

Microfinance; Solution to Poverty Reduction

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Abstract Microfinance may be a concept that has been around for centuries, but it was not until the 1970s that it started to pick up acknowledgment as an attainable degree of poverty alleviation. Today, microfinance has advanced into a multi-billion-dollar industry with significant clienteles worldwide. Microfinance has been recognized as one of the foremost compelling tools for decreasing poverty by giving access to credit and helping individuals build assets and create employments which leads to expanded salary levels. Moreover, women's empowerment through microcredit is seen as a tool for eradicating extreme poverty from developing countries. The microfinance industry at first was just limited to small physical associations, organizations, and groups but with changing times and increasing digitization, it was necessary that microfinance also goes digital. One such emerging online microfinancing organization is 'Kiva.org'. Kiva.org is a non-profit organization that provides microfinance loans to people in need all over the world. Through its innovative platform, Kiva.org has made it possible for individuals from all walks of life to make a meaningful impact on global poverty. The authors of this research paper thus believe that supporting microfinance with the help of projects and clones help in alleviating poor sections of the society by providing them with credit and financial services, with which they can uplift themselves and break their poverty cycle.

Keywords: Microfinance, credit, empowerment, economic development.

I. INTRODUCTION

Need of access to credit is broadly recognized as one of the main causes of poverty for numerous individuals in developing countries. The poor more often than not do not have access to credit from the banking framework. Typically, since they cannot give acceptable collateral and/or because it is as exorbitant for banks to screen and monitor the exercises of the poor and force them to lend to this unprofitable group. However, since the late 1970s, the poor in creating nations have been able to get to progressively little advances with the assistance of so-called microfinance programs. Microfinance was first popularized by Muhammad Yunus, commonly referred to as the "Father of Microfinance".

Microfinance, also known as microcredit, is a type of banking benefit for low-income people or groups who otherwise have no access to monetary

administrations. Institutions that participate in microfinance are the most common type of loan, but microloans range from as little as \$50 to less than \$50,000. However, numerous banks offer extra administrations such as checking and reserve funds accounts, microinsurance products, and a few offer monetary and financial education. Microfinance has proven to be an effective tool for poverty alleviation and economic development. Microfinance organisations help the underprivileged launch their own enterprises, make money, and raise their standard of living by offering small loans. By providing access to credit and financial resources, microfinance also empowers women. The goal of microfinance is to provide underprivileged people with the means to support themselves.

Through microfinance small loans and other financial services are offered to customers who lack access to standard banking services. It is an innovative approach to poverty alleviation that has gained popularity in recent years. The goal of microfinance is to provide access to credit, savings, insurance, and other financial services to low-income individuals and families. Small loans with low interest rates are often available from microfinance organisations (MFIs), and borrowers use them to fund income-generating ventures like starting a small business or buying livestock. These loans are often accompanied by training and support services designed to help borrowers succeed. In the 1970s, when Muhammad Yunus founded Grameen Bank in Bangladesh, the idea of microfinance was born. Since then, microfinance has spread throughout the world and has helped millions of people lift themselves out of poverty. Microfinance is a crucial instrument for boosting the economy and eradicating poverty. It allows people and communities to improve their lives and create better futures for themselves and their families by granting access to financial services.

Our article focuses on the evolution of microfinance and how microfinance helps in reducing poverty across the globe.

II. HISTORY

Microfinance is a concept that has been around for centuries, but it was not until the 1970s that it began to gain recognition as a feasible measure of poverty relief. The origins of microfinance can be found in the early days of banking, when cultivators and merchandisers who needed funds to launch or grow their companies were given small loans. However, it wasn't until the 20th century that microfinance became more formalized and organized. In the 1970s, Muhammad Yunus founded Grameen Bank in Bangladesh, which handed small loans to poor women who wanted to start their own businesses. This model proved successful and soon other associations began replicating it in other parts of the world. Muhammad Yunus graduated with a degree in Economics which helped him in his movement later. In 1974, Bangladesh was destroyed by famine, during which Professor Yunus decided to advance a helping hand. He launched a rural development programme to fortify the citizens by persuading them to do small businesses that could help get their livelihood back on track. He believed that tiny loans would significantly improve the lives of the populace. He began to provide microcredit to residents, including small loans to underserved populations without the need for expensive collateral. Thus, he advanced \$ 27 from his resources to around 42 women. With the help of the gained funds, they started a handbasket business, which included handbaskets made by bamboo trees. It brought about a lot of profits that helped them pay back the money. Muhammad Yunus won the Nobel Peace Prize in 2006 for his radical efforts. Muhammad Yunus' pilot program became a source of alleviation for numerous countries worldwide. Under the Grameen Foundation, numerous non-profit initiatives appointed people from different sections of Bangladesh. Over the years, the micro-finance paradigms found themselves imitated in over 100 nations, including the United States. Today, microfinance has advanced into a multi-billion-dollar industry with significant clienteles worldwide. It has proven to be an effective way of furnishing monetary services to those who are traditionally barred from mainstream banking systems.

III. LITERATURE REVIEW

Contrary to popular assumption, a recent paper asserted that poor individuals require and utilise a range of financial services, including loans, savings,

and other services. Like everyone else, they use financial services to take advantage of business possibilities, make improvements to their houses, pay for other major expenses, and deal with emergencies. [1]. Microfinance has the potential to have a significant impact on women's empowerment, according to a valuable study that supported women's empowerment and was undertaken by UNIFEM. Microfinance has a positive impact on women's lives in general, albeit not all women do [2]. Even though there are several ways to obtain microcredit through microfinance, a recent survey[3] found that the majority of microfinance borrowers have access to loans through group lending programmes. Another study claimed that microfinance has evolved into a cornerstone of economic development strategies. With the aim of reducing poverty and fostering development, there has been a determined attempt to extend such programmes in recent years. The availability of microfinance increased by 19% annually between 1997 and 2013. Countries' gross domestic product (GDP) is significantly impacted by microfinance loans. [4]. According to a report on the effects of microfinance, this strategy has been shown to be efficient and flexible in reducing poverty. MFIs have been effective in lending to those who have historically been turned down by commercial banks due to their lack of collateral and poor credit scores because to innovations in group lending and dynamic incentives. The underprivileged have reciprocated by returning their debts with high repayment rates. [5]. A article stated that one needs to appreciate that how much microfinance helps people as well as commercial success. The growing clientele, high repayments, economic development impressions the success of microfinance in a broader sense.[6]. According to a microfinance discipline article, the poor are no longer thought of as consumers of financial services, stereotypes of the poor as unbankable have been disproved, a variety of lending methodologies have emerged showing that it is possible to offer the poor cost-effective financial services, and millions of dollars have been mobilised as "social investment" for the poor. It must be emphasised that eradicating poverty served as the driving force behind the microfinance movement. [7].

IV.IMPACT OF MICROFINANCE IN POVERTY REDUCTION

Microfinance has been identified as one of the most effective tools for reducing poverty. El-Nasharty states [10] that providing access to credit helps people build assets and create jobs which leads to increased income levels. Moreover, women's empowerment through microcredit is seen as a tool for eradicating extreme poverty from developing countries [9] (Jamaluddeen & Alam 2022).

The main objective of microfinancing organizations is to make affordable credit available for those who need it but cannot get it via traditional channels like banks due to their inability to meet stringent requirements such as paperwork/documentation or having no collateral. The process involves assessing borrowers' needs along with their ability/willingness-to-repay over time; this risk assessment determines eligibility for loans at reasonable interest rates charged by these institutions.

There are several ways by which access to microfinancing helps reduce poverty among the poor. Firstly, it helps to increase incomes and employment opportunities by providing credit for small enterprises [8] (Abdallah Ali et al. 2022). Secondly, it promotes financial inclusion by creating access to banking services which eventually leads to improved financial literacy (Pokharel 2022). Thirdly, microfinance encourages savings among low-income groups who are often excluded from the formal banking system.

Microfinance programs have been implemented in various countries with varying degrees of success. For instance, a study conducted in Djibouti revealed that microcredit has had positive impacts on the economic development of rural areas through income-generating activities and enterprise creation [8] (Abdallah Ali et al. 2022). While there have been criticisms regarding high-interest rates charged by some institutions leading to over-indebtedness among borrowers coupled with other limitations like inadequate regulatory frameworks; successful implementation in different countries shows its effectiveness in promoting economic growth and improved livelihoods

V. METHODOLOGY

The microfinance industry at first was just limited to small physical associations, organizations, and groups but with changing times and increasing digitization, it was necessary that microfinance also goes digital. This shift from physical forms of

microfinance to digital microfinance saw a major rise during the COVID-19 pandemic in the year 2020. People all around the world were affected by the pandemic physically, mentally, and economically. Amongst this chaos, poor sections of the society, who already had less or no access to traditional banking methods suffered heavily, as they could neither go to the banks or any kind of physical microfinancing groups. These situations increased the need of digital microfinancing essential.

Online microfinance is a relatively new concept that has emerged as a result of the increasing popularity and accessibility of the internet. It refers to the provision of small loans, typically less than \$1,000, to individuals or small businesses through online platforms. The fundamental purpose of online microfinance is to provide financial help to those who are unable to access regular banking services due to different factors such as lack of collateral or credit history. The process involves borrowers creating an account on an online platform and submitting their loan application along with relevant documents. The lender then evaluates the application and decides whether to approve it. Online microfinance has several advantages over traditional lending methods. It is faster, more convenient, and accessible from anywhere in the world. Additionally, it allows lenders to reach a wider audience and diversify their portfolio. There are many online microfinancing organizations which have acted as a ray of hope and touched millions of lives

One such emerging online microfinancing organization is 'Kiva.org'. Kiva.org is a non-profit organization that provides microfinance loans to people in need all over the world. The platform connects lenders with borrowers, allowing individuals to lend as little as \$25 to help fund a borrower's business or personal project. The process begins with borrowers applying for a loan through Kiva's network of field partners, who assess the borrower's creditworthiness and provide support throughout the loan cycle. Once approved, the borrower's profile is posted on Kiva's website, where lenders can browse and select projects they wish to support. Once enough lenders have contributed to fully fund a loan, the funds are disbursed to the borrower through Kiva's field partner. Borrowers then repay their loans over time, and lenders can choose to withdraw their funds or reinvest them in new projects. Kiva.org has facilitated over \$1 billion in loans since its founding in 2005 and has helped

millions of people around the world achieve financial stability and independence. Through its innovative platform, Kiva.org has made it possible for individuals from all walks of life to make a meaningful impact on global poverty.

Based on this framework, we decided to promote online microfinancing by developing a clone of 'Kiva.org'. Though we take inspiration from Kiva.org we seek to give our platform a unique identity of its own.

VI. CONCLUSION

Microfinance is a powerful tool that has the potential to transform the lives of millions of people living in poverty by providing access to credit, microfinance institutions have empowered people who were previously excluded from the formal financial sector and allowing them to start or expand their own businesses, improve their standard of living, and break free from the cycle of poverty. It empowers people to take control of their own economic futures, rather than relying on charity or government assistance. It thereby reduces inequality by providing opportunities for low-income individuals and families to build assets and accumulate wealth over time, training and educating them on financial literacy, entrepreneurship skills, and other areas that help them become self-sufficient. This knowledge empowers them to make informed decisions about their finances and improve their economic situation. By empowering them with skills and knowledge, they can break out of poverty cycles and contribute positively towards economic growth.

Along with improving economic growth, microfinance has also increased gender equality by women empowerment. Women often face greater barriers than men when it comes to accessing credit. They are disproportionately affected by poverty and lack of access to financial services. Microfinance institutions provide them with the tools they need to become financially independent and improve their social status. Microfinance programs specifically designed for women have been shown to increase their income and improve their social status within their communities. Women make up the majority of microfinance borrowers, and this has led to increased economic participation and decision-making power.

Our research has brought us to the supposition that even though microfinance is flourishing all around the globe, it still needs to be promoted, endorsed,

and publicized as much as possible. Thus, with the help of our clone we wish to support microfinance and make more people aware of its benefits and impacts. By assisting microfinance organisations, we can contribute to the creation of a more just society where everyone has the chance to prosper. In conclusion, microfinance is a boon for the poor as it provides them with access to financial services that can help them achieve economic independence and improve their quality of life. Governments should invest in microfinance programs as they have proven effective at reducing poverty and promoting sustainable development.

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