Article

A Theoretical Evaluation of the Microfinance and its impact on Living Standards and Poverty Reduction in India

(IJGASR) International Journal For Global Academic & Scientific Research
ISSN Number: 2583-3081
Volume 1, Issue No. 3, 11–19

journals.icapsr.com/index.php/ijgasr
DOI: 10.55938/ijgasr.v1i3.21
IJGASR

Mangal Singh Mandrawal

Abstract

One definition of microfinance is "any activity that includes the provision of economic services like loans, saving, and coverage to low-wage earners who are slightly over the nationally defined shortfall line and to poor people who are below that shortage line with the aim of fostering public value." Microfinance can also be defined as "any activity that includes the provision of economic services like loans, saving, and coverage to low-wage earners who are slightly over the nationally defined short In this study, an attempt is made to conduct a theoretical evaluation of the impact that microfinance has had on living standards and the reduction of poverty in India. In order to produce an assessment of the influence of microfinance on living standards and the reduction of poverty in India, secondary reports are analysed and evaluated. Research in the natural world is qualitative and descriptive. According to a recently published study, microcredit and microfinance have gained widespread acceptance as a strategy for reducing poverty and increasing economic autonomy. Microfinance is a strategy that may be used to combat poverty, particularly in rural regions, which are home to the majority of the world's poorest people. Give individuals with low incomes the opportunity to start their own small businesses by extending them modest sums of financing at reasonable interest rates. Numerous studies show that despite their socioeconomic status, impoverished individuals have greater rates of loan payback than other types of borrowers.

Keywords

Microfinance, Development, Economic Status

Designation Registrar, Doon University, Dehradun.

Corresponding Author:
Dr. Mangal Singh Mandrawal Designation Registrar, Doon University, Dehradun.
E-mail: registrar@doonuniversity.ac.in

Introduction:

According to Suganthi (2009)[2] "Microfinance is described as any activity that includes the provision of economic services like loans, saving, and coverage to low-wage earners who are slightly over the nationally defined shortfall line and to poor people who are below that shortage line with the aim of fostering public value". The improvement of poverty and the broader effects of increasing income prospects via the provision of capital for microbusiness, insurance, and saving for risk reduction and consumption smoothing are all included in the production of public wealth. Using a kind of microfinance transfer mechanism, a significant shift in the industry provides microfinance in India. Since the ICICI bank in India, a number of players have made novel attempts to provide the poor access to financial services. The government has also run national initiatives, NGOs have raised funding for significant causes, and some banks have partnered with non-profits or started their own efforts to provide these services. As a consequence, microfinance is now broadly defined as any activity that provides financial services to those who are poor or have low incomes. Group providing, individual providing, the ability to save and insure, capacity housing, and services for improving agricultural businesses are all types of activities that may be funded via microfinance. The creation of public value, however, is the key objective that unites all popular microfinance facilities, regardless of the activity's shape. According to the International Labour Organization (ILO), "microfinance is a strategy for economic development that includes delivering financial services via an organisation to low-income clients."

The definition of "finance" in the dictionary is the management of money. The act of managing money includes both securing and using it. Micro Finance is an active term that refers to funding for small company owners. A model of microfinance is created with the specific goal of empowering the poor, women, and underprivileged members of society who are harmed by men-made or unnatural factors such as caste, belief, or religion.

Objective of the study:

To make a theoretical assessment of the Impact of Microfinance on Living Standards and Poverty Reduction in India

Methodology:

Secondary reports are assessed to make an evaluation of the Microfinance impact on Living Standards and Poverty Reduction in India. Study is qualitative and descriptive in Nature.

Review of literature:

Garga (2009)[1] investigated almost microfinance and the influence of microfinance on impoverished persons and society, with a focus on Bangladesh. We primarily explain our theory via the perspective of consumers (poor individuals who borrowed loans from microfinance firms) and develop our study on it. So, the goal of this lesson is to demonstrate how microfinance works by consuming set giving methods for poverty reduction and further he added "how it marks the living standard (income, saving, etc.) of poor people in Bangladesh. Microfinance has a positive influence on the poor's level of living as well as their lifespan". It has not only helped impoverished people get beyond the poverty line, but it has also allowed them to let themselves.

Suganthi (2009)[2] proclaimed that "micro-finance platforms not only provide ladies and men with access to finances and praise, but also reach millions of individuals globally by bringing them together in structured groups". Further he revealed that "microfinance initiatives, by supporting women's ability to make a living, might potentially launch a series of 'moral spirals' of financial empowerment, increased welfare for women and their children, and wider social and political empowerment. Banks often utilise individual rather than group-constructed loans and may not have the capacity to host non-financial services". This implies that they are unlikely to have the sort of motivated empowerment tactics that NGOs provide.

According to Sekhri (2009) asserted that "microfinance provides access to creative capital for the poor, which, together with human capital gained through education and training, and social capital gained via local organisation creation, enables individuals to move out of poverty (1999)". By giving a poor person with material wealth, their intelligence of pride is reinforced, which may serve to empower the individual to contribute to the economy and society.

According to Cheston (2002)[4] microfinance seems to have fostered a belief that microfinance expansion may give a solution to the difficulties of rural financial market advancement. He added that "while the expansion of microfinance is very important in providing access to finance for the unserved and underserved poor and low-income families, it is inadequate to address difficulties of rural financial market development. Self-help groups are expected to play an important role in such a strategy".

Hoffmann, Vivian 2020[7] assumed that "formation of low-cost loans to impoverished completed self-help groups (SHGs) has been included as a primary poverty-reduction approach in developing nations, but suggestion on the impact of this method is enormous. We evaluate the impact of a government-led SHG business in the Indian state of Bihar using a randomised programme rollout over 180 panchayats". Two years after the program's inception, we see a significant increase in SHG engagement, borrowing from SHGs, and a constant drop in the usage of informal recognition.

Theoretical and government report assessment:

Microfinance was first formed in India in 1969, when the country's banks were nationalised and one percent of their profits were set aside for microbusinesses serving the country's poor. During her time as Prime Minister, Smt. Indira Gandhi created a 20-point plan to alleviate poverty in India, which she called "Garibi Hatao." She believed that providing credit to low-income people in both urban and rural areas would help bring about social justice and individual agency. Shri

Mahila SEWA (self-employed women's association) Sahakari Bank was founded in 1974 as a local co-operative bank in Ahmedabad, Gujarat State, and its success in microfinance may be related to this. As the outcomes of park-level experiments in group-based finance to the poor enhanced the SEWA Bank's mission, it expanded its services to include those of providing financial assistance to low-income women working in the informal sector. Over 103 million low-income families have joined one of the approximately 8 million Self Help Groups, making them eligible for a variety of long-term financial services offered by the official banking system. In 1996, the programme became a standard part of the SHG-Bank Linkage Program (SBLP), with banks treating it like any other banking activity.

India's Current Situation:

The World Bank now classifies India as having a lower income than the lowest income group. About 70% of the population of the world's most populated country lives in rural regions. Sixty percent of the population works in agriculture, which leads to chronic unemployment and a low average income of $3,262. There isn't enough here to feed more than one person. The inevitable outcomes are depressing poverty, sluggish educational progress, a low sex ratio, and manipulation. Deficiency of financial resources is the primary cause of widespread poverty in rural areas. The Reserve Bank of India estimates that 51 percent of Indian families together have less than 10 percent of the country's total assets. This has diminished the country's capacity to produce both food (which accounts for around 22–25% of GDP) and manufactured goods. Few rural households are able to get credit via traditional means (from commercial bank).

Poverty alleviation projects and the conception of microfinance:

India's developers have been relentless in their efforts to alleviate poverty. They have developed similar improvement programmes. Rural Development Initiatives (IRDP), National Rural Employment Program (NREP), Rural Labour Employment Guarantee Programs (RLEGP), and other programmes were included. However, these initiatives have not had a significant impact on poverty reduction. The production concerned with the approach of development without altering the approach of production could only be the result of development gains by tool owners. The production strategy remains unchanged since the tool's owners have limited access to finance, which is the primary element of manufacturing. Thus, in the 1990s, the National Bank for Agriculture and Rural Development (NABARD) promoted experimental Microfinance schemes to bridge the gap between demand and supply of assets in the small levels of the rural sector. The active word of this time was microfinance, which was intended to cure the sickness of the rural family. This idea of self-reliance, self-sufficiency, and self-help gained traction. Self Help Groups (SHGs) and their connections to banks regulate Indian microfinance. Because they lack access to basic banking services, the rural and semi-urban Indian masses continue to rely on informal financial intermediaries such as money investors, family memberships, friends, and so on.

SHG-bank linkage programme development (2014-2017)

As of 31 March 2017, the SHG Bank Linkage System has linked 85.77 lakh SHGs together, making it the biggest community-based microfinance Initiative and covering more than 100 million rural families with insurance. There were a total of 6.73 lakh savings-connected SHGs in 2016–17, with the vast majority (70.4% of all SHGs) located in key states. This highlights the need to extend access to the progress method through SHG-BLP to low-income people in less-urban areas. Throughout the period of the year, the number of SHGs eligible for funding via the NRLM bend grew by around 2.9 lakh, thanks in large part to the joint efforts of NABARD and the NRLM to improve eligibility criteria analyses. When it comes to the SHGs, 85.4% of groups are led by women. This initiative helps underprivileged rural women gain independence. The deposits, credit distribution, and credit outstanding of all SHGs and those below NRLM and NULM over the past three years are interpreted in Table 5.2.1. When it comes to financial inclusion and survival at the base of the economic pyramid, the SHG - Bank Linkage Platform is unparalleled. Established strategies that once sought to provide access to financial services for the poor have now morphed into initiatives that target employment and poverty reduction. There was an increase over the prior three years in the total number of SHGs with savings bank accounts, the total amount of credit issued throughout the year, the total amount of bank loans outstanding, and the total amount of savings.

Credit Intervention	Percentage of Rural Households
Administration	6.0
Cooperative Cultures	21.5
Commercial banks and RRBs	33.8
Insurance	0.4
Provident Fund	0.8
Other Institutional Foundations	1.5
All Institutional Activities	64.1
Property-owner	4.1
Agricultural Moneylenders	7.1
Specialized Moneylenders	10.6
Relatives and Families	5.6
Others	9.1
All Non Institutional Activities	36.1
All Interventions	100.1

Microfinancing bank Linkages program:

The above table showed progress under MFI-Bank connections project. In comparison to the year before, a smaller number of microfinance institutions obtained bank loans during in the 2012-2013 fiscal year. When compared to the previous year, 2012-13, there was a 28% rise in the total number of Microfinance institutions that obtained loans from banks during the 2013–2014 fiscal year. In spite of this, there was a considerable increase in the number of Microfinance institutions that obtained loans from banks during in the fiscal years 2015–2016 and 2016–2017 as compared to the previous year. It rose from 9.8 percent to 257.6

Progress under MFI-bank linkage Programme (Amount in crore)

Year / Particular	2012-13		2013-14		2014-15		2015-16		2016-17	
	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.	No. of MFIs	Amt.
Loan Disbursed by Banks/FI to MFIs	426 (-8.4)	7840 (50.6)	545 (28.0)	10282 (31.2)	589 (8.1)	15190 (47.7)	647 (9.8)	20796 (36.9)	2314 (257.6)	19304 (-7.2)
Loan O/S against MFIs on 31st March	2042 (4.2)	14426 (26.0)	2422 (18.6)	16517 (14.5)	4662 (42.5)	22500 (36.2)	2020 (56.7)	25581 (13.7)	5357 (165.2)	29225 (14.3)
Fresh Loans as % to loans O/S		54.3		62.3		148.13		123.0		151.4

Source: NABARD, Status of Microfinance in India Report, 2012 to 2017.

percent throughout the period of time. When compared to the previous year, the total amount of money

that banks lent to MFIs went up in each of the following years: 2012–13, 2013–14, 2014–15, and 2015–16. It went up by around 50.6, 31.2, 47.7, and 36.9 percent respectively. The overall amount of money that banks lent to MFIs fell by 7.2% during the 2016–2017 fiscal year as compared to the previous year. The amount of loans still due against MFIs rose each each of the years that followed the years in which they had occurred. In comparison to the prior year, it saw growth of 13.7% and 14.3% in both 2015-16 and 2016-17 respectively. Each year that followed, in comparison to the prior year, the proportion of the total loan balance that represented the new loan was raised. Therefore, it is abundantly obvious that MFIs are winning the trust of customers as well as with the institutions that lend money.

Increase in the Number of Savings-Linked SHGs

Banks reported a total of 12.70 lakh savings-linked SHGs throughout India, with a 14.5 percent increase in the fiscal year 2018-19. Western District had the greatest evolution of 26.55 percent, followed by Eastern District (24.6 percent), Central District (17.8 percent), Northern District (14.6 percent), and North Eastern District

(14.6 percent) (7.8 percent). The Southern Area saw the greatest development of 5.1 percent. Between the states, Rajasthan, Assam, Bihar, Orissa, West Bengal, Chhattisgarh, UP, Maharashtra, Kerala, Karnataka, and Telangana recorded a moral development of SHGs, whereas states like Andhra Pradesh, Puducherry, Tripura, Arunachal Pradesh, and Nagaland, Sikkim listed a bad progress of SHGs, owing to a drop in the total number of SHGs in such The failure of SHG savings accounts is mostly due to document cleaning, the termination of underdeveloped accounts, in press for specific states, and changes in the SHG Bank Linkage classical for example, SHGs have shifted to linkage through Banking Communicators. Concerning the local proportion of SHGs during the fiscal year 2018-19, the Southern District accounted for 38.3 percent, followed by the Eastern District (26.5 percent), Western District (13.9 percent), Central District (10.6 percent), and Northern District (10.6 percent) (5.5 per cent). The North Eastern District has the lowest proportion of complete SHGs in the nation, accounting only 5.2%. The Southern Region's share of the total number of SHGs fell to 38.3% in 2018-19, down from almost half (48.3%) in 2014-15.

Significance of the microfinancing:

It is impossible to overstate the significance of microfinance in developing countries such as India, where it plays an essential part in the socioeconomic advancement of low-income and impoverished people. Since 1990s, poverty reduction has acquired importance at both national and international development levels. Within the confines of this structure, the government has undertaken a variety of different programmes. It is now well acknowledged that microfinance is a potent tool for reducing poverty and fostering socioeconomic development. Microfinance therefore has the potential to significantly contribute to improving the living circumstances of the poor. Any particular country's economic development is significantly influenced by how easily accessible financial services are. Low-income individuals and those who are seen as being poor are given access to a wide range of financial services in the form of microfinance, including deposits, loans, payment services, money transfers, insurance, savings, microcredit, and more. Opportunities for financial investment are increased when an economy has a sophisticated and functioning financial system. Therefore, in order to guarantee a growth that is both sustainable and inclusive, it is imperative that the government of India prioritise the provision of financial services in urban as well as rural areas. Since the early 1990s, the operation of microfinance banks in India has been giving rural communities a significant boost in terms of economic growth. The Indian federal government and the Reserve Bank of India (RBI) should take the necessary steps to ensure that the microfinance industry in India may continue to expand. Concerned state governments also take the required steps to raise awareness among the general populace about the benefits of using the services provided by microfinance institutions in order to enhance their economic standing and improve their standard of living.

Conclusion:

The aim of this study was to investigate how microfinance influences the reduction of poverty by improving living conditions and boosting social mobility among the disadvantaged. For emerging countries, poverty has remained one of their biggest problems. It is a difficulty that may be viewed in a variety of ways regardless of a country's level of development. The use of microcredit and microfinance to fight poverty and advance economic growth has become increasingly popular. A strategy to combat poverty is microfinance, particularly in rural regions, where the majority of the world's poorest people reside. Give low-income persons an opportunity to launch their own small company by providing them with modest sums of financing at reasonable interest rates. Numerous studies show that low-income borrowers are more reliable and have greater payback rates than other types of borrowers. When people in poverty have access to economic services, they are able to produce more, generate their own earnings, and withstand external shocks. Poor families utilise microfinance to transition from daily life to future planning: they make investments in improved housing, food, health, and education. Due to a lack of powerful organisations that provide such facilities, the majority of the poor cannot get decent financial services that fulfil their needs. Strong businesses need to charge enough to cover their expenses. Price recovery is not a goal in and of itself. Instead, it is the sole means of expanding size and influence beyond the limits that donors are able to support. Long-term viability of an organisation depends on its ability to maintain and grow its facilities. Sustainability requires reducing transaction costs, creating donation options that are more beneficial to the user, and coming up with innovative ways to provide financial services to the underprivileged. Finally, it should be stated that before poor people with no income or other sources of support may effectively use loans, they must first get other forms of maintenance. Other options, including modest contributions, job and training initiatives, or infrastructural improvements, will often reduce poverty more effectively. Such features should be combined with construction savings wherever it is feasible. It demonstrates how easy access to microcredit and a well-run microcredit facility may help the poor reduce their consumption, better handle their dangers, routinely build their resources, grow their micro projects, increase their potential to make an income, and enjoy a higher quality of life. Facilities for microfinance may also contribute to the improvement of resource distribution, market elevation, and acceptance of superior talent; as a result, microfinance aids in preventing and promoting economic growth.

References

1. Garga N. (2009), "A Comparative Study of Opportunities, Growth and problems of Women Entrepreneurs", *Asia-Pacific Business Review*, *Vol. V.* pp. 87–94
2. Suganthi N. (2009), "Influence of Motivational Factors on Women Entrepreneurs in SMEs", *Asia-Pacific Business Review*, *Vol. V.* pp. 95–104
3. VidyaSekhri N. (2007). "Growth and Challenges Faced in Micro –Finance", *Journal of IMS Group*, *Vol. (3)*, pp. 71–76

4. Cheston Susy and Kuhn Lisa (2002), "Empowering Women through Microfinance", Unpublished Background Paper for the Micro-credit Summit 15, New York, 10-13 November (www.microcreditsummit.org).
5. Malhotra Meenakshi (2004), *Empowerment of Women*, Isha Books, Delhi.
6. Baue William: "First and Largest International Microfinance Bond Issued." *CSR Wire*, August *18*, 2004. Available at www.scrwire.com/sfarticle.cgi?id=1498.
7. Hoffmann V, Rao V, Surendra V, *Datta U. Relief from usury: Impact of a self-help group lending program in rural India. *Journal of Development Economics*. (2020); *148*:102567.
8. Kumari JP. The role of products of Microfinance for reducing the Poverty of the Borrovvers: Exploratory Factor Analysis. *International Journal of Management Excellence*. (2020); *15*(3).
9. chintala G.R. (2016-17), "status of microfinance in India," *National Bank for agriculture and rural development*
10. Baruah Rajshree. k. (2018-19), "Status of microfinance in India," *National Bank for agriculture and rural development*