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Microfinance and Poverty Alleviation

**Partial Fulfillment of the Requirements
Of The 2005 Independent Study
On Microfinance**

By
Tessie Swope
May 2005

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Abstract

Microfinance, banking to the poor, is a recent global phenomenon introduced by Nobel Prize winner Dr. Mohammed Yunus of Bangladesh in the 1970's. Before Dr. Yunus, the poor were not allowed access to credit and loans due to the widespread belief that the poor could not repay loans. Dr. Yunus' project, Grameen Bank, began with loans of less than \$50 to poor basket weavers in Bangladesh. In the past 30 years Grameen has grown to over 3.7 million borrowers worldwide with a 98% repayment rate, higher than any commercial bank. Dr. Yunus has proven that the poor are indeed responsible enough to manage credit and repay loans.

There are several unique traits of microfinance: village banks, group lending, social collateral, and focus on women. Village banks are small lending institutions located in poor villages that dispatch employees called loans officers to disperse and receive money. Clients of microfinance form groups of five and if one member defaults on a loan, the other members pick up the tab. Clients not required to put up collateral. The closeness of small communities ensures that any default client will be motivated to pay the debt for fear of public disgrace. Microfinance has a unique focus on women since studies show women to be the most reliable with payments and most likely to use the extra income for their children and families.

There are five major criticisms of microfinance: it does not reach the poorest members of a population, it is not financially sustainable for institutions, it is potentially harmful to women (domestic abuse may result from husbands jealous of their wives' new financial power), it can create a large debt for the poor, and it is not universal in application. Though these criticisms are valid, there is ample evidence to show that the benefits of microfinance outweigh the costs. Studies show that microfinance can lead to an increase in income, better nutrition for families, greater high school attendance, empowerment of women, and alleviation of poverty. There is abundant support to demonstrate that microfinance can lift families out of poverty and is also able to expedite the completion of six of the seven millennium development goals.

Introduction

Globalization is the new world phenomenon. Richer countries are excited about tapping into resources and cheap labor markets in poor countries; poor countries are happy to benefit from technological advancements through association with rich countries. National leaders enthuse over progression in technology and the subsequent enhancement of living standards. Developing countries are finally exposed to lap tops and cell phones, I-pods and air conditioning, palm pilots and pagers. Governments are revving up for an era of massive global market expansion, innovation and enlargement in the fields of technology and genetics, and a revolutionary process of global development. Just a few decades ago ours was a world of distinct economic spheres, different languages, divided cultures and values, fragmented leadership, and separate currency. Today, continents such as Africa and Asia are developing at an incredible pace, national currencies are fusing in Europe, English transpires as the world language, China is emerging as an intimidating world power, the European Union is uniting its countries, and it seems that in the future all nations will be united under one language, one currency, one leader, and one global market.

But there are many who suffer the consequences of globalization. While developing countries rapidly expand, they have left behind a large portion of their people. The gap between the rich and the poor continues to grow at an alarming rate. Three billion of the world's people live in dismal impoverished conditions. The rich may enjoy the benefits of globalization, but it is the poor who silently bear the burden. In response to the increase in poverty, affluent countries have doled out large amounts of aid to impoverished areas in order to assure developing regions

that they have not been forgotten. Pleased with their own benevolence, affluent nations have then continued with the very process that is creating the problem: globalization of the rich and ignorance towards the agency of the poor.

What the world has failed to realize is that the poor are not victims of a failed system or passive recipients of foreign and domestic aid. The poor have the will and agency to respond to the issues that are affecting their lives. As long as wealthy nations give free hand-outs and “aid” to poor countries, the people themselves will never be empowered to break free from oppressive conditions of poverty. The poor, if given the opportunity for economic advancement, can and will prove to the world that they are capable and responsible citizens. The global market should not be one in which the affluent powers stoop down to feed scraps to the poor. Instead, the poor need to empower themselves to rise up and face the affluent powers eye to eye on terms of equality and solidarity. An effective poverty alleviation program is one in which the poor are the agents of change. The poor do not need aid, they need opportunity.

In 1976, the world finally witnessed a truly effective approach to poverty alleviation. Muhammad Yunus, a professor at the University of Chittagong in Bangladesh, decided to give out a few \$50 loans to women in rural Bangladesh. A few months later when he returned to the village, the women had started small tailoring and weaving businesses. Not only were the women able to pay back their loans, but their small businesses were profitable enough to improve the living conditions of the women and their families. Convinced that he had discovered a solution to poverty, Dr. Yunus launched an ambitious program to provide credit to entrepreneurs in Bangladesh. Thirty years later the Grameen Bank has 3.7 million borrowers, 1,267 branches in 46,000 villages world wide, and has proven to the world that if presented with the right opportunities, the poor can be empowered to improve their own lives (Grameen Bank 2005).

The Grameen Bank's approach to poverty alleviation is known as microfinance. As with all new programs, microfinance has a mixed following. There are those who swear that microfinance is the only real solution to the eradication of poverty (Murdoch and Haley 2002); others deny that it has any effect on poverty and that it may even do more harm than good (Buss 1999).

The purpose of this paper is to demonstrate that microfinance is an effective approach to poverty alleviation. Section One will explain the unique attributes and functions of the microfinance system. Section Two will address the criticisms against microfinance as a viable means of improving the economic conditions of impoverished people. Finally, Section Three will argue that microfinance is indeed an effective approach to poverty alleviation.

1. Section One: What is a Microfinance Institution?

Microfinance is a relatively new concept that has grown exponentially in the last decade as investors, donors, and banks realize the potential for capital that can be made by banking to the poor. In the past it was assumed that poor people were unbankable since they were only capable of taking out small loans, and had no collateral (Brandsma and Chaouli 1998:12; Simanowitz and Walter 2002:5). Grameen Bank in Bangladesh, the first to start banking to the poor, proved that not only are the poor bankable, but microfinance in the informal sector can be quite profitable (Brandsma and Chaouli 1998:1). Since then microfinance institutions have sprung up all over the world and reached millions of poor people (Simanowitz and Walter 2002:5).

In essence, a microfinance institution (MFI) acts as a bank for the poor. In some cases, an MFI actually *is* a bank, or can become one, but usually it is an NGO or governmental program aimed at poverty alleviation. The purpose of microfinance is to provide financial loans to the poor that are not made available to them through the traditional banking system (Brandsma and Chaouli 1998:1). These loans can be as tiny as \$50, and are typically used by the client to start a small business. Because microfinance institutions operate primarily (though not exclusively) in the Third World, they are faced with unique difficulties; namely, lack of collateral and lack of infrastructure or mobility. Consequently, MFIs have adopted several innovative practices to accommodate for these difficulties. These practices are the use of village banks, trust and group lending, programs focused on women, and high interest rates.

Section 1.1 Village Banks

One innovative characteristic of microfinance institutions is the use of village banks. The key function of village banks is mobility (Brandsma and Chaouli 1998:25). In the informal sector, poor infrastructure makes it difficult, if not impossible, for clients to get to the central city bank to take out or repay a loan (Brandsma and Chaouli 1998:14). Because many microfinance clients cannot get to the bank, the bank comes to them. A village bank is located close to or within the communities it serves and may be nothing more than a small hut with a manager, a bookkeeper, an accountant, and one to three loans officers, depending on the population of clients in the area (Rhyne 2001:61). Through the village banking system, clients need only travel a short distance to take out

or make payments on loans. The proximity of village banks make up for the lack of mobility in clients, and loans are disbursed quickly and efficiently.

A unique feature of the staff in a village bank is the use of loan officers. There may be one to four loan officers per village bank, depending on the population of clients in the area. Loan officers travel to the villages weekly to check up on progress of their clients, and to recruit new clients. When a loan officer finds a recruit, he/she becomes responsible for making sure that the new client repays loans on time (Rhyne 2001:71). The loan officer may be paid according to the number of his/her clients who repay a loan promptly, which gives the officers incentive to establish rapport with clients and to help them succeed (Brandsma and Chaouli 1998:25). This rapport is a key feature in the village banking system, for three reasons. First, personal relationships with clients provide staff with an awareness of issues that villagers may be facing. By working *with* clients instead of *for* them, staff members are able to make changes in the village bank system to accommodate for clients needs, and, consequently, improve their own efficiency (Rhyne 2001:69). Second, rapport offers clients extra incentive to repay a loan. Instead of an us-against-them or rich-against-poor attitude, the relationship is one of mutual trust and friendship. Third, knowledge of the people in a community allows staff to recognize and avoid potential problem clients, or people who cannot be trusted to repay a loan (Morduch 1999:1583; Rhyne 2001:69). The use of loan officers is a highly efficient and successful adaptation to problems faced by microfinance institutions.

In addition to unique staffing arrangements, village banks have developed a distinctive loan repayment system. In normal banking, loans are repaid starting months or even years after the loan was taken out, but in microfinance, loans are repaid immediately

(Morduch 1999:1584). The client and village bank set up a repayment schedule with small, weekly payments beginning as little as one week after the loan is taken out. Assuming that the client wants a loan to start a small business, the purpose of rapid repayment is to ascertain that the poor have an additional source of income on which to rely in case the business fails (Morduch 1999:1585; Rhyne 2001:69). Additional loans are given out in increasingly larger quantities only if the previous loan has been repaid in full (Brandsma and Chaouli 1998:11; Morduch 1999:1578). For example, if the first loan is \$50 payable over one year, and after six months the client has demonstrated a full ability to meet weekly repayments, another loan may be given out, this time for \$100. The following loan will be \$150, then \$200, and so on. Providing clients with small loans at first is a safety net for the MFI which enables it to “test” clients to seek out potential problem borrowers before they take out large sums (Morduch 1999:1583). Failure to meet a repayment deadline results in an immediate loss of privilege of future loans (Morduch 1999:1582). Prodem, perhaps the most successful MFI ever known, believes that “basing [subsequent] loans on [previous] repayment brings a change of view about the process of economic growth among the poor, a more realistic recognition that growth is a long-term process. Rather than emphasizing one particular investment, the Prodem philosophy holds that a long-term relationship between lender and borrower gives the borrower the financial flexibility needed to grow gradually, taking advantage of opportunities in a slower but safer way” (Rhyne 2001: 69). Microfinance has effectively confronted the problem with lack of collateral using trust and group lending, and so continues to show innovation and efficiency in its design.

A successful MFI is one that maintains strict client repayment schedules (Morduch 1999:1579). Weekly repayment schedules and the local knowledge of the staff at village banks enable MFIs to keep close track of who is repaying loans and who is not. For example if Friday is designated as repayment day in a particular village (repayment days vary in different communities), then Friday morning when the village bank opens up the staff will have a list of all clients who owe money, and how much they owe. At the end of the day loan officers are dispatched to visit all clients who have not paid. In most cases, consequences are swift: the client will be denied any future loans until one year after the current loan has been repaid in full (Morduch 1999:1578). Such strictness is necessary even if the loan is late by a single day. The downfall of many MFIs is lenience; often clients that do not repay their loans on time are given grace periods in which they can continue to pay loans late without consequence (Brandsma and Chaouli 1998:20). Leniency teaches clients that it is not necessary to repay loans on time, and that the MFIs are “soft” and easy to supplicate. An MFI with weak control over repayment schedules would be unlikely to succeed. Additional functions of a strict weekly repayment schedule are to remind the people of their debt to the bank, and to catch problems early on if there is a client who may have difficulty repaying (Rhyne 2001:71). Also, since economic stability is so delicate for the poor and one crisis could tip the scales in the direction of starvation, it is difficult to save large amounts of money. Thus, paying off a loan in small increments is easier and more practical.

Section 1.2 Trust and Group Lending

A second innovative practice adapted by MFIs is group lending. The function of group lending is to make up for the lack of collateral in impoverished communities (Morduch 1999: 1570). Initially, microfinance was attacked by critics who argued that banking cannot be done without collateral. Poor people typically do not have collateral to put up in case of failure to repay their loans, therefore, they were assumed to be unbankable (Brandsma and Chaouli 1998:12). It has since been demonstrated that group lending can be used in the place of concrete collateral (Brandsma and Chaouli 1998:11; Morduch 1999:1570). In group lending, the loan is made to a self-selected group of approximately five villagers who may or may not be involved in the same business enterprise. A group treasurer is elected among them to collect weekly repayments and deposit them at the village bank (Brandsma and Chaouli 1998:33). Often, the first loan is a signature loan made out only to the treasurer. If he/she demonstrate the capacity to repay, loans are given to two others in the group, and upon repayment, loans are promptly disbursed to the final two clients. These groups of five meet weekly with bank staff to discuss progress and issues at hand (Morduch 1999:1575). The group treasurer is responsible for repayments by the rest of the group, which alleviates the burden of responsibility from the bank and puts it into the hands of the people. If any one member of the group fails to pay his/her weekly portion of the loan, the entire group is denied subsequent loans (Morduch 1999:1575). Groups have been found to function best when they are free to choose their own members, and members may only leave the group after the loan has been repaid in full (Peace Corps 2000:51). Collective responsibility encourages members of a group to help each other, if not out of kindness, then at least out of fear that their own privilege will be revoked due to default by another member. It also

encourages the poor to be selective about whom they include in the group (Morduch 1999:1570). Women in particular benefit from working in a group because of the social support and joint problem solving offered by the other members (Peace Corps 2000:46).

The success of group lending is primarily due to the intimate settings of most Third World villages. For example, late loan payment means that the client either *can't* pay or *won't* pay. In a village setting everyone knows everyone else's business. If it is known that the person *can't* pay, neighbors can usually be counted on to come to his/her aid. If the person *won't* pay, he/she is shamed by the rest of the village. Fear of public humiliation provides high incentive for prompt repayment (Rhyne 2001:72). It should be noted however, that social collateral is not appropriate in all circumstances since it requires a degree of social cohesion within a community (Javier 2004:10).

Another important ingredient in the trust system is personal relationship between MFI staff and clients. The small staff at the village bank is encouraged to get to know clients on a friendly basis. Owing to the fact that clients do not put down collateral, the loan is based entirely on trust. Loan officers in particular, after spending much time with the people of a village, are able to determine who can be trusted to repay a loan and who cannot. This approach helps to weed out potential problem clients (Morduch 1999:1583). It also allows staff to be directly involved with the people, and to see the positive impact that their work makes on a village. For Otero, executive director of Bancosol, "the key word is trust. 'It's not just the cash. It's what the cash means, and it means "I trust your small project.'"" (Rhyne 2001:73). Otero emphasizes that "everyone matters to the organization. [He urges] secretaries and office clerks to get to know their clients so that they would share the organization's mission" (Rhyne 2001:75). Personal relationships are

also extremely beneficial to the clients. Although it is necessary to be strict about timely repayments, there are some instances, such as a medical emergency or a death in the family, in which some leniency is granted. This is done at the discretion of the loan officer, who is aware of the personal situations in each client family (Rhyne 2001:72). Also, relationships provide security to the client. Clients are assured that the microfinance will be around for a long time and won't disappear quickly like the credit unions of the past (Johnson and Rogaly 1997:15).

Section 1.3 Focus on Women

The third unique practice of microfinance is its almost exclusive focus on women. Countries in which women are oppressed or treated as second class citizens are always the ones who suffer the highest rate of poverty, as women make up the majority of poor people (Cheston and Kuhn 2002). A recent World Bank report confirms that “societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard of their people” (Cheston and Kuhn 2002). Providing women with access to credit can turn around an entire economy and is proven to be more beneficial than providing credit to men for two reasons. First, there is significant evidence that when a woman's business succeeds and she makes a profit, it goes to her family, while men typically give only 50-70% of their income to their families (Grasmuck and Espinal 2000:240). Men are more likely to use funds on leisure. They are also more mobile, and therefore more likely to default on loans (Javier 2004:11). Studies show that children are better educated and cared for when

women contribute income to the family (Grasmuck and Espinal 2000:240). The Women's Entrepreneurship Development Trust Fund reports that "women's increased income benefits their children, particularly in education, diet, healthcare, and clothing" (Cheston and Kuhn 2002). Second, women are less risky (Morduch 1999:1579). They tend to take out smaller loans than men, and invest the money in safe business ventures, usually close to home (Cheston and Kuhn 2002). Women's businesses are typically smaller than men's, have fewer, if any, employees, and are more likely to rely on family members for support (Grasmuck and Espinal 2000:223). Unfortunately, women's businesses are also more likely to fail (Grasmuck and Espinal 2000:235). Antonio Javier, in a thesis to Cornell University, explains the reasons why women's businesses are less likely to succeed than men's:

This is partly due to divergent average returns on the type of microenterprises operated by each gender. Women are more likely to engage in the production of beverages and foods, beauty salons, and tailoring of clothing which have lower returns than activities undertaken by men such as retail, automobile repair, and the manufacture and repair of wooden and iron products. Another reason for the low returns is the fact that women operate their microenterprises from their homes, while men normally operate outside the home. Men are therefore in contact with a larger and more dynamic range of customers, whereas women are dependent on the demand from their local areas. This is significant especially considering that microentrepreneurs often live in neighborhoods with a high density of poverty. It is essentially a question of whether the entrepreneurs' clients can afford to purchase the products offered (Javier 2004:26).

Some of the problems that confront women entrepreneurs are social prejudices, and the expectancy that women must continue their household/childrearing duties in addition to running a business (Grasmuck and Espinal 2000:235; Cheston and Kuhn 2002). Despite these difficulties, women continue to make up the vast majority of microfinance clientele, and many MFIs focus exclusively on female entrepreneurs (Brandsma and Chaouli 1998:19).

Section 1.4 High Interest Rates, Subsidy, and Financial Sustainability

A third unique feature to microfinance is high interest rates. While a regular financial institution may charge 10-15% interest on a loan depending on credit history of the borrower, MFIs charge interest rates of 40-60%! (Morduch 1999:1574). There is much arguing among different microfinance programs on the effectiveness of charging high interest rates. Some experts say that high rates discourage the poor from borrowing, and take away a significant portion of their profits if they are able to successfully start a business; however, no research has been able to prove that high interest rates discourage the poor from borrowing (Morduch 1999:1576). In fact, the statistics show that MFIs can obtain a repayment rate of 98.7%, even with high interest (McNelly and Dunford 1998). High rates encourage people to put a lot of effort into their business, since they will need to work very hard in order to still make a profit after the loan is repaid; harder work usually pays off with a higher success rate for the businesses. Also, 50% interest isn't terrible when the loan is repaid in small weekly increments. High interest rates are necessary in order for a microfinance institution to become sustainable (Brandsma and Chaouli 1998:1). Sadly, some experts estimate that only 1% of microfinance institutions are fully sustainable, and only 5% ever will be; the vast majority rely heavily on subsidies and government grants (Morduch 1999:1587). Marguerite Robinson, a pioneer of microfinance, and author of *The Microfinance Revolution*, explains subsidy reliance:

Let's assume that the only objective we care about is maximizing benefit to poor people. From this perspective, the argument for high interest rates is straightforward. In most countries, donor funding is a limited quantity that will never be capable of reaching more than a tiny fraction of those poor households who could benefit from quality financial services. We can hope to reach most of those households only if MFIs can mobilize relative large amounts

of commercial finance at market rates. They cannot do this unless they charge interest rates that cover the costs... (Robinson 2001:33).

Although the ultimate goal of an MFI is financial viability, all MFIs need to start out with subsidy. Subsidy can come from individual donors, government grants, or private institutions, but it must be steady and reliable (Morduch 1999:1591). During the first five years or so a new MFI will rely heavily on subsidy in order to cover high operational costs, and low profits from loan repayment. Low profit does not mean that clients are not paying back their loans, rather it indicates that the MFI does not yet have enough clients to cover costs. Many MFIs have chosen to remain permanently dependent on subsidy in order to provide low interest rates to their clients, and also to have a back-up pool of money in case of economic disaster (Morduch 1999:1591). However, dependence on subsidy is risky. If the pool of subsidy money suddenly dried up or was cut off, the MFI would invariably collapse (Morduch 1999:1592). Research by the World Bank finds that “microfinance institutions have learned that they cannot depend on governments and donors as reliable, long-term sources of subsidized funding” (Brandsma and Chaouli 1998:2). Financial viability is preferable to financial dependence, but reliable subsidy is a necessary component to a new MFI when it is just getting started.

Ultimately, a successful MFI is one that is financially viable (Morduch 1999:1592). Viability is achieved through three methods: high interest rates, large pool of clientele and low operational costs. The very nature of microfinance demands high interest rates to make up for the diminutive size of the average loan (Brandsma and Chaouli 1998:1). Financially viable MFIs charge interest rates of 40%-60%, and in addition, have a client pool of several thousand people. A 1998 World Bank Report on microfinance states, “Programs in [the Middle East and North Africa] that are already or

nearly sustainable indicate that at least 5,000-10,000 borrowers are needed” (Brandsma and Chaouli 1998:3). Even with high interest rates the loans are so small that MFIs only make a tiny profit off each individual loan. When a regular bank gives a loan of \$50,000 with 10% interest for one year, they make \$5,000 off one person! But an MFI, with 40% interest on a \$50 loan over one year, will make only \$20 *a year* per person. Thus, profit can only be made through sheer volume of clients (Brandsma and Chaouli 1998:22).

Additionally, operational costs need to be kept at a minimum. Village banks are effective in enabling four full-time employees to be responsible for hundreds of clients (Rhyne 2001:61). An MFI should have as few full-time employees as possible, and ideally, train and employ the poor themselves to provide them with jobs and to lower the cost of payroll.

Section 1.5 Qualified Leadership

Financial viability is a difficult task and many MFIs will never become independent from subsidies. However, with the right leadership, independence from subsidy can be achieved. Dynamic and innovative leadership is an absolutely essential component to the success of any enterprise, but in particular to MFIs. The first goal that a microfinance institution should have is to create a clear mission, and a group of leaders who are capable and motivated to achieve it. The mission statement should be clear and specific. All staff from the Board of Directors to the lowliest clerk should know exactly what the mission of the MFI is, and the best means for how to achieve it. They should

also be sufficiently trained and qualified for their position. Most MFI's fail because they are started with a social goal in mind, and the staff members, despite their desire to improve the lives of the poor, do not have the training or capability necessary to run a microfinance institution (Peace Corps 74). Judith Brandsma and Chaouli Rafika, in a 1998 report on microfinance for the World Bank, defined the important principles of leadership as such:

1. A capable governing body. If a microfinance institution has a visionary board of directors and leaders who understand the microfinance business and have clear goals on where they want to go with it, the rest will follow.
2. A clearly defined mission, accompanied by medium- and long-term goals that are translated into short-term objectives and strategies. Goals and objectives should be quantified and set within a reasonable timeframe.
3. Qualified management and staff, to design and implement strategies and achieve goals and objectives.
4. Systems and procedures that clearly define roles, responsibilities, and accountability, and an aim to achieve objectives in the most efficient way possible. Services must be tailored to meet local demand; thus they must be able to adapt to changes in market characteristics.
5. A good management information system that is easy to use, captures all necessary information (on clients, loans, and staff performance), and produces reports on a routine or ad hoc basis. This information should be used to continually monitor and evaluate programs (30).

Microfinance, a relatively novel idea that is constantly improving, requires dynamic and innovative decision-makers to provide direction during the hard times which are inevitable in the Third World. One of the greatest challenges to microfinance is operation in the unstable, bucking-and-plunging economies of the Third World (Brandsma and Chaouli 1998:15). Insurrection is not uncommon, neither is it unusual for the currency to become worthless overnight. The financial situation of most MFIs is unsteady at best, and arguments ensue between activists who use microfinance to help the poor, and businessmen who use it to gain profits. Both activists and businessman must hold leadership positions in an MFI to make it work (Rhyne 2001:62). The combination

of energetic philanthropy and educated financial decision-making is essential. MFI leaders must also efficiently keep track of hundreds of employees scattered in small village banks all over the country, thousands of clients, and thousands of tiny loans. Skilled and experienced leaders and managers are absolutely necessary if a microfinance institution is to succeed.

Section 1.6 Types of MFIs

There are three main types of microfinance institutions: Latin American solidarity groups, the Grameen Bank model, and the village banking system. Latin American solidarity groups consist of 4-7 self-selected members who guarantee each others loans. Initial loans are very small, and full repayment is required in as little as two months. After the two months is up, another loan may be disbursed for an amount 20% higher than the original loan. When this loan is repaid in full, the third loan may be 20% higher than the second, and so on (Peace Corps 2000:51). In Latin American solidarity groups, members are usually required to deposit regular savings which act as collateral and may be withdrawn at the end of a loan cycle. Group members work together to sort out problems and use peer pressure to collect loans and interest (Peace Corps 2000:52). The disadvantage to Latin American solidarity groups is that the poor themselves are not granted much autonomy. Loans officers, and staff from the MFI are the decision-makers. They decide which groups get loans and how to punish late payers. They are also in charge of collection and disbursement of loans. In this way, the “outsiders”, the MFI staff, are

“helping” the villagers, instead of empowering the villagers to help themselves. The Grameen Bank and village bank methodologies allow for greater autonomy of the poor.

The Grameen Bank model, first developed in Bangladesh, is the most publicized MFI in the history of microfinance. Grameen Bank lending programs allow greater autonomy for the poor and create less responsibility for the MFI. Lending groups are self-selected and have five members. Members are required to save together for 4-8 weeks before becoming eligible for their first loan (Peace Corps 2000:52). Groups are also required to deposit savings periodically throughout the duration of the loan. Savings are used as a back-up emergency fund, and can be taken out only when the group is disbanded (Peace Corps 2000:53). The group is then incorporated, along with up to eight other groups in the same area, into a locally run “village center.” Village centers of up to 40 members meet weekly with loan officers from the MFI to discuss issues at hand and to collect and disburse new loans (Peace Corps 2000:52). The Grameen Bank model uses voluntary client savings accounts as an additional source of income. Clients may deposit funds into a savings account, and deposit and withdraw at will. The pool of money from savings accounts may be used by the MFI in times of growth or crisis (Morduch 1999:1587). Saving also provides security for the clients themselves in times of economic crisis. Saving encourages people to think about using their money for long-term goals in the future, it enables money to be passed on to children, and allows for risk-taking (Peace Corps 2000:46). The purpose of the MFI and loan officers in the Grameen Bank model is simply to set up the model in a village, explain how it runs, collect and disburse loans, and meet weekly with the village centers (Peace Corps 2000:53). The staff members at the MFI are not the primary decision makers; autonomy rests with the people.

The third and most popular model for MFI programs is the village banking system developed by FINCA, a well-known and highly successful microfinance NGO. Although the Grameen Bank model grants a certain amount of autonomy to clients, the village bank system allows villagers full responsibility; the MFI or staff is barely involved at all. The village bank literally functions as its own enterprise. A village bank is composed of 30-50 members who elect their own management committee. The villagers, not a loan officer, approve, disburse, and collect loans. A relatively large loan is made to the village bank from the MFI. The village bank is then responsible for collecting individual loans and using them to pay back the *entire* loan from the MFI in a specified time period, usually 10-12 months (Peace Corps 2000:53). Village banks that successfully pay off the loan are given another. Thus, the MFI is not at all responsible for individual loans, but rather, only for the large loan made to the village bank. The only function of the MFI is to form the village bank, disburse one large loan, and send a loans officer frequently to check up on progress, verify record-keeping, and to bring cash back to the MFI where it will be kept safe (Peace Corps 2000:54). For obvious reasons, cash for loan payments and repayments should not be kept in the village where it can be stolen. Another safety measure is that money can only be exchanged with the management committee present. Over the course of the loan period, villagers are required to save at least 20% of the money they borrow. It is hoped that as much as \$300 per member can be saved within a three year period. The objective of the village bank methodology is that within three years the village bank will have achieved enough capital from repayments, savings, and interest on loans, to be able to continue without assistance from the MFI (Peace Corps 2000:54). This would render the villagers completely autonomous. Local management is helpful because local people

know each other's reputation and trustworthiness and can make informed decisions about loan disbursement. They are also able to determine if a client's idea for use of the loan would work under present conditions in the village (Peace Corps 2000:54). The FINCA village banking system is shown to be the most effective of the three methodologies because it allows for maximum efficiency of the MFI and the greatest autonomy of the poor.

2. Section Two: Criticisms of Microfinance

There are many criticisms to the microfinance approach to poverty alleviation. Indeed, the critics have even questioned whether microfinance alleviates poverty at all. There are five main arguments against microfinance in the Third World:

1. Microfinance does not reach the poorest of the poor.
2. MFIs are rarely, if ever, financially sustainable
3. Microfinance is potentially harmful to women
4. Borrowing may create a heavy debt for some poor families
5. Microfinance is not universal in application

Section 2.1 Microfinance Does Not Reach the Poorest

The first reason that microfinance does not reach the poorest of the poor is because of discrimination by the loans officers (Simanowitz 2000; Simanowitz and Walter 2002:36). As with all loan systems, the higher the loan, the greater a profit to be made by the lender. Consequently, loan officers often discriminate against very poor

borrowers and instead favor the “richer” poor who can afford to take out larger loans (Wright 2000:262; Simanowitz 2000). The second reason that microfinance may not reach the poorest of the poor is the pariah status of the very poor (Simanowitz and Walter 2002:36). Just as there are large divides in wealthy countries between the rich and poor, impoverished communities may have social segregation between the poor and the destitute. The destitute, also referred to as the very poor or the poorest of the poor, may be shunned from the rest of society. Sometimes it is discrimination from the “richer” poor that drives the destitute away from society, and consequently, away from MFI programs, but often it is the destitute who segregate themselves (Wright 2000:262; Simanowitz 2000; Simanowitz and Walter 2002:36). The very poor, who lack even basic needs, avoid contact with the rest of society out of shame. They may have lice or parasites, they may lack decent clothing, or they may simply be too embarrassed to display their extreme poverty in public. Simply put, microfinance is not always an attractive option to the very poor (Simanowitz 2000). A destitute family that struggles every day to survive will rarely have the energy to launch into an ambitious, business enterprise. The poorest of the poor can barely meet basic needs much less run an entire business and they lack the necessary education, management skills, and social networks (Simanowitz 2000; Garson 1997:7). The trouble is that if training were to be provided by the MFI it would cripple the ability of the institution to become financially sustainable (Robinson 2001:73).

The exclusion of the poorest from microfinance is not an indication that the poorest cannot benefit from MFI services, but rather, it is an indication of the failure of MFIs to design programs to fit the needs of destitute families (Marcus, Porter, and Harper 1999:10). “Microfinance has tended to exclude those than cannot use the one-size-fits-all

services provided. The services that have been developed tend to meet the needs of a particular segment of the client market, and have led to the exclusion of those who cannot use or pay for these services” (Simanowitz and Walter 2002:5). The use of the weekly repayment schedule, a hallmark of the microfinance industry, has been widely criticized for this reason. It is argued that the income cycles of the poor differ according to the individual business. Some poor families earn income on a weekly basis, others biweekly, and still others, monthly. Demanding that all clients stick to the rigid weekly payment cycle makes microfinance an unattractive option for many poor (Simanowitz and Walter 2002:45; Marcus, Porter, and Harper 1999:10). MFIs that are inflexible and do not offer a range of services risk losing clients and efficiency.

Microfinance can be used as an effective method of poverty alleviation for the poorest people. The solution for providing microfinancial services to the very poor is to design programs that suit the needs of destitute families (Marcus, Porter, and Harper 1999:22). Factors which enable development agencies to reach the poorest are building a sharing knowledge with the very poor, basing actions on the aspirations of the poor instead of their problems, recognizing the value of cultural action, and training the poor (Wodon 2000). MFIs need to be flexible in tailoring their programs to fit the varied needs of the population. “Services that are better tailored to the needs of the clients lead to better performance and sustainability amongst clients, which in turn will lead to higher performance and sustainability for the MFI” (Simanowitz and Walter 2002:5). The first step in reaching out to the poorest families is to offer programs that help poor families satisfy their basic needs, such as food, shelter, and clothing. MFIs should also provide poor families with training in basic education and business management. Education and

training in financial responsibility will lead to greater autonomy and empowerment of the poor. Once the poorest families feel secure in that their basic health, shelter, and nutritional needs have been met, and once they receive sufficient education and training, they should be confident enough to take out a loan. The 1998 World Bank report on microfinance explains:

Microenterprise activities are productive investments that generate income for poor people and their households. These activities are inextricably linked to the household's hierarchy of economic goals, which generally seek to increase security over time and across generations. The primary goal is economic viability, or the ability to meet basic needs of household members, including food, shelter, and clothing. The second goal is economic security, or the ability to protect household assets and income from unpredictable forces or actions, natural or human. The third goal is long-term economic security and a higher standard of living that will be sustained to the next generation. Households try to minimize the risk of losing the economic security already achieved, and higher-level goals are only pursued when lower-level goals have been met (Brandsma and Chaouli 1998:5).

The basic needs of the poorest must be met before they can proceed to higher economic goals. Through provision of flexible services that focus specifically on the needs of a particular population, the MFI will be able to expand the scope of its market and reduce the risks of default (Simanowitz and Walter 2002:45; Marcus, Porter and Harper 1999:22). MFIs should also use knowledge of the unique culture and traditions of an area to integrate microfinance into the village lifestyle (Simanowitz and Walter 2002:33). The poor are looking for microfinance services that offer low minimum deposits, market-based interest rates, are managed by local people who available in the neighborhood, have no collateral requirements, offer quick disbursement of loans, no minimum balances, reasonable fees, and rules sensitive to the special needs of women (Peace Corps 45). "To make a sustainable impact on poverty, MFIs need to see their work holistically, and to understand how their intervention fits with the patterns of their

clients' livelihoods and the changes that are necessary to reduce their level of poverty. Local conceptions of the experience of poverty are important" (Simanowitz and Walker 2002:38). To further integrate the very poor into society, loans groups of "richer" poor should be actively encouraged to include very poor families into their loans groups, and loans officers should be rewarded for providing loans to destitute families (Simanowitz and Walter 2002:40).

There are many examples of MFIs that have provided social services with credit and enabled destitute families to benefit from access to finance programs. Microfinance is an infant industry that will continue to grow and increase its outreach and efficiency. As the holistic approach to poverty alleviation becomes a popular practice in microfinance, MFIs will be able to greatly improve their ability to reach the poorest of the poor.

Section 2.2 Financial Sustainability

The second criticism of microfinance is that financial sustainability is rarely achieved. There is overwhelming evidence of the failure of MFIs to achieve financial independence from subsidies, even if autonomy is pushed as the primary goal (Murdoch 1999:1587). Advocates for the microfinance approach to poverty alleviation are continuously haunted by statistics such as: "only 1% of MFIs are financially self-sufficient" (Murdoch 1999:1587). Opponents of the MFI system use statistics as evidence for the failure of microfinance and thus, as proof that the practice should be discontinued.

There are several problems with criticizing the financial situation of microfinance institutions. In order to claim that microfinance is a failure because it is not financially sustainable, one must keep in mind the nature of the microfinance business. Although many MFIs are focused on profit, the vast majority of them were created for social service, namely, poverty alleviation and empowerment for the poor. With this in mind, one should note that almost no program directed at the poor is financially sustainable. Low-income housing projects, hospital clinics for the poor, public schools, health and vocational classes, agricultural programs, and indeed any service that aims to improve the lives of the poor is dependent on subsidy from either the government or private donors. From this perspective, the mere fact that financial sustainability is *possible* for an MFI deserves respect.

It is too early to dismiss microfinance as a failure. Microfinance is a new industry whose popularity has rapidly launched it into action, perhaps too fast. Because microfinance is a relatively new concept, there are very few managers qualified to run an MFI and much has yet to be learned about how to achieve financial sustainability. In a few more years, as managers and executives are able to gain more experience and training, many MFIs should be able to financially sustain themselves. There is much evidence that self-sufficiency is attainable, although, as of yet, it is still rare. The Center for Global Studies, in their 2001 report entitled *Options for a New Microfinance Promotion Agency*, conclude that “the sustainability and profitability of micro-credit programs in the developing world are achievable. The extent to which and the rate at which sustainability is achievable is a function of the goals of the program, the target population, etc. There are examples that serving the poor can be sustainable.”

The relationship between providing training for the poor and achieving financial sustainability is precarious. Ideally, an MFI would be financially sustainable and provide training to needy clients; however, due to financial constraints this is nearly impossible (Robinson 2001:73). The necessity for an MFI to choose between the two goals has led to the development of two opposing methodologies: the integrated approach and the minimalist approach (Bhatt and Tang 2001:2). Advocates for the integrated approach argue that MFIs need to focus on poverty alleviation as their primary goal, even if it means that the institution will remain dependent on subsidies. Many leading practitioners such as Ela Bhatt, of India's Self-Employed Women's Association, believe that "poverty is not simply a lack of funds, but...vulnerability, powerlessness, and dependency. Development institutions that offer only traditional microfinance services are not as effective as institutions that also help borrowers overcome the psychological burdens of poverty" (Bhatt 1998). Supporters of this approach insist that microfinance institutions should provide services to the poor that integrate training, basic education, health and nutrition classes, and microcredit loans (Bhatt and Tang 2001:2). According to Graham Wright, author of *Microfinance Systems: Designing Quality Financial Services for the Poor*, "An MFI's ability to attract the poorest depends on the financial services it offers, and whether they have been designed to be appropriate for the needs of the poorer members of the community" (Wright 2000:262). Eventually, when destitute families have acquired basic health and business training, they will be confident enough to take out a loan. Activists for the integrated approach rationalize that although provision of training and educational services is costly and will more than likely compromise the financial sustainability of an MFI, it is the only way through which poverty alleviation, the

ultimate goal, can be achieved for the poorest of the poor. The integrated approach has a stronger impact on poverty alleviation (Murdoch and Haley 2002).

The argument for the minimalist approach is that unless the MFI is financially sustainable, it will be unable to grow, and thus, will exclude thousands of potential clients who could be helped by access to microcredit (Murdoch and Haley 2002). Jonathan Murdoch and Barbara Haley, co-authors of *Analysis of the Effects of Microfinance on Poverty Reduction* argue that “combining financial services with training, education or other components is also viewed as attempting to mix ‘business’ and ‘welfare’. This is seen as compromising the business orientation of microfinance” (Murdoch and Haley 2002). Also, if an MFI is forced to depend on subsidy and the pool of funding suddenly dries up, the entire institution will collapse. Promoters of the minimalist approach point out the widespread failure of MFIs who try to provide multiple services to their clients and are unable to fund charitable ventures (Bhatt and Tang 2001:2). Minimalists insist that it is necessary to achieve financial sustainability first. Then, when sufficient profit has been accumulated, the MFI can look into the possibility of providing training and educational services.

Despite the difficulties, microfinance can succeed in attaining financial sustainability and contributing to poverty alleviation. The solution to the conflict between client training and financial sustainability is to team up with non-financial organizations that provide training to the poor. The MFI should remain focused on achieving financial sustainability, but should work in conjunction with organizations such as churches or NGOs that focus solely on training for the poor (Dunford 2000; Simanowitz and Walter 2002:29). Business education for impoverished communities and the provision of

microcredit are complementary. Although concept of microfinance is still new, the market is expanding rapidly; the growing popularity of microfinance as a tool for poverty alleviation should spur the formation of NGOs that focus on health, education, accounting, and small business management classes for the poor, in particular for the destitute. By working side by side with charitable organizations, MFIs are able to focus on financial sustainability and to leave client training in the hands of the other organization (Dunford 2000; Simanowitz and Walter 2002:29). The combined efforts of a successful MFI and effective social programs can be an incredible tool for poverty alleviation.

Section 2.3 Potentially Harmful to Women

The third criticism against microfinance is that it is potentially harmful to women. For most of history, women were excluded from public or income-generating activities; only recently they have started to speak up about gender equality and the right to equal economic opportunity with men. Some men feel that women's independence is a direct threat to traditional patriarchal power (Murdoch and Haley 2002:136). In some cultures, if a man's wife works, and most especially if she generates more income than he does, it degrades the man's sense of masculinity (Cheston and Kuhn 2002). This can lead to a power struggle as the man attempts to regain dominance over the household and in some cases, it escalates to domestic violence against women (Murdoch and Haley 2002:136; Cheston and Kuhn 2002).

There is a second argument for why microfinance may be harmful to women. Microfinance is hailed as a means of promoting economic opportunity and empowerment to women; however, when women take out a microcredit loan to start a business, it is often the men who control how the loan is used (Rahman 1999:75). In most Third World communities, men have better income-generating activities, access to wider markets, and enjoy a higher societal status than women (Murdoch and Haley 2002:136). Some argue that when men control the loans given out to women, it further enforces patriarchal control over women's lives (Murdoch and Haley 2002:136).

Another challenge that women face with microfinance is that they have a double workload of running a business and childcare (Cheston and Kuhn 2002). Traditionally, women have taken care of children and household work while the men earn income for the family. More and more women are now entering the public workforce, but they are still expected to assume responsibility for all domestic tasks (Grasmuck and Espinal 2000:235; Murdoch and Haley 2002:136). This creates an enormous double burden on many women.

Despite arguments that microfinance is harmful to women, there is overwhelming evidence that microfinance has a positive impact on women. Cases of domestic violence, though they exist, are extremely rare (Cheston and Kuhn 2002). Certainly, the fact that some men may resent women's access to financial service does not mean that we should exclude women from economic opportunity, for that would only strengthen patriarchal dominance. Women should be encouraged to prove themselves as capable in the workforce. If women were to gain greater access to markets and provided with training in order to enhance the economic opportunities available to them, they would have more

control over loans and the use of loans (Murdoch and Haley 2002:136). Part of the reason that many husbands take control of loans is because of their traditional advantage over women in the market or workforce, and thus, their ability to make better use of the loan (Murdoch and Haley 2002:136). If women were also provided with market access and management skills, men would no longer have the advantage. On a different note, since marriage is a joint partnership, many women willingly share their loan with their husband, and they run the business together (Cheston and Kuhn 2002; Murdoch and Haley 2002:136).

Although microcredit may contribute to a greater workload for women, most women feel that the benefits of participation in microcredit programs by far outweigh the costs (Cheston and Kuhn 2002). Women feel empowered through their participation in the labor market, voice in financial decision-making, access to educational economic opportunity, and sense of independence and greater control over their lives (Cheston and Kuhn 2002). For some, the extra workload is a small price to pay. However, for those who do feel overwhelmed, the issue of the double burden of work and household responsibilities will be difficult to resolve until men learn to share domestic work with their wives. In the meantime, village women can create their own daycare programs to support each other (Murdoch and Haley 2002:136; Cheston and Kuhn 2002). For example, a group of women can alternate work with domestic responsibilities. While some women work outside the home, the others can perform household chores for the working women, as well as care for their children. This type of support service can create bonding between women in the village as well as alleviate pressure from individual women.

In regards to the effect of microfinance on children, some have argued that microfinance is harmful to children because they may be forced to drop out of school to work at the family business. Some families, in order to cut payroll costs and avoid theft from strangers, will only employ family members, children in particular (Grasmuck and Espinal 2000:136). Although there are cases in which microfinance has a negative influence on school attendance, the majority of the time microfinance actually enables families to keep their children in school. A study conducted in Honduras by the Save the Children Foundation found that “participants stated that participation in the credit and savings programme had enabled them to send several children to school at a time, and had reduced drop-out in the higher primary school grades. Where taking credit was enabling people to develop agriculture or other enterprises close to home and reducing the need to migrate for seasonal work, children’s chances of attending school were greatly increased” (Marcus, Porter, and Harper 1999:46).

Section 2.4 Creates Large Debt

The fourth criticism against microfinance is that it creates a large debt for some poor people who are unable to repay the loans (Buss 1999). Small businesses in Third World countries are subject to a great number of obstacles; for example, lack of adequate infrastructure, inability to access supplies needed for a business, flooded markets if enterprises are too similar, difficulties with money management due to improper schooling and lack of training or skill, and a special vulnerability to crises such as a death in the family or a medical emergency. Borrowing money is always a risk, but particularly

so for the poor who are already extremely vulnerable to economic shock. Sometimes all it takes is a business failure or medical emergency to plunge a poor person into severe debt and even greater poverty.

Consider, for example, the difficulties faced by a poor entrepreneur who is trying to decide on the location of his/her business: the poor have two location options; the first is to move the business to the city, and the second is to stay local. If they choose to run the business from the city, the issues at hand are transportation to and from the city, difficulty perhaps in gaining honest employees, and most importantly, competition from other city businesses. To run a business requires more than just credit, it requires management skill, education, and knowledge of marketing (Peace Corps 71). A poor rural farmer who has been educated only through 6th grade, and has had no previous experience in management or marketing, is at a severe disadvantage when faced with competition from more experienced city businessmen. Also, running a business in the city may require him/her to live in the city. As transportation is costly, time-consuming, and unreliable, many poor people cannot afford to move their family to the city or they may not wish to move (Peace Corps 71). To remain in the countryside and commute to the city for work is impossible for many rural people.

The second option for rural entrepreneurs is to start a business in their own village. The first issue at hand would be how to obtain raw materials. Typically they would come from the city, in which case lack of transportation is once again a major setback. But let's say that all materials can be acquired without leaving the village, and the entrepreneur in question has the education, the business skills, and grasp of his/her trade to enable him/her to start up a local business (admittedly, this is being overly optimistic).

In spite of having all the right ingredients, the business may still fail because potential customers, fellow neighbors in poverty, do not have the means to purchase the goods or services offered (Wright 2000:38; Javier 2004:27). This scenario only addresses difficulties of *where* to run a business; other issues such as what kind of business, who will work there, and what to do if the business fails, are equally complex. The question becomes: with all the odds stacked against them, i.e. no business training or skills, restricted mobility, the possibility of flooding markets and risk of crises, to name a few, how can microfinance even be considered as an option for the poor? It would not take much to force a poor family into a debt they cannot repay.

The fact that so few families become poorer as a result of borrowing is the miracle of microfinance. Despite the odds against them, the poor have proven that access to microfinance does not make them more vulnerable, and instead, has an overwhelmingly positive impact on income and standard of living (Simanowitz and Walter 2002:20). Although not all participants in MFI programs see a dramatic increase in income, the incidence of a decrease in income is rare (Panjaitan-Drioadisuryo, Rosintan and Cloud 1999:6). Microfinance creates higher income for poor families that protects them against economic shocks such as a death in the family or a medical emergency (Johnson and Rogaly 1997:118). Problems such as business location can be solved through collaboration between village people and/or the MFI. Integrated MFIs, in cooperation with other organizations such as churches and NGOs, can provide training in basic education, management and accounting that enables the poor to run their business effectively and to compete with city businesses (Simanowitz and Walter 2002:29). Problems with transportation can be solved through teamwork in the village. If everyone

invests in a community truck, the vehicle can be used to transport goods and people to and from the city at very little cost to each individual person. An MFI may also find it in their best interest to invest in a vehicle for village use. If villagers, MFIs and other community organizations collaborate to work through problems, almost any obstacles can be overcome. Despite numerous challenges, the poor have proven that microfinance is indeed an option for them.

Section 2.5 Not Universal in Application

The fifth argument against microfinance is that it is not universal in application. It is said that microfinance cannot be utilized by the very young, the old, the sick, or physically or mentally handicapped (Versluysen 1999:225). Microfinance programs are also charged with excluding rural locations without infrastructure or access to markets, areas with a dispersed population, or communities that depend on a single economic activity (Parker and Pearce 2001). The most biting indictment against microfinance is that it requires the poor to be entrepreneurial (Versluysen 1999:224). Even in our own country it is abundantly clear that most people are not entrepreneurial. It would be naïve to assume that the poor are any different. Advocates of microfinance tend to promote the idea that all poor people are dynamic, ambitious businessmen and women just waiting for the chance to shine, if only they had access to credit. Critics argue that microfinance is exclusive and that most impoverished people are poorly educated, marginalized by society, and unlikely to have the entrepreneurial drive needed to establish a business

(Khandker 1998:152). Critics stress the need to find a more universal approach to poverty alleviation.

Though it is true that not all poor can benefit directly from microfinance, they can benefit indirectly. For example, if one woman has the skills and entrepreneurial spirit to start a business, her entire family can profit from her success. Microfinance does not exclude the young, the old, the sick and the handicapped, because those people are all part of a family. Especially in impoverished rural areas where everyone is related to everyone else, if one family member participates in a microfinance program and is successful, the benefits will extend to all members of the family, including those who cannot participate (Marcus, Porter and Harper 1999:9). In answer to the charge that microfinance excludes rural areas without infrastructure, although these areas have more difficulty implementing microfinance programs, there have been many MFIs that have successfully reached the rural population (Simanowitz and Walter 2002:39). As mentioned before, villagers, MFIs and other organizations can purchase a community vehicle or work together to come up with other solutions to the difficulties at hand. Though it is true that not all poor people are entrepreneurial, the achievements of one successful entrepreneur can spread benefits to many people (Simanowitz and Walter 2002:41). The family of the entrepreneur will benefit through an increase in household income, which translates into better health and nutrition, opportunities for higher education, and decrease in vulnerability to economic shock (Marcus, Porter and Harper 1999:9; Johnson and Rogaly 1997:118). A business is also likely to employ other village members, thereby generating an increase in employment. It may take only a few

entrepreneurs to improve the economic situation of an entire village. Therefore, it cannot be said that microfinance is exclusive and that only the entrepreneurial few will profit.

Section Three: Microfinance and Poverty Alleviation

In the year 2000, the United Nations drew up a list of Millennium Goals which aim to spur globalization and development and eradicate extreme poverty. Extreme poverty is defined as those living on less than \$1 a day (Simanowitz and Walter 2002:15). The UN Resolution adapted by the General Assembly states, “We will spare no effort to free our fellow men, women, and children from the abject and dehumanizing conditions of extreme poverty, to which more than a billion of them are currently subjected” (4). The seven Millennium Goals are as follows: 1) eradicate extreme poverty and hunger, 2) achieve universal primary education, 3) promote gender equality and empower women, 4) reduce child mortality, 5) improve maternal health, 6) combat HIV/AIDS, malaria, and other diseases, and 7) ensure environmental sustainability. These goals, which are to be achieved by the year 2015, are a monumental step in the direction of poverty alleviation (UN Homepage).

In 2002 Jonathon Murdoch and Barbara Haley, leading experts in the study of microfinance and its effect on poverty alleviation, were authorized to determine the impact that microfinance has on the realization of the seven Millennium Goals. In an extensive research paper entitled *Microfinance and Its Effect of Poverty Alleviation*, Murdoch and Haley conclude that “there is ample evidence to support the positive impact of microfinance on poverty reduction as it relates to [the first six of the seven]

Millennium Goals” (5). If microfinance can expedite the attainment of six of the Millennium Goals, it can be used as a valuable means to eradicate poverty. In fact, microfinance has been proven again and again to be an effective method of poverty alleviation (Murdoch and Haley 2002:5). Clients who participate in microfinance programs have enjoyed increased household income, better nutrition and health, the opportunity to achieve higher education, a decrease in vulnerability to economic shock, greater empowerment, and in some cases, the ability to completely lift themselves and their families out of poverty.

Section 3.1 Increase in Income

There is overwhelming evidence to demonstrate that families that participate in microfinance programs enjoy an increase in household income (Murdoch and Haley 2002:5; Simanowitz and Walter 2002:20). They also benefit from consumption smoothing and the ability to sustain gains over time (Khandker 1998:148; Murdoch and Haley 2002:5; Simanowitz and Walter 2002:23; Wright 2000). Several case studies have been conducted on the effect of microfinance on the incomes of the poor:

Joseph Remenyi and Benjamin Quinones, conducting a case study in Asia and the Pacific, concluded that:

Household income of families with access to credit is significantly higher than for comparable households without access to credit. In Indonesia a 12.9 per cent annual average rise in income from borrowers was observed while only 3 per cent rise was reported from nonborrowers (control group). In Bangladesh, a 29.3 per cent annual average rise in income was recorded and 22 percent annual average rise in income from no-borrowers. Sri-Lanka indicated a 15.6 rise in income from borrowers and 9 per cent rise from nonborrowers. In the

case of India, 46 per cent annual average rise in income was reported among borrowers with 24 per cent increase reported from non-borrowers (2000:8).

Elizabeth Dunn, in a case study of microfinance clients in Lima, Peru, reports “only 28% of clients live below the poverty line compared to 41% of nonclients” (1999). She also found the average income of households participating in microfinance to be 50% higher than the income of nonparticipating households (1999). The Save the Children foundation in London also confirms a 50% increase in household income (Marcus, Porter and Harper 1999).

In a case study in Bangladesh, Shahid Khandker finds that “microfinance participants do better than non-participants in both 1991/1992 and 1998/1999 in per capita income, per capita expenditure, and household net worth. The incidence of poverty among participating households is lower in 98/99 than in 91/92, and lower than among nonparticipating households in both periods” (2001:11).

Graham Wright, in his book entitled *Microfinance Systems: Designing Quality Financial Systems for the Poor*, provides a comprehensive analysis of the research on providing microfinance services for the poor:

- Hossain “Grameen Bank members had incomes about 43% higher than the target group in the control villages, and about 28% higher than the target group nonparticipants in the project villages”
- World Bank in collaboration with the Bangladesh Institute of Development Studies showed that the Grameen Bank not only “reduced poverty and improved welfare of participating households but also enhanced the household’s capacity to sustain their gains over time.”
- Khandra “noted higher rates of per capita income among MicroCredit programme borrowers compared to those who did not borrow”
- Chowdhury “asserted that women (and men) participating in BRAC sponsored activities have more income (both in terms of amount and source), own more assets and are more often gainfully-employed than non-participants”
- Mustafa confirmed this (above for BRAC) and noted that “members have better coping capacities in lean seasons and that these increased with length of membership and amount of credit received”

- Mustafa also noted an increase in assets of 112% for those who had been members for 48 months or more and increase in household expenditure of 28% (Murdoch and Haley 2002).

An Indonesian case study conducted by Kathleen Cloud, M. Rositan and D.

Panjaitan-Drioadisuryo reports that the income of microfinance participants increased by 112% and the income of 90% of those families increased enough to lift them above the poverty line (1999:6).

In 1996 the United Nations Children's Fund found evidence from a case study conducted in Vietnam, that 97% of borrowers significantly increased their household income between 1994 and 1996.

Simanowitz and Walter, in a research article entitled "Ensuring Impact", cite a case study conducted by CRECER, a Bolivian microcredit bank, that reads: "Increased income was reported by 66 percent of clients...Participants most commonly attributed this improvement to the expansion of their income-generating activity, reduced output costs as a result of buying in bulk or with cash, or the new activities of products made possible by access to credit and selling in new markets" (2002:23).

Overall, the evidence is overwhelmingly in favor of microfinance as a tool to increase household income, smooth consumption, and enable the poor to sustain gains over time. Microfinance enables many impoverished families to earn enough income to rise above the poverty line and is therefore an effective method of poverty alleviation.

Section 3.2 Better Nutrition

Microfinance makes an impact on more than just household income. Case studies indicate that microfinance has substantial effect on the nutrition and health of the poor,

especially for children (Wright 2000:31; Khandker 1998: 148). Integrated MFIs are known for their direct involvement in nutrition and health through provision of education on AIDS Awareness and classes on nutrition and hygiene (Year of Microcredit 2005:1). Indirectly, microfinance has a positive influence on nutrition and health because increased income through participation in microfinance programs invariably will lead to higher nutrition and greater access to health care (Simanowitz and Walter 2002:23).

Graham Wright, in his book *Microfinance Systems: Designing Quality Financial Services for the Poor*, concludes that:

Nutritional indicators also seem to improve where Microfinance institutions have been working. Hashemi and Morshed cite a study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies, which showed that the Grameen Bank not only 'reduced poverty and improved the welfare of participating households, but also enhanced the household's capacity to sustain their gains over time. This was accompanied by an increased caloric intake and better nutritional status of children in households of Grameen Bank participants (2000:31-32).

The Foundation for Credit and Community Assistance microfinance program in Uganda has seen 95% of clients engaged in improved health and nutrition practices for their children, compared to 72% of non-clients. Also, 32% of clients have tried at least one AIDS-prevention practice, as compared to 18% of non-clients (Year of Microcredit 2005:1). Similarly, in Bangladesh, a study conducted by Shahidur Khandker, confirmed that women's credit has a significant impact on children's health, especially girls (1998:148).

Simanowitz and Walter also confirm that “the establishment of reliable and regular income can create a significant impact in terms of ability to access food, healthcare, education, and other services” (2002:23).

Murdoch and Haley conducted an extensive investigation of the effect of microfinance on the realization of the United Nations’ Millennium Goals, the first of which is to eradicate extreme poverty and hunger. Their findings were as follows:

- **Children’s Diet.** Researchers from the Noguchi Memorial Medical Institute in Ghana (unpublished research by Dr. Margaret Armar-Klemesu, University of Ghana, Legon) conducted a dietary intake study of children of Credit with Education members and also non-participants. They investigated dietary intake of children 9–20 months old who were in the Ghana follow-up round of data collection. Dietary intake was assessed by the mother’s 24-hr recall of all breastfeeding episodes and all meals and snacks consumed by the child on two non-consecutive days. Mothers identified measures used to offer food to the children, how much was offered, and proportions consumed in reference to local measures and fist size. Samples of all foods reported were taken to the lab for calorie and nutrient content analysis using appropriate food composition tables. The study found that the dietary quality of the foods given to participants’ children was relatively higher. Also, the estimated caloric intake was significantly higher.
- **Children’s Nutritional Status.** Measurements of the same children in Ghana showed the nutritional status of participants’ one-year-olds—both weight-for-age and height-for-age—also significantly improved relative to the children of residents in control communities. For example, the percentage of participants’ children categorized as malnourished, based on height-for-age, decreased by eight percentage points between the baseline and follow-up periods, while the percentage of malnourished actually increased in control communities (2002:111-112).

These case studies show that microfinance can significantly increase the income of poor households, which translates into better nutrition and health for impoverished families. The nutritional benefits are particularly felt by children. The remunerations from increase in household income and better nutrition spill over into many other areas in which the poor are in need of help. The holistic impact of microfinance can create a deep and lasting impact on poverty alleviation.

Section 3.3 Higher School Attendance

Many poor children and adolescents do not have the chance to obtain an education because their parents cannot afford to send them to school. The costs of transportation and educational materials are too much for some impoverished families. Adolescents in particular are often forced to drop out of school to find a job to supplement the family income. Microfinance, by contributing to an increase in household income and better financial stability, enables poor families to bear the costs of sending children to school. MFIs are known for encouraging families to keep children in school and in some cases school attendance is mandatory in order to participate in the microfinance program (Murdoch and Haley 2002:113).

Two case studies, one conducted in Bangladesh by Shahidur Khandker and the other in Indonesia by D. Panjaitan-Drioadisuryo, D. M. Rosintan and Kathleen Cloud, conclude that microfinance has a significant and positive effect on education, especially in boys (Khandker 1998:148; Panjaitan-Drioadisuryo, Rosintan and Cloud 1999:8).

Graham Wright in *Microfinance Systems: Designing Quality Financial Services for the Poor* makes a comprehensive review of the latest studies on microfinance and education. In particular, his study focuses on Grameen Bank, the largest and most well-known microfinance institution. Wright concludes that:

When we take the crudest measure—those children over six years who have ever been to school—all of the girls in Grameen families have had at least some schooling, compared to 60% of the girls in the control group. Most of the Grameen boys (81%) have had some schooling, compared to just half (54%) of the control group boys. (NP)...The percentage distribution of children (11-14 years) achieving ‘basic education’ (pre-determined level of

mastery in reading, writing and arithmetic, as well as 'life skills') rose from 12.4% in 1992 (before the BRAC [microfinance] programme began in the area) to 24.0% in 1995 among the children of BRAC members. By comparison, only 14.0% of the children of those who had not joined BRAC achieved 'basic education'." (2000:33)

The Save the Children foundation of London authorized a research project in 1999 on microfinance and levels of education in children of participants. The investigation revealed that:

Improvements in school attendance or in provision of educational materials are widely reported. Invariably this related to increased household income. In Honduras, participants stated that participation in the credit and savings programme had enabled them to send several children to school at a time, and had reduced drop-out in the higher primary school grades...Where taking credit was enabling people to develop agriculture or other enterprises close to home and reducing the need to migrate for seasonal work, children's chances of attending school were greatly increased (Marcus, Porter, and Harper 1999:46).

Murdoch and Haley, in their research on microfinance and the realization of the second Millennium Goal, to achieve universal primary education, documented a study conducted by UNICEF, the United Nations Children's Fund. The study, accomplished in Vietnam, reports that 97% of the daughters of those who participate in microfinance attend school compared with only 73% of the daughters of nonparticipants. The study also concludes:

Since 1993, UNICEF has supported a number of microcredit schemes in poorer regions of Lower Egypt and in some urban slum areas...The condition for the women's loans is that all the children should go to school. This scheme, in an area with adequate access to basic education, showed that microcredit could reduce child labour and improve school attendance while at the same time improving the income levels of the participating families. It also showed that parents are willing to send their children to school once the economic condition of the family improves (2002:113).

The year 2000 report on Credit with Education programs, which mandate school attendance for the children of microfinance participants, states that "Education is critical

to the achievement of the 2015 target of reducing the incidence of extreme poverty by half. At a household level, educational status is one of the strongest influences on income and poverty. The lower the level of educational attainment, the greater the vulnerability to income-poverty” (Watkins 2000). The study extensively documents the effect of mothers’ education of child mortality and health:

Women’s education in particular is among the most powerful determinants of trends in public health and child mortality... improved access to education can help the poor to participate in markets on more equitable terms, improving the distribution of income in the process... The correlation between parental education and child mortality has been extensively documented. In almost all countries, child-death rates are inversely related to the level of maternal education. The more educated the mother, the healthier she and her child are likely to be. Comparative research focused on 33 countries during the 1980s found that each additional year of maternal education reduced childhood mortality by about 8 per cent. After controlling for socio-economic differences, one survey of 28 countries showed that mothers’ education was the single most important influence on child mortality, especially after the first year of life... Schools can provide a focal point for community health and nutrition efforts, including pre-natal care, immunization, oral rehydration therapies, control of respiratory infections, and vitamin supplementation..... Educated mothers are not only better able to gain information about health matters and nutrition: they are also far more likely to make use of preventative health-care services and to demand timely treatment... Even within low-income groups, maternal education is positively associated with better nutrition, partially compensating for other aspects of deprivation (Watkins 2000).

Microfinance contributes to increased income, consumption smoothing, the ability of households to sustain gains over time, better health and nutrition, and improvement in school attendance. All of these benefits are interconnected; the improvement of one will invariably have a positive effect on the others. The combined enhancement in all areas of life brings a marked increase in living conditions for the poor and a new message of hope for the eventual eradication of poverty.

Section 3.4 Women’s Empowerment

Microfinance can play a critical role in the realization of the third Millennium Goal, to promote gender equality and empower women. Currently, 70% of people in absolute poverty (living on less than \$1 a day) are women (Cheston and Kuhn 2002). In order to alleviate extreme poverty, women, who suffer the most, must be empowered to break free from their marginalized status in society. Microfinance can provide the economic opportunities that women need to control their lives. Poverty alleviation strategies that focus on empowering women not only improve the lives of women, but also positively affect entire families and communities. Studies show that when women are given greater autonomy over their lives and the lives of their children, living conditions invariably improve. This is mostly due to the fact that women are most apt to use household income to better the nutrition and educational opportunities of their children (Grasmuck and Espinal 2000:240). According to the World Bank, “societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a lower living standard of their people...overall, evidence is mounting that improved gender equality is a critical component of any development strategy” (Cheston and Kuhn 2002). World leaders are finally beginning to realize that poverty alleviation will only be achieved through the empowerment and economic improvement of women. Thus, microfinance is an integral component to new development strategies because it allows women greater autonomy and control over their economic well-being.

A case study of Sinapi Aba Trust, a microfinance institution in Ghana, was conducted in order to determine whether microfinance has an impact on women’s empowerment. The study shows that “running a successful business not only contributes

to women's improved welfare, it also contributes both directly and indirectly to their empowerment...the increase in working capital is particularly important for women's empowerment...in almost all cases, the increase in capital has given women more options and greater control over their businesses and their lives" (Cheston and Kuhn 2002).

The Trust Bank program of Sinapi Aba Trust has clearly contributed to the empowerment of women in a number of ways. Access to credit and business training has helped women expand and improve their businesses, leading to increased respect and decision-making power in the home and community. Advice and peer support has helped women manage their triple roles as mothers, wives, and businesswomen. Education and experience in leadership have helped women become more confident and capable leaders (Cheston and Kuhn 2002).

Freedom From Hunger also conducted a case study on the impact of microfinance on women's empowerment:

In both Ghana and Bolivia, there was evidence that access to the financial and education services had positively impacted women's self-confidence and status in the community. Participants in Ghana rated themselves significantly more confident than did non-participants that they would earn more in the future and that they could prevent their children from getting diarrhea and other illnesses. In terms of involvement in community life, participants in Ghana were taking on more active roles in community ceremonies, such as funerals, and participants in Bolivia were running for and holding offices in local governing bodies. In both countries, participants were significantly more likely to have given others advice both about practices for good health/nutrition and better business (Murdoch and Haley 2002).

The World Bank Global Learning Conference in Shanghai in 2004 confirmed the impact of microfinance: "Studies have showed that microcredit programs positively affect a woman's decision-making role, her marital stability, and her control over resources and mobility. The analysis establishes that a woman's contributing to her household's income is a significant factor towards her empowerment" (Reducing Poverty 2004:64).

The impact of microfinance on women's empowerment is clear and impressive. Because economic advancement of women is crucial to poverty alleviation, it can be deduced that access to financial services is also an integral component to the eradication of poverty. Women are traditionally treated as inferior to men because of lack of economic opportunity, authority over income generation, or participation in the public sphere. Microfinance enables women to gain access to all of these empowerment tools. Borrowing credit to start a microenterprise gives women control over household income and entry into the public domain, as well as provides them with economic and educational opportunities. When women have control over household income, children's nutrition, health, and education improve substantially more than when men control the income. It is becoming widely recognized that poverty alleviation occurs most often when women participate in microfinance programs (Cheston and Kuhn 2002; Simanowitz and Walter 2002:31-32).

Section 3.5 Lifts Poor Out of Poverty

Microfinance clearly contributes to a greater economic stability and well-being of poor families through increase in income, health, nutrition, education, and empowerment, but can microfinance actually lift families out of poverty? The answer is 'yes. Microfinance is proven to improve the standard of living of many families to such a degree that they are completely lifted out of their impoverished situation. Grameen Bank,

the largest and most renowned of microfinance institutions, with a membership of 2.4 million, reports:

[Over the course of a decade]...compared with 18% of non members, 58% of the Grameen borrowers had crossed over the extreme poverty line (defined by an annual income sufficient to provide each family member with a daily intake of 1,800 calories.) Of the 42% of the Grameen borrowers who failed to cross the poverty line, fully 60% had experienced a serious illness in the family—most commonly tuberculosis, typhoid, jaundice, and gastric ulcer. Grameen loans prevented these families from becoming destitute, but they were insufficient to overcome their crises (Wright 2000:32).

Another study by Shadihur Khandker in Bangladesh investigated the percentage of families who were able to lift themselves and their families out of poverty through access to microcredit. Khandker reports that “microfinance reduces poverty by increasing per capital consumption among program participants and their families. Poverty reduction estimates based on consumption impacts of credit show that about 5 percent of program participants can lift their families out of poverty each year by participating and borrowing from microfinance programs” (1998:60). The United Nations Human Development Report also confirms that an estimated 5% of microfinance participants can lift their families out of poverty every year (UNHDR).

The SHARE microfinance institution in Bolivia conducted a study on the economic situation of clients before and after borrowing. Upon joining the microcredit program, 64% of clients were classified as “very poor” and 36% as “moderately poor.” In March of 2001 research demonstrated that 7.2% of clients were still classified as “very poor,” 56.8% as “moderately poor,” and 36% were “no longer poor.” The SHARE program was able to lift one third of their clients above the poverty line (Simanowitz and Walter 2002:23).

Organizations such as the United Nations Development Program and the World Bank have compiled lists of statistics based on different case studies of the performance of microfinance institutions all over the world:

China's microfinance programs have been able to lift 150 million people out of poverty since 1990 (UNHDR).

[Two thirds of women who participate in BRAC microfinance programs (in Bangladesh) are able to break free of their previous levels of destitution. BRAC has served 1.4 million women since 1985] (Reducing Poverty 2004:65).

In Bangladesh 48% of households with access to microcredit rose above the poverty line (Year of Microcredit 2005:1).

Indonesia has seen borrowers of Bank Rakyat increase their incomes by 12.9% as compared to 3% increase in control groups. On the island of Lombok, average incomes of Bank Rakyat clients increased by 112% and 90% of households moved out of poverty (Remenyi and Quinones 2000).

In India, three fourths of the clients in the microfinance organization SHARE who participated in the programme for longer periods saw significant improvements in their economic well-being, and half the clients graduated out of poverty. There was also a clear shift in employment patterns of clients from irregular, low-paid daily jobs to diversified sources of earnings, increased employment of family members and strong reliance on small business (Year of Microcredit 2005:2).

The evidence is mounting to show that microfinance can be used as a means not only to increase household income, but to completely lift poor families out of poverty. Currently, it is estimated that about 30 million families participate in MFI programs and enjoy benefits such as increased income and decreased vulnerability to economic shock (UNDPR). Using the lowest available estimate, that 5% of microfinance participants are lifted out of poverty each year, microfinance enables 1.5 million families to completely break free from impoverished condition (Khandker 1998:60;UNDPR). More optimistic statistics show MFI programs that enable between 40%-90% of participants to lift themselves out of poverty (Remenyi and Quinones 2000; Year of Microcredit 2005:1). With microfinance becoming an increasingly popular program, it can be expected that MFIs will expand and develop progressively more efficient methodologies in order to reach millions more poor people. Microfinance is an integral part of the achievement of

the Millennium Goal, to reduce extreme poverty by half by 2015; therefore the next ten years in particular should show a dramatic expansion of microfinancial programs in the hopes that millions of poor will be empowered to break out of poverty.

Section 3.6 Integrated Programs

In order for microfinance to reach its full potential, countries must adapt a holistic approach to poverty alleviation. Microfinance alone cannot lift the poor out of poverty although the benefits of increased income spill into other areas. MFI programs should be coupled with other poverty alleviation interventions such as business training, medical care, and hygiene education. The poorest households in particular benefit from the integrated microfinance approach, since the poorest are more vulnerable to economic shock and also suffer from deprivation of basic needs (Reducing Poverty 2004:64). The United Nations Children's Fund (UNICEF), in a microfinance policy report, points out that to in order to reduce poverty there must be simultaneous advancement in income generation, nutrition, public health and higher education. "Improving access to education without parallel advances in public health will produce sub-optimal outcomes for an obvious reason: sick and poorly nourished children do not make successful students" (Oxfam 1999).

A study conducted by Save the Children in London concludes that:

Whilst more analysis is needed, there is some evidence that programmes tackling some of the broader aspects of poverty and powerlessness, such as illiteracy or poor health, as well as providing financial services are more effective in assisting the poorest people than minimalist programmes.

An important conclusion is that microfinance has a greater impact on poorer, more disadvantaged people, on social relations (including gender relations) and on children when it is combined with other activities. Typically these activities try to address the root causes of their disadvantage, such as discriminatory social attitudes as well as supporting them to develop more secure livelihoods, and reducing their vulnerability to discrimination or exploitation. Or they combine microfinance with training or services that enable participants to make the most of increases in income” (Marcus, Porter, and Harper1999:32)

In 1995 a case study was conducted by the United Nations Children’s Fund (UNICEF) in Nepal. UNICEF collaborated with the Small Farmer Development Program (SFDP) to provide impoverished areas in Nepal with both microcredit and basic social services in areas of health, nutrition, education, water, and sanitation. Not only did conditions of poverty improve markedly, but repayment rates were shown to be higher in areas where microcredit was combined with other interventions (Murdoch and Haley 2002). UNICEF collected the following information on the impact of their integrated program:

- School attendance of girls between 5 and 14 years of age was higher in families that received both credit and support for basic social services than it was in families that received credit alone and in families in areas where there was no SFDP (75%, 63% and 50% respectively);
- Infant mortality rates were lower in areas with a combined credit and basic social services approach than in areas where credit was extended without social services and in those where no credit was provided (113, 116 and 135 per 1,000 live births respectively);
- The average number of child deaths from diarrhea was reduced by 33 per cent in the areas where credit alone was provided and by 37 per cent where credit was combined with basic social service interventions; immunization coverage for BCG (tuberculosis), DPT3 (diphtheria, pertussis, tetanus), polio and measles was higher in areas of combined credit and social development interventions than in areas where credit alone was extended or where no program was operating at all (83%, 71% and 61% respectively);
- More women of reproductive age were immunized against tetanus and had greater knowledge of nutritional needs in areas where credit and basic social services were combined;
- The proportion of households with latrines was twice as high in areas where credit and basic social services were linked, compared with the areas where SFDP was not operating. In areas where UNICEF gave support, 70% of households built latrines after receiving SFDP credit compared with only 45% where only SFDP provided assistance;
- The percentage of households using tap water doubled (from 19 to 38% of households) in areas where SFDP extended only credit, but it rose by a factor of four when credit was linked with basic social services (from 9 to 36%) (Murdoch and Haley 2002).

Integrated programs allow microfinance to reach out to poor who otherwise could not participate in credit and loans. The integrated approach looks at poverty in a holistic perspective; there is not one cause, but many different factors that collectively result in a vicious cycle of extreme poverty. Through the parallel advancement of income and consumption smoothing, nutrition and health, education and school attendance, and empowerment and economic opportunity, microfinance opens its doors to everyone in an expression of inclusiveness and dedication to the people's cause.

Conclusion

Microfinance is an effective method of poverty alleviation. MFIs have developed many unique and innovative practices to account for the difficulties of providing credit to the poor. The use of village banks has enabled microfinance programs to reach areas with restricted mobility and lack of infrastructure. Trust and group lending practices encourage the poor to collaborate in mutual trust and friendship and to offer support for community loans and small businesses. Focus on female entrepreneurs allows marginalized women to gain access to the economic opportunities that they need to empower themselves. Qualified leadership assures that microfinance will continue its success and innovation in the critical years to come.

Research has shown that MFIs can and will reach the poorest of the poor by implementing integrated programs that address the diversified needs of destitute families. Increasing numbers of microfinance institutions are achieving financial sustainability and widening their outreach while still focusing on the neediest in society. Microfinance

allows women to gain autonomy and control over their lives and to enter the public sphere with skill and confidence. The benefits of microfinance are not only felt by those who directly participate, but by their families and entire communities as well. Some of these benefits are increase in household income, consumption smoothing, capacity to sustain gains over time, better nutrition and health, higher education and school attendance, female empowerment, and the ability to completely break free from the bonds of extreme poverty.

Microfinance has achieved its success and popularity through its recognition of the poor as agents of change. MFIs do not dole out aid packages, they present the poor with the opportunities to advance themselves. A true poverty alleviation program fights poverty by addressing the social, political, and economic constraints that keep the poor in an oppressed condition and by implementing tactics specified to overcome those constraints. In most parts of the world, the poor are not given a voice in any sphere whether political, social or economic. They are deterred from holding political office, segregated to pariah status in society, and restricted from access to economic opportunity. Any poverty purging strategy that aims for marked reform needs to recognize that the poor know how to help themselves far better than aid agencies and social organizations. Microfinance gives the power to the people. Clients are given opportunities for economic advancement that will eventually lead to empowerment in social and political spheres. Living conditions are markedly improved along with self-esteem and sense of control. Impoverished people with credit are not dependent on aid, the responsibility rests with each individual family to work hard and to enjoy the overwhelming pride that comes with well-deserved success.

Microfinance is not a miracle solution. It is not for everyone and is not solely responsible for poverty alleviation. Microfinance must also be coupled with other social programs that are flexible to meet the diverse needs of destitute families. An MFI should also be sure to incorporate the customs and practices of the people into its programs. But through a holistic approach to fighting poverty and a recognition of the importance of the poor as agents of change, the battle against extreme poverty can be fought and won. Globalization will not be allowed to expand the gap between the rich and the poor. Affluent countries cannot continue to dump aid on needy nations; developing countries must not be permitted to ignore the needs of their impoverished population.

Let the oppressed people speak. Let them change their own lives.

Listen to them.

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