fixed information, common borrowing tools, such as financial statements or credit history, do not exist in these areas.

• Payment problems:

Payment of operating fees may be required only once a year for example at harvest time. On the other hand, access to unsecured loans is easy, convenient, and available locally for low-income households for the following reasons: -

(a) Illegal moneylenders use linked credit agreements to minimize potential risks such as improving business relationships with clients.

(b) Illegal moneylenders have local knowledge that helps them analyze credit needs and customer creditworthiness.

(c) Informal lenders consider the needs and requirements of the clients even with a small loan.

(d) Informal lenders will benefit from the same penalties as family members. These penalties may apply instead of enforcing the law.

(e) Informal lenders use certain incentives to encourage repayment, such as repetitive borrowing loans, by gradually increasing the size of the loan.

Apart from the fact that many of the rural poor receive loans from the illicit financial sector in rural areas in developing countries; the sector has some basic limitations. A common feature of many rural communities is that much local knowledge does not flow freely; it tends to be isolated and rotated only in certain groups. The informal credit market is often based on the local economy and is therefore limited by the constraints of local wealth and the associated risks to the local environment. As the world's poorest people have access to basic financial services that can help them manage their assets and make a living. To overcome poverty, they need to be able to borrow, save, invest, and protect their families from adversity. Another shortcoming of the two financial institutions in developing countries is the inability to meet the debt requirements of the poor which has led to the new development of microfinance. Microfinance is believed to be able to reduce the aforementioned shortcomings in the legal and informal financial institutions and emerge as an important debt partner for the poor in developing countries

TYPES OF MICROFINANCE USED BY POOR PEOPLE								
Household Financial Goals	Burial Costs, Costs of Changing Health Care After Storms and Floods etc.	Retirement (of your parents) Migration farm, equipment, resources, home, development of your insurance, etc.	Irrigation, transport, small livestock, home improvement, education, education, etc	Food safety, Health Treatment, Festival and community obligations, emergencies, etc.	Send money to the family home and cash out of a small business, etc.	In the event of an immediate family crisis such as illness or group failure to repay creditors,	Microenterprise cash crops, sewing machine, radios, bicycles,	Reservoirs, irrigation systems, motorcycles, etc.
Microfiance Products	Various insurance Plane	pension plan or long time deposit	Medium time deposit	Demand or short time deposit	Funds Transfers and cheques	Emergency Loans	Short Term Loans	Long Term Loans

Source : Brett Matthews, Mathwood Consulting Company

A few Indian Government Strategies:

There are so many poor empowerment schemes in India. One of these is Micro-credit programs run mainly by NABARD in the agricultural sector and SIDBI in the Industrial, Service and Business (ISB) sector. The success of the microfinance program lies in the diversification of resources. SIDBI's Micro Finance Scheme has been operational since January, 1999 with a chorus of Rs. 100 crore and a network of approximately 190 tested MFI / NGOs. Under this scheme, a total amount of Rs. 191 crore was sanctioned until 31 December, 2003, benefiting more than 9 lakhs. Under the scheme, NGOs / MFIs must provide equity

in order to receive SIDBI funding. But they find it difficult to manage the support they need because of their poor financial situation. The problem has been exacerbated by declining interest rates on deposits. The office of the development commission (Small Industries Development) under the SSI Department of Industry is introducing a new Microfinance Scheme to overcome obstacles in the existing SIDBI system, whose access is currently very low. It is envisaged that the role of Government may play a key role in increasing access to this program, ensuring that we have long-term training for NGOs / MFIs and development of Intermediaries for identification of viable projects.

Key Features of Micro- finance Programe of Indian Government:

a) Setting a Fixed Deposit for MFIs / NGOs:

Under this program the Indian government is allocating money to an MFI / NGO such as SIDBI to get less debt to the poor.

b) Microfinance Training and Training:

The Government of India will assist SIDBI in meeting the training needs of NGOs, SHGs, coordinators and entrepreneurs as well as in raising awareness about the program. Establishment of 'coordinators' centers to identify effective projects: The Government of India will assist in the establishment of an institution by identifying and developing a 'mediator organization', which will assist NGOs / SHGs in product identification, project preparation, implementation. front and rear ward coordination and adjusting sales / binding technology. SISI can assist in identifying such contacts in different areas.

c) Provision of Budget for the scheme during 10th plan:

There has been a budget provision in the ten year plan and I hope there is more money in the next plan.

d) Administrative arrangements: A committee has been formed to oversee and monitor the administrative planning of MFI / NGOs.

Conclusion:

Microcredit and micro finance have received widespread recognition as a strategy to reduce poverty and boost the economy. Low income is a way to fight poverty, especially in rural areas, where the world's poorest people live. Getting a small loan amount at a reasonable interest rate gives poor people the opportunity to start their own small businesses. Numerous studies indicate that poor people are more likely to be trustworthy, with higher repayment rates than ordinary borrowers. When poor people can access financial services, they can earn more money, build their own assets, and protect themselves from external shocks. Poor families spend less money on daily living to plan for the future: investing in better food, housing, health, and education. Most poor people do not have access to good financial services that meet their needs because there

are no strong institutions that provide these services. Strong institutions need to charge enough money to cover their costs. Reimbursement is not the end in itself. Instead, it is the only way to reach the scope and impact beyond the limits that the sponsors can afford.

A financially viable institution can continue to expand services over the long term. Success means reducing transaction costs, providing more efficient services to customers, and finding new ways to provide banking services to the poor. Finally it should be mentioned that poor people who do not have income or payment methods need other forms of support before they can use a good loan. In many cases, other tools will better eradicate poverty — for example, small grants, employment and training programs, or infrastructure development. Where possible, these services should be accompanied by cost savings.

It shows that access to and effective provision of small loans can enable the poor to accelerate their spending, better manage their risks, gradually build their assets, develop their small businesses, improve their leadership potential and enjoy a better quality of life. Small-scale financial services can also contribute to improved resource allocation, market development, and adoption of better technology; therefore, small sums help to stimulate economic growth and skills development.

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