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Is Microcredit reaching the Poorest and contributing for the reduction of Poverty?

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Abstract

The purpose of this essay is to understand why Microcredit Institutions, also known as MFIs, spend billions of dollars trying to end poverty by making small loans to impoverished entrepreneurs. MFIs argue that microcredit mitigates market failures, spurs micro-enterprise growth, and boosts borrowers well-being, consequently leading to a massive wave of theoretical speculations, often drawing upon the latest theoretical advances in economics and finance.

This essay draws on the existing literature to synthesize the available evidence in a way that allows a comprehensive knowledge of some basic empirical facts. Overall, the results suggest that the expansion of the microcredit industry and high loan repayment ratios is raising questions about the real impact on the client entrepreneurs. The spread of consumer microcredit and uncontrolled growth of microfinance led to over-lending without adequate check and balances. As a result, borrowers cannot repay their loans, so they end up using the new loans to repay the old ones leading to over-indebtedness and associated stress and critique of microcredit.

Keywords: Economic Development; Entrepreneurship; Microcredit; Microfinance; Poverty

Resumo

O objetivo deste ensaio é perceber porque é que as Instituições de Microcrédito, também conhecidas como IFMs, gastam milhões de dólares a tentar eliminar a pobreza através de pequenos empréstimos a empreendedores empobrecidos. IFMs argumentam que o microcrédito mitiga as falhas do mercado, estimula o crescimento das microempresas e estimula o bem-estar dos mutuários. Consequentemente, uma onda maciça de especulações teóricas foi levantada, recorrendo aos mais recentes avanços teóricos em economia e finanças.

Este ensaio baseia-se na literatura existente para sintetizar as evidências disponíveis de uma forma que permita um conhecimento abrangente de alguns fatos empíricos básicos. No geral, os resultados sugerem que a expansão da indústria do microcrédito e os altos índices de pagamento de empréstimos, levantam dúvidas sobre o real impacto que se verifica nos clientes. A disseminação do microcrédito para o consumidor e o crescimento descontrolado das microfinanças levaram ao excesso de empréstimos sem verificação e equilíbrio adequados. Como resultado, os mutuários não conseguem pagar os seus empréstimos, acabando por usar novos empréstimos para pagar os antigos, o que leva ao superendividamento e à tensão e crítica associadas ao microcrédito.

Palavras-chave: Desenvolvimento Económico ;Empreendedorismo; Microcrédito, Microfinanças; Pobreza

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List of Acronyms / Abbreviations

CGAP	Consultative Group to Assist the Poor
CPS ASEC	Current Population Survey Annual Social and Economic Supplement
FGT	Foster-Greer-Thorbecke
FGT P2	Foster-Greer-Thorbecke P2
HI	Headcount Index
MCS	Microcredit Summit Campaign
MFIs	Microfinance Institutions
MIX	Microfinance Information Mix
MNDGs	Millennium Development Goals
NABARD	National Bank of Agriculture and Rural Development
NGO	Non Governmental Organization
PG	Poverty Gap
UNDP.	United Nations Development Programme
WHO	World Health Organization

Chapter 1 Introduction

"If we are looking for one single action which enables the poor to overcome their poverty, I would go for credit. [...] If we come up with a system which allows everybody accesses to credit while ensuring excellent repayment - I can give you a guarantee that poverty will not last long."

Mohammed Yunus (1994)

In order to address credit constraints and enable economic activities and development, microcredit has been proposed as a useful tool for some authors (Maes & Reed, 2012; Yunus, 1998). Contrary to popular belief, poor people need and use a variety of financial services, including deposits, loans, and other services. They use this services for the same reasons as anyone else: to seize business opportunities, improve their homes, deal with significant expenses and cope with emergencies. For a long time, the poor have been using these providers to help with their financial needs, mostly because most poor people lack access to banks and other formal financial institutions. All of this services are available in the developed countries, but only to a fraction of the society. The financial services often available to the poor are limited concerning cost, risk, and convenience. Microfinance institutions (MFIs) appeared with this purpose, (to make individual microcredit loans directly to villagers, micro-entrepreneurs, impoverished women, and low-income families) and had expanded rapidly over the last 10 to 15 years, operating as nonprofit and non-governmental organizations. These organizations developed credit techniques appropriate to these clients: instead of demanding collateral, they reduced risk through group guarantees, family budgeting, and small initial loans to test clients. Action since then has shown that the poor repay the full cost of providing them: access is more important to them than cost. This institutions also concluded that the poor could be served profitably, on a long-term basis, and in some cases on a large scale (Littlefield & Rosenberg, 2004).

There is no doubt that well-run MFIs can outperform mainstream commercial banks in portfolio quality.

However, MFIs are enjoying the high repayment rates and expanding their lending to a growing portfolio of customers and delivering strong returns. They have gained market share, and a darker side of microcredit has emerged, bringing closely related problems into focus.

To end the controversy in the theoretical domain, the academic community developed empirical studies investigating the effects of microcredit. While some studies present positive results of microcredit (Khandker, 2005; Khandker, Samad, & Khan,1998; McKerman, 2002), many others have reported modest, or even negative impact on financial outcome (Banerjee et al. 2009; Coleman, 1999; Stewart, Dickson & Wet, 2010). However, the current lack of conclusive evidence in this body of literature still raises questions about the capacity of microcredit to improve the financial standing of enterprising individuals.

The primary motivation to write this essay comes with the understanding that poverty is still a massive problem in our society. After reading an article in The Guardian-Journal about foreign aid and the corruption of NGOs (Lee, 2014), it was clear that as individuals living in a developed society, is our responsibility to understand the real causes that lead to poverty, so the right measures can be enlisted to reduce it effectively. Considering this, the research question is related to the extent to which microcredit can be considered a system powerful enough to relieve poverty and create innovative and value-added businesses. The knowledge of the real effects of microfinance in developed countries is important since it has numerous implications at economic, social and political levels. By understanding, if microcredit can contribute to the economic and social development, organizations can develop action plans with the proper measures to foster economic and achieve the goals of reducing poverty and consequently improve quality of life.

1.1 Methodology

The methodology chosen to was the documentary analysis and the case study. This approach provides greater familiarity with the problem and gives a comprehensive knowledge of the literature of the field. The essay is then divided into three parts. Part one: gathers the theoretical aspects of the theme: the central concepts, conceptualization, and measurements of poverty. Part two: focus on the real repercussions of microcredit and the real effectiveness in the poverty households (impact on health, education and women empowerment). And part three, focus on the case study of KIVA, a non-profit organization chosen to emphasize the real life situations and impact of such services.

Chapter 2 Literature Review

This segment will begin by defining the notions of poverty, poverty conceptualization, and poverty measurements. It will explore to what extent this concept may be related to microfinance and micro-entrepreneurship, and how can they influence each other. The variations and problems of microcredit will, therefore, be explained, making the connection between them and the impacts on different sectors, such as health and nutrition, education of children and women's empowerment. Towards these goals, are provided a synthesized review of over 50 critically- reviews articles that address at least one component of Microcredit. The genre of these articles includes economics, international development, public policy, law, statistics, among others.[1]

Banerjee and Duflo describe in their book "*Poor Economics,*" the benefits as well as flaws of microcredit. In the argument for microcredit, the authors cite the general belief of Mohammad Yunus, founder of the Grameen Bank, who believes that everyone with the right opportunity can become a successful entrepreneur. Banerjee and Duflo also argue that microcredit face two big problems: the problem that many of the businesses operated by the poor are small, and also that these small enterprises – microenterprises – do not make much money.

[1] Altought were reviews over 50 articles, not all are referred in this essay. An annotated bibliography of all articles can be found at the end pf the essay.

A significant percentage of the businesses operated by the poor have no paid staff, as well as few corporate assets, and in the end, they end up making almost no money. This makes them a poor job creator. Although some businesses have high marginal returns, (the authors give Xu Aihua, a successful Chinese businesswoman, as an example, who with the help of microcredit, managed to build a large business) they concede that Xu's case is unique Microcredit is difficult for the majority of poor people who borrow to expand their business. The authors also establish that businesses that are granted with a more significant investment do not necessarily make more profits than the ones with less investment. A business owner needs to make important decisions before making money out of their business, and it is difficult for the poor to reach such goal because most microfinance institutions (MFIs) do not lend so much money (Banerjee and Duflo,2011).

Also, the lack of management skills to grow a more significant business, (consideration has to be given to the fact that most poor people do not have the necessary education or experience to understand or manage even low-level businesses activities) makes the poor more vulnerable and afraid to risk what little they have.

When micro entrepreneurs realize that they will not be able to make much money, they lose commitment. Studies found that a lack of enthusiasm affects the quality and growth of a business more than a lack of business acumen (Tan,2016). However, impoverished clients themselves keep valuing microcredit very highly, as evidenced by their strong demands for this services. Their willingness to pay the full cost of those services and their hope to have access to future loans shows that they believe that microcredit can deliver sustainability. However, why has this tool not yet had the deserved and appropriate expansion? Is it an institutional problem? Could it be political? Could it be for reasons of constraints on the distribution of wealth? Banerjee and Duflo declare that although microcredit has been influential in helping the poor survive, will not be a solution to global poverty. The solution must include a broad list of empowering interventions and changes. Without these conditions, microcredit by itself works will only for a limited familiar set of activities such as farming, livestock, petty trading and rearing(Pollin,2007).

2.1. Understanding Poverty:Conceptualization and Measurement Indicators

2.1.1 Conceptualizing Poverty

The word "poverty" and its adjective "poor" represents an ancient concept which expresses social differences between man and man. It was coined long before the social sciences came up with the notion of social stratification. The term "poverty" is generally used as if it is meaning is clear, but that is not always the case. Poverty is a vague and value-loaded term, which differs in denotation by the culture and economic development. In the current literature dealing with social stratification, more precise terms such as the "lower-class" or the "blue-collar class" have gained currency, but they refer to a different classificatory system which is not interchangeable with "the poor." (Kellen, 1996; Shostak & Gomberg, 1964).

These words include a specific type of the poor, but exclude others. The term "poverty" is defined as:"…the state or condition of having little or no money, goods, or means of subsistence." (Random, 1969) or: "…to a position of being in want of something that is needed, desired or generally recognized as having value…" (Valentine, 1968). This implies that there are variables degrees of poverty depending upon different states or conditions of the poor. It follows, however, that the essence of poverty is inequality or some degree of deprivation. There has been, in fact, progress on reducing poverty over the past years. The world attained the first Millennium Development Goal target—to cut the 1990 poverty rate in half by 2015- (World Bank, 2018). However, even though the progress is evident, the number of people living in extreme poverty globally remains unacceptably high (World Bank, 2018). The goal of eliminating extreme poverty by 2030—which is likely to become more difficult as we approach more closely to it—might not be achieved without accelerated economic development or reductions in within-country inequalities, especially among those countries with a massive influx of poor people. In other words, poverty can be reduced through higher average growth, a narrowing in inequality, or a combination of the two. Achieving the same poverty reduction during a slowdown in growth, therefore, requires an equal income distribution. To reach those goals, efforts to faster growth need to be complemented by equity-enhancing policies and interventions.

2.1.2 Measuring Poverty

To fight poverty, we must be able to measure it. Poverty is multidimensional, and it is a hard reality that varies from one nation to another. We begin by creating a measure of well being, and this will show us the differences in the quality of life across a population. Well-being comes from many different factors: What and how well we eat; The things we acquire and use on a daily basis; Whether we go to school or not or if we have access to health care when we are sick. All of this factors contribute to the measurement of quality of life. Income and consumption are two broad categories that do not evaluate all of the dimension of poverty but are useful indicators of well being. To collect this information, a country will survey different segments of the population, and from the collated data, a range of consumption and income can be created (CPS ASEC, 2016). People with the highest well resulting usually enjoy many good and services in a wide variety of forms, while those with the lowest well-being results have access to limited goods and services. To compare this financial data values are usually accredit. There is a point at which the level of income and consumption became insufficient to support a good quality of life.

Investigators use statistical methods to define that point, which is called the poverty line. The poverty line is used to divide the poor from the non-poor. People in poverty are those whose levels of income or consumption is not enough to cover a minimal amount of goods and services. There is also a point that represents the minimal food consumption that can sustain life, and that is known as extreme poverty. The extreme poverty or the absolute poverty line is also used to understand and analyze economic development. For example, if there is an increase in income levels in a society, even though this increase is distributed homogeneously amongst the population, the percentage of poor people calculated with absolute poverty lines will decrease. One of these absolute lines that are widely used fixes a dollar per capita a day as the value of minimum resources needed for a person not to be considered poor (Angelsen & Wunder,2006). This line can be used in a world context with the implication therefore that any person living with less than one dollar a day is poor (Angelen & Wunder, 2006).

The situation will always differ from one country to the next because the circumstances are different from country to country, but the process of measuring poverty is consistent. However, how do we measure how many people live in poverty? When we play out the population of a country, we see what percentage they represent of the country entire population. Another crucial point that we cannot forget is inequality. Despite the substantial progress in promoting prosperity and reducing poverty, the world continues to suffer from substantial inequalities. For instance, the most impoverished children are four times less likely than the wealthiest ones to be enrolled in primary education (UNICEF, 2016).

2.1.3 Poverty Measurement Indicators

The measurement of poverty, inequality, and vulnerability are essential for various reasons:
Subjective purposes (to know what the current situation is);
For analytical purposes (to understand the factors that are determining this situation);
For policymaking purposes (to layout interventions best adapted to the problems);
And for control and evaluation purposes (to assess the effectiveness of current policies and to determine whether the situation is improving) (Coudouel, Henyschel & Wodon, 2001).Indicators of poverty should — as the word indicator suggests — indicate about a person's or households' level of living standard, income and about the social conditions of the poor. Beside monetary indicators, also indicators like "being a single parent," "being disabled" or "being dependent on public transfers," etc can be objective. (Felice, 2005). The concept of poverty implies that households or individuals are prevented from accessing a set of goods and services that are fundamental to maintain a decent life in the society in which they are inserted. Poverty is a concept intrinsically linked to welfare, and there are many ways in which one can try to measure welfare. The practice of measuring welfare via consumption and income has a long tradition in economics (Greeley,1994).

These alternative notions of welfare play an essential role in academia and policy, and it is necessary to bear in mind that they are interrelated. Many of these concepts indirectly enter the methodology used by the World Bank to measure poverty, for example, by helping set the poverty lines against which monetized consumption is assessed. On April 20, 2013, the Board of Executive Directors of the World Bank adopted two ambitious goals: end extreme poverty globally and promote shared prosperity in every country in a sustainable way (World Bank, 2016). Sometimes indicators of vulnerability are used as proxies for poverty indicators. Here it is vital to consider the degree of correlation. Even if both poverty and vulnerability are often related, they are not the same. Poverty is related to deprivation, while vulnerability is a “function of external risk, shocks, stresses or defenselessness (...)” (Lok 1995).

When choosing poverty indicators, the preponderance of poverty is also significant. Indicators are different for local poverty and poverty is a widespread phenomenon across a country as is present in the next table (Table 1) that illustrates the world and regional poverty in 2013.

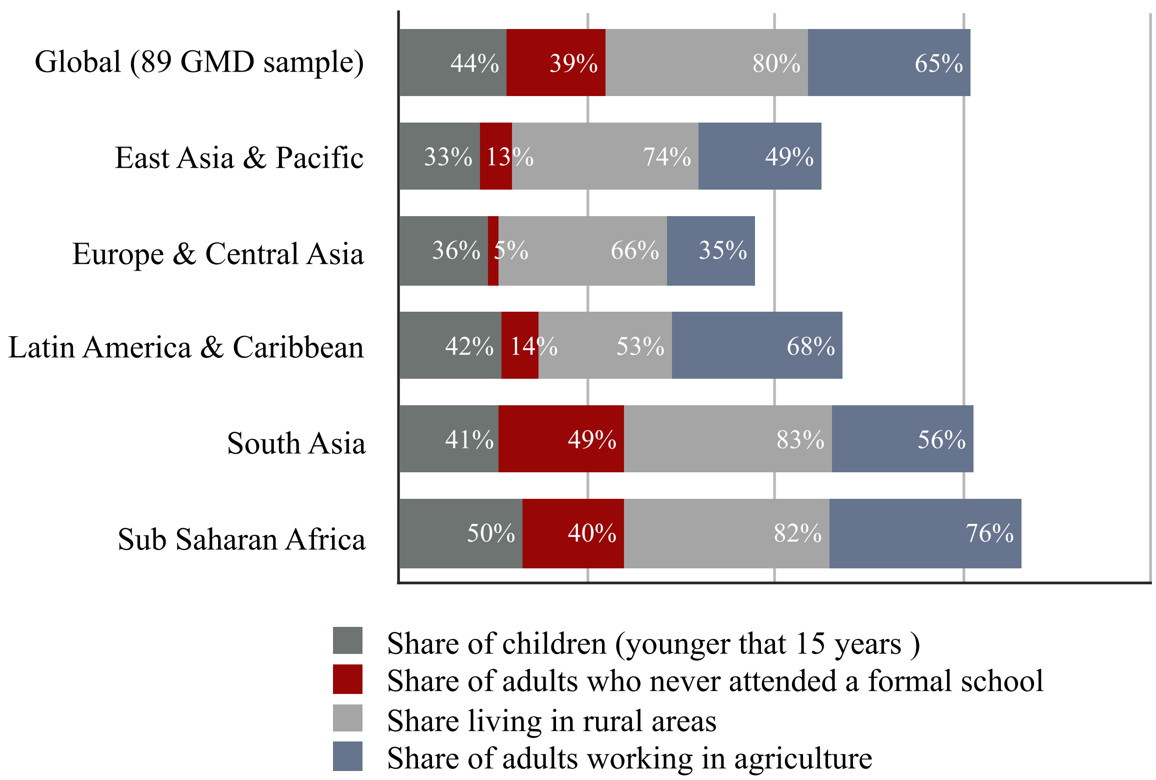
Table 1 World and Regional Poverty Estimates

Region	Headcount Ratio (%)	Poverty Gap (%)	Squared Poverty Gap (%)	Poor (millions)
East Asia and Pacific	3.5	0.7	0.2	71.0
Eastern Europe and Central Asia	2.3	0.6	0.3	10.8
Latin America and the Caribbean	5.4	2.6	1.8	33.6
Middle East and North Africa	-	-	-	-
South Asia	15.1	2.8	0.8	256.2
Sub-Saharan Africa	41.0	15.9	8.4	388.7
Total (six regions)	12.6	3.8	1.8	766.6
World	10.7	3.2	1.5	766.6

Source: World Bank,2013

Poverty profiles are also necessary because they define the characteristics of the poor. These profiles draw a quantitative and qualitative picture of the poor. In the next figure (Figure 1), the numbers reveal that the global poor are predominantly rural, young, not educated, and live in larger households with more children. 80 percent of the worldwide extreme poor live in the rural area; 65 percent work has as activity, agriculture; 44 percent are 14 years old or younger, and 39 percent have no education at all. The data also confirm wide regional variations in the distribution of the poor across these characteristics. Thus, poverty profiles can be seen and are used as analytical tools. They provide information that can answer: Who are the poor? Where do they live and what are the main characteristics of their poverty? Moreover, why are they poor? Poverty profiles give the possibility to analyze specific sub-groups within a society. Such profiles can give a perception of the poverty situation but also can indicate poverty trends. Therefore, poverty profiles provide enough data about the extent, depth, and severity of poverty. Consequently, they can be guides for poverty assessment as well as for poverty reduction strategies (Felice,2005).

Figure 1 Profile of the Poor, by Characteristics and Regions, 2013



Source: Adapted fromWorld Bank,2016

Chapter 3 Microcredit and Micro-Entrepreneurship

"(Microcredit) is based on the premise that the poor have skills which remain unutilized or underutilized. It is definitely not the lack of skills which make poor people poor….charity is not the answer to poverty. It only helps poverty to continue. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Unleashing of energy and creativity in each human being is the answer to poverty."

(**Muhammad Yunus, 2003)**

Adam Smith's in The Wealth of Nations discussed the appeals of capitalism and laissez-faire politics as the solution for resolving the differences between rich and emerging countries and ultimately between people. Since then, scholars have wrestled with the question, is there a cure for poverty? According to the most recent studies, in 2013, 10.7 percent of the world's population lived on less than US$ 1.90 a day, compared to 12.4 percent in 2012. That is down from 35 percent in 1990; Nearly 1.1 billion people have changed out of extreme poverty since the 90's. In 2013, 767 million people lived with less than $1.90 a day, down from 1.85 billion in 1990; (World Bank, 2018). And millions more lack access to essential amenities such as clean water and resources including a primary educational system. Despite some developmental advancement, poverty remains a crucial area of study. Economists and policy analysts have long sought to determine the cause of poverty especially in underdeveloped areas around the world and thereby created a successful method for eliminating it. One solution that has recently gained attention particularly in the context of developing economies is the concept of Microcredit. Microcredit is a method of loaning credit to the impoverished and thus enabling them to become self-reliant. The basic premise of microcredit involves lending small amounts of capital to the poor and landless to facilitate self-employment and entrepreneurship.However, the increasingly institutionalized aspect of the field required the introduction of precise terminology. (Microcredit Summit,2012).

The Microcredit Summit adopted the following definition: “Microcredit is a program designed to extend small loans to impoverished people for self-employment projects that generate income, allowing them to care for themselves and their families.” Some of the defining criteria encompass (The Microcredit Summit,1997):

- Size (loans are micro, i.e., very small in size);
- Target users (micro-entrepreneurs and low-income households utilization);
- The use of funds (income generation and enterprise development, but also for community use (such as for health/education);
- Terms and conditions (most terms and conditions for microcredit loans are flexible and easy to understand, and suited to the local conditions for the community).

In essence, microcredit aims to provide means for people to achieve self-reliance. Microcredit, an integral part of microfinance, has become one of the most prevalent poverty alleviation methods especially in developing regions. Microfinance is the umbrella term which includes all financial aspects including, but not limited to banking, investment, and insurance. For most development specialists and economists, however, the terms microfinance, microcredit, and microenterprise are used interchangeably to describe financial activity at the minimal and micro level(Abe,2003). The literature in this field also points to issues that may decrease the effectiveness of microcredit, such as a lack of profit-generating potential of the financed ventures (Bradley et al., 2012); a lack of entrepreneurial skills (Evers & Mehmet, 1994); and high interest rates (Pretes, 2002; Webb et al., 2013). Overall, it is expected that microcredit availability to increase a poor person's capability to start, maintain and grow a business, and to navigate it to a profitable level successfully. This should be especially true in deprived contexts where financing alternatives either do not exist or are even more expensive due to high interest rates charged by informal moneylenders.

3.1 Grameen Bank

Muhammad Yunus founded the Grameen Bank in 1983, in an attempt to combat the extreme poverty he witnessed in Bangladesh.
The Grameen Bank fixate on lending only to the poor, or to groups that had previously been denied access to credit, for being considered to be high-risk borrowers with a high probability of default. (Eriksson,Lenning &Tivedal,2017). These loans, for as much as $80, were given to people for income and housing activities, without the need for any form of guarantees. Instead, the bank used a kind of peer pressure to ensure that each person acts in a fiscally responsible manner. Each borrower was required to join a group of five from the community who also needed loans. These borrower groups capitalize on the idea of social capital and the notion that each of these poor communities had specific links and modes of behavior that would encourage people to repay their loans. Interest rates were kept very low , and the Grameen Bank has now over 1500 branched in Bangladesh and lends to millions of borrowers. However, controversy in the theoretical domain leaves the academic community in doubt about the effects of microcredit on the development outcomes for the microcredit recipients.

3.2 Microcredit Around the World

There has been a constant debate between microfinance supporters and opponents. The main question is: Can microcredit lift people out of poverty? Many advocates have long painted a picture that yes - often supported by individual success stories - in which families escape poverty when they receive microcredit. It is believed that women, in particular, benefit when access to credit is helping them to become economically and socially more independent. However, doubts have arisen about the ability of microcredit to improve the living standards of these people. Is necessary to find substantial evidence. To fill this gap, some research teams across the world started randomized evaluations to precisely measure the real impact of access to microcredit on borrowers and their families.

Studies were set up in Bosnia and Herzegovina, Ethiopia, India, Mexico, Mongolia, Morocco, and the Philippines(European Bank, 2015). The research took place in both urban and rural areas and evaluated both individual liability and joint liability (group) loans. As the number of clients served increases, so does the number of institutions established to assist them. Since its inception, microcredit has spread through different parts of the world. With Bangladesh, a third world country leading the way, it has gained popularity in other regions of the world (Morduch,2005). However, only a select few are on a scale as large as the Grameen Bank in Bangladesh involving a reach of millions of people as loans given to individuals generally incorporate their families as well. The following table (table 2) illustrates the size of institutions and most impoverished clients served.

Table 2 The Number and size of Microcredit Institutions and Poorest Clients

Size of Institutions (in terms of poorest)	Number of Institutions	Combined Number of Poorest Clients	% of Total Poorest
1 million or more	13	40,267,670	29.28
100,000-999,999	64	17,095,196	12.43
10,000-99,999	361	10,877,810	7.91
2,500-9,999	558	2,731,044	1.99
Fewer then 2,500	2,648	1,470,448	1.07
Networks	8	65,105,273	47.33

Source: Microcredit Summit Campaign Report 201

Microcredit loans are less pervasive in more developed regions compared to developing areas. The following table (table 3) illustrates the number of recipients around the world. The highest concentration is overwhelmingly in Asia followed by Africa and Latin America.

In contrast, developed countries represent a mere fraction of total recipients although the scope and reach are steadily increasing within the unique context of a developed economy. Of the 3,652 microfinance institutions that have reported since 1998, 1,009 are in sub-Saharan Africa, 1,746 are in Asia and the Pacific, and 647 are in Latin America and the Caribbean.

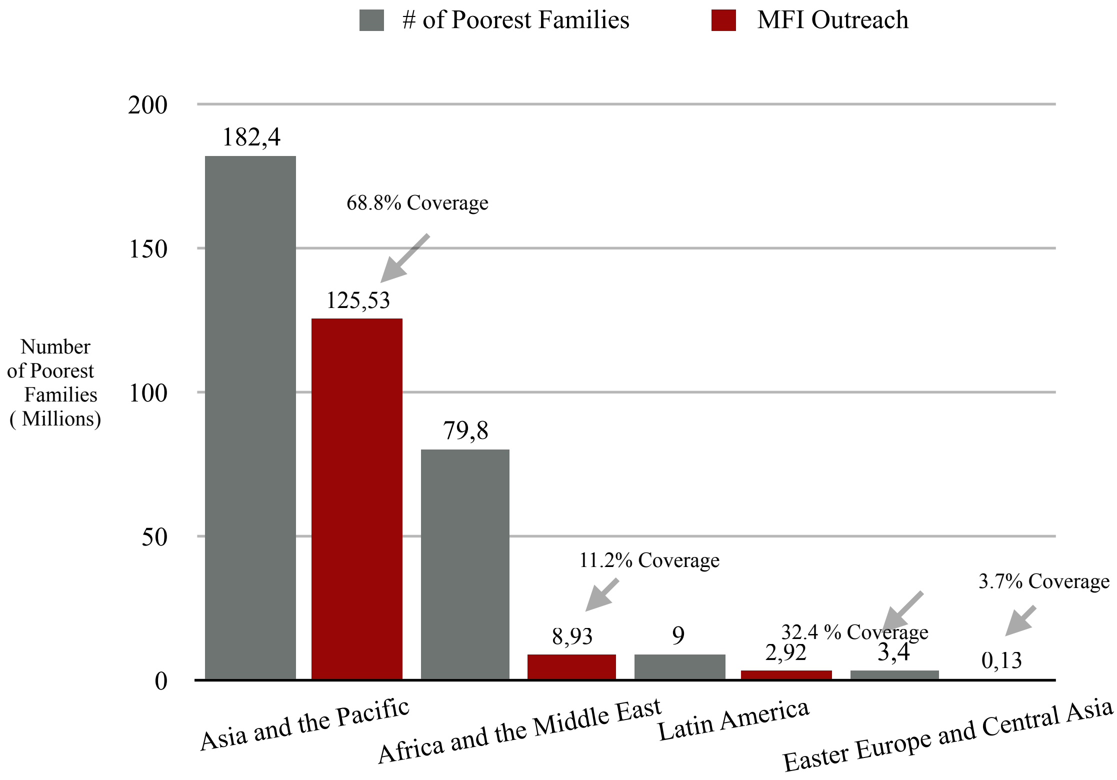
Table 3 Regional Breakdown of Microfinance Data

Region	**Nº of Programs reporting**	**Nº of total clients in 2009**	**Nº of total clients in 2010**	**Nº of poorest clients in 2009**	**Nº of poorest clients in 2010**	**Nº of poorest women in 2009**	**Nº of poorest women clients in 2010**
Sub-Saharan Africa	1,009	10,776,726	12,692,579	6,360,861	7,248,732	3,935,808	4,783,256
Asia & the Pacific	1,746	156,403,658	169,125,878	117,178,142	125,530,437	97,385,541	104,752,430
Latin America and the Caribbean	647	12,257,181	13,847,987	2,834,742	2,919,646	1,935,685	2,363,100
Middle East and North Africa	91	4,552,387	4,290,322	1,492,322	1,680,181	1,217,113	1,165,358
Developing World Totals	**3,493**	**183,989,952**	**199,957,179**	**127,866,067**	**137,378,996**	**104,474,146**	**113,064,144**
North America & Western Europe	86	148,628	155,254	109,318	41,809	56,651	12,214
Eastern Europe & Central Asia	73	5,996,500	5,202,069	233,810	126,636	163,318	62,294
Industrialized World Totals	159	6,145,128	5,357,323	343,128	168,445	219,969	74,508
Global Totals	**3,652**	**190,135,080**	**205,314,502**	**128,209,195**	**127,547,441**	**104,694,115**	**113,138,652**

Source: Microcredit Summit Campaign Report 2012

The next figure (Figure 2), shows the relationship between the number of families living in absolute poverty in each region and the number of most impoverished families reported that had access to a microloan in 2010.

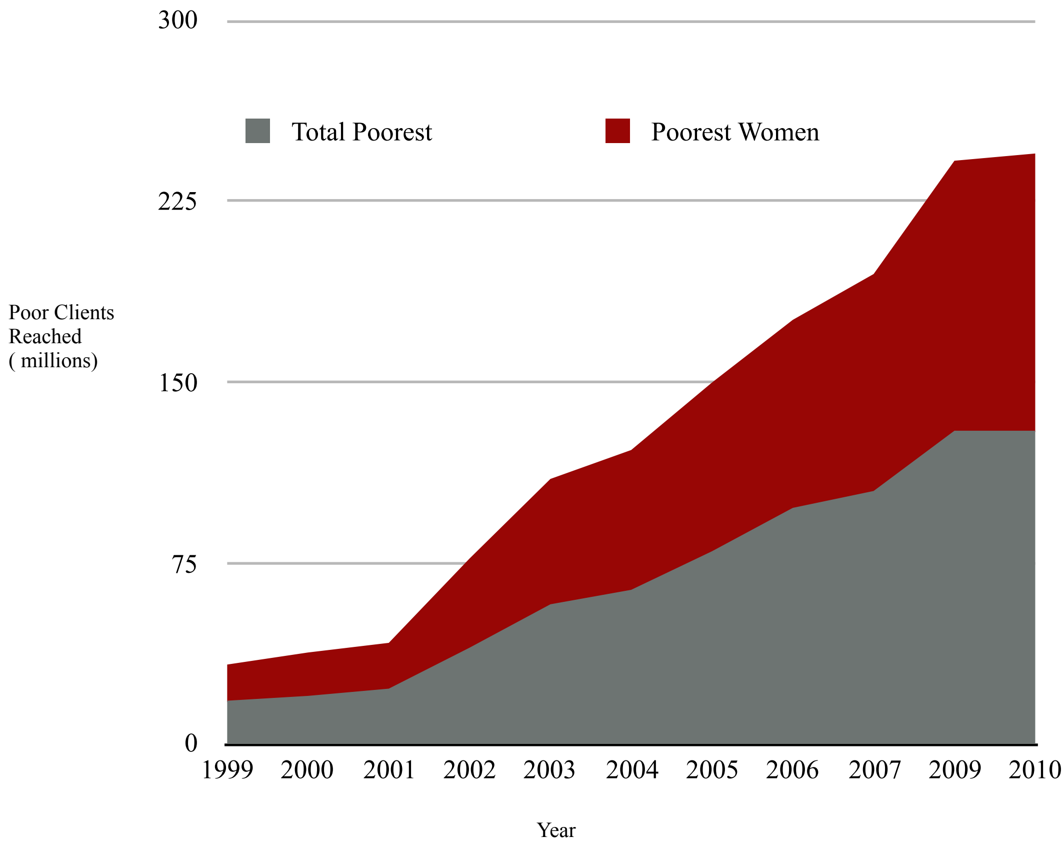
Figure 2 Regional Breakdown of Access to Microfinance



Source: Adapted from Microcredit Summit Campaign Report 2012

Of the 137.5 million poorest clients reached at the end of 2010, 82.3 percent (113.1 million) are women. The growth of very poor women reached has increased from 10.3 (in1999) to 113.1 million at the end of 2010. This is a 1,001 percent growth in the number of poorest women reached from December 31, 1999, to December 31, 2010. The increase represents an additional 102.9 million poorest women receiving microloans in the last 11 years. Figure 3 shows the growth of most impoverished women reached concerning the total number of poorest people reported as receiving microloans in the previous 11 years.

Figure 3 Growth of the Number of Poorest Women Reached in Relation to total Poorest People Reached



Source: Adapted from Microcredit Summit Campaign Report 2012

3.3 Micro-Entrepreneurship

For the poor to rise from poverty, they need to become micro-entrepreneurs and take charge of their life. The free market has not figured out the problem because entrepreneurship requires capital, social capital and human capital. This also demands social innovation. This means that new forms of social relationships are needed to overcome financial and social exclusion and create empowerment (Moulaert et al. 2013). This requires an end to the power and control of the conservative forces that would prefer to continue with this system, perpetuating exclusion and poverty, which are ultimately advantageous to this group (Moulaert et al.2013).

Microcredit is an example of social innovation because it is an initiative taken by the actors to offer new answers to social problems (social and financial exclusion, poverty) and a device capable of providing services that allow the construction of an equal society and better levels of quality of life. (Assogba, 2007; Coucoro, 2001). When given microcredit, some of these people use the funds to begin their venture, and sometimes, it ends successfully with the person getting out of poverty (Cloutier, 2003).

Seeing some of the success cases proves that there is a possibility that we can take some percentage of the poverty out of third world countries. This could be something that defines the future of the world and makes impoverished people more viable and able to work and earn an income. Informal enterprises are the basis of economic life in the developing world. Markets in the city center are the primary distribution centers (as well as supermarkets in the developed world), and street vendors and small business owners take the place of local shops and stores. The production of goods is generally local and artisanal rather than industrialized on a large scale. Part of the reason for this geographic dispersion of activities is the lack of adequate transport infrastructure, the lack of public transport and the relatively high cost of private transportation. A microentrepreneur is an individual who runs or works in small businesses that constitutes the informal sector of the economy. These companies operate in various industries and industries, from agriculture, fishing, transport, small shops or stalls, food production or artisans. The structure of these micro-enterprises may be individual, familiar or collective. Some individuals are entrepreneurs by choice, but many become entrepreneurs out of necessity because of the lack of job opportunities. Poverty levels also differ from person to person, from the non-poor to the very poor. Although micro entrepreneurs are a very diverse group, they have one thing in common: they can not access financial services through regular routes, such as traditional banks, because they do not meet the requirements set by many of these institutions. Today, more than 150 million people around the world are assisted by more than 10,000 microfinance institutions (credit unions, NGOs, microfinance banks) and commercial banks that benefit directly or indirectly from microfinance activities. It is estimated that more than 500 million microentrepreneurs remain excluded from financial services.However, there is a multitude of conservative acts who are nonlocal and would like to use the microcredit movement to suit they own ends instead of developing entrepreneurship. Therefore is necessary to provide other solutions to mitigate the misuse of microcredit.

Chapter 4 Microfinance and Microcredit

Microfinance today though has become one of the most debated topics, but it is a much-confused buzzword among the bankers and the policymakers. Microfinance is more than just a word as it has much broader meaning and implications. It is an instrument and a tool that has the power to address poverty collectively, empower the socially poor, address gender issues and thereby strengthen the society as a whole. Microfinance has emerged as a compelling mechanism which ensures the social and economic empowerment of the poor. The Task Force on Supportive Policy and Regulatory Framework for Microfinance set up by NABARD in November 1998 defined microfinance as "the provision of thrift, credit and other financial services of minimal amounts to the poor in rural areas…to help them raise their income and improve living conditions ". Microfinance is thus defined as "any activity that includes the provision of financial services such as credit, savings, and insurance to low-income individuals who fall below the nationally defined poverty line and poor individuals who fall just above that poverty line, with the goal of creating social value. (Reddy,2005).

4.1 Microfinance and Credit in Formal and Informal Markets

The original focus of microfinance on poverty reduction has given way to a microfinance-based market-oriented system as a viable business model. This can lead to positive results, ensuring that the loans are more stringent for the poorest people in the world. However, it has also been an anticompetitive process and an incentive for exploitation practices. In some cases, as MFIs are not clear about the interest rates, using later coercion to force borrowers to repay. Besides, the number of for-profits and non-profit MFIs has come to an abrupt end, in some cases outpacing the market. Extreme competition in oversaturated the markets and forcing MFIs to lend to riskier borrowers. Similarly, a Deutsche Bank report advocates that it lead MFIs to "lower their standards to gain market share" and issue loans beyond the capacity of their clients.

Saturated markets also conceive an opportunity for clients to obtain multiple loans, a pattern closely linked to over-borrowing. These represent problems for the microfinance industry; if uncollateralized borrowers cannot repay their loans, it is the MFIs which suffer the losses.

The regulation also failed to keep up with the sudden growth of the microfinance sector. Growth and competition should be beneficial to borrowers as market pressures force microcredit institutions to become more efficient, develop better control mechanisms, and lower interest rates. However, poor MFIs regulation in saturated markets severely limits their ability to manage client risk. The absence of a central or regulatory credit bureau means that borrowers can obtain several loans leaving the microcredit institutions unable to assess the client's level of indebtedness. The clients are not protected, and this enables risky and exploitative lending practices and turns a blind eye to coercive repayment strategies. (Priyadarshee, 2011).

Chapter 5 Interest Rates

Interest rate is the fine a borrower suffers from the use of money or assets they borrow from a lender or a financial institution. The high-interest rates of microfinance institutions (MFIs) seem to oppose their social mission, and raise a moral issue. An MFI's primary objective is to provide poor and low-income households with an affordable source of financial services (Kathomi, Maine & Kariuki,2017).

Interest charged on loans is the primary source of income for these institutions and, because they incur tremendous costs, the rates are correspondingly high. Administrative expenses consist mainly of rent, utility charges, transport, office supplies, and depreciation of fixed assets. Making and recovering small loans is costly on a per unit basis. Often loan recovery is made by staff who visit clients, increasing costs in the time taken and transportation used. Inadequate physical infrastructure— sparse road networks, transportation, and telecommunication systems—in many countries in which micro-lenders operate, also increase administrative costs and adds significantly to the value of microfinance operations. Over the past two decades, microfinance institutions for low-income clients in developing and transition economies, have increasingly focused on making their activities financially sustainable, by charging interest rates that are high enough to cover all their costs. They argue that this will ensure the permanence and expansion of these services. However, these interest rates represent money that will be withdrawn from the pockets of the clients, and it is inconsistent if it not only covers the costs of the loans but also deposits "excessive" profits into the pockets of the private owners of an MFI.

5.1 Criticism

High micro-loan interest rates have been criticized since the beginning of the modern microfinance movement in the late 1970s. However, the criticism has, and legislated interest rate caps are being discussed in a various number of countries. Part of the reason for the growing concern about the interest rates is that microfinance is drawing more public attention, including political attention. Another factor is that a lot of MFIs are now being transformed into private commercial corporations. Which is contradictory to what was being "sold" as being an MFI in the first place.

Although MFI interest rates are lower than in informal finance, they are considered too high concerning the clients they serve. From the ethical point of view, these high rates undermine the social acceptance of microfinance, generating the disapproval of international political leaders.(CGAP,2004; Fernando,2006; Hudon, 2007, Gonzalez, 2010). The controversy between the advocates of free (and high) lending rates and those of capped rates took place at the very beginning of microfinance in the 1970s (Acclassato, 2008). It was revived by sharp criticism from the founder of the Grameen Bank (Yunus & Weber, 2007) and fuelled the discussion on the regulatory ceiling upon interest rates in a growing number of countries. Three other external factors that affect the financial income are competition among MFIs, regulations, and inflation in the countries where they operate. The impact of competition on the lending rate and social performance differs according to measurements that do not match.

Regulatory caps are set on lending rates, and the collection of deposits is usually prohibited; most MFIs charge interest rates above caps and those collecting deposits seem to be socially effective. The rise in inflation has an adverse effect upon the level of lending rates; hence, MFIs must often increase their rates to avoid deterioration of the loan portfolio.

5.2 *The Key to reduction of the Interest Rates*

Confusion about the structure of microcredit interest rates continue to generate rich criticism of the industry's high interest rates. Microcredit interest rates are high because micro-lending is a high-cost operation.

The best way to sustainably reduce these rates is to reduce costs through improved market competition, innovation, and efficiency. Interest rate ceilings are not an appropriate intervention, and there are no quick solutions or shortcuts. As has been shown already in some countries, there are solutions for the medium to long-term. To provide affordable finance to poor households, policymakers need to recognize, and rectify impediments such as lack of physical, human, and financial infrastructure, promote competition and efficiency, and be proactive in providing an enabling environment for MFIs to develop sustainably.

Chapter 6 Impact of Microfinance on Health and Nutrition

Access to financial services is undeniably essential to low-income households, but it is not enough on its own to address the challenges of poverty. Health and the inability to access health care are key factors both leading to and resulting from poverty (Narayan et al.,2000). The financial rates of illness and seeking treatment are a significant burden on poor households, plus the simultaneous risk of reduced income due to a loss of productive labor.

Usually, health costs are reported as a proportion of annual income or expenditure; Elevate health expenses are considered in the literature to be anywhere from 10 percent of the income (McIntyre et al. 2006; Russell, 2004;) to 40 percent of income (Xu et al. 2003). Moreover, as a result, there is a loss of productive time for labor due to illness or the need to take care of the sick household member. This situation adds to the burden of total health costs for low-income families. Since the beginning, microfinance has played a significant role in the autonomy and economic development of people in rural areas with low incomes. An excellent way to increase the domain of microfinance sustainably is to improve health-educational related services and facilities among members of microenterprises.

At the forefront of global health, the priorities are the achievement of the MDGs and the strengthening of health systems. The MDGs focal point priorities on global development and the reduction of extreme poverty, as well as on improving health, education and human rights. The World Health Organization is stressing the need to build an efficient health system, a global challenge, especially in the rural areas.
Addressing global health requires more intersectoral approaches. One that holds real promise, though mostly underutilized, is the linking of microfinance with appropriate health-related services.

Considering that malnutrition has socio-economic roots and that the microfinance approach can induce positive socio-economic changes at the household level, couldn't it be used to improve the nutritional challenge that households and children are facing? This next chapter aims at examining the effect that microfinance can have on nutrition security. The purpose is to understand if, how and when does microfinance affect child nutrition. Particular attention is brought to the sex of the respondents as a potential moderator of microfinance effect.

6.1 UNICEF Approach of Child Nutritional Status

Nutrition includes *"processes involved with the utilization of nutrients for growth, development, maintenance, and activity"* (UNICEF, 1990). There are two main approaches to malnutrition: the physiological approach and the broad approach.

6.1.1 Physiological Approach

The physiological approach focuses on biological disorders within the body, and associates malnutrition with an imbalance between nutrient requirements and intake resulting in cumulative nutrient deficiencies. Clinical, anthropometric and laboratory analyses are involved in the diagnosis of these disorders, which are classified into two categories: macronutrient and micronutrient deficiencies:

- Macronutrient deficiencies have to do with an imbalance in protein and energy. The most common manifestations among young children are stunting, underweight, wasting and low upper arm circumference (Reinhard,2000). Frequent micronutrient deficiencies are anemia and deficits in vitamin A.

The type of malnutrition identified in individual cases and its prevalence range in a community is used as an orientation for public health action. The criteria have been defined by the World Health Organization (WHO).

- Micronutrients are called “micronutrients” because they are needed only in small amounts, these substances are the “magic wands” that allows the body to produce enzymes, hormones and other substances essential for proper growth and development. As tiny as the amounts are, the consequences of their absence are severe. Iodine, vitamin A and iron are most important in global public health terms; their lack represents a severe threat to the health and development, particularly in children and pregnant women in low-income countries.

Table 4 Nutritional Disorders

Nutritional Disorder	**Indicator**	**Severity of Public Health Problem (% of population deficient)**			
		Low	**Mild**	**Moderate**	**Severe**
Stunting	Low Height-for-Age z-score (<-2sd)	<20%	20-30%	30-40%	≥40%
Underweight	Low Weight-for-Age z-score (<-2sd)	<10%	10-20%	20-30%	≥30%
Wasting	Low Weight-for-Height z-score (<-2sd)	<5%	5-10%	10-15%	≥15%
Anemia	Low Blood Hemoglobin (<110g/l)	<5%	5-20%	20-40%	≥40%
Vitamin A deficiency	Low Serum Retinol (<0.70 μmol/l)	<2%	2-10%	10-20%	≥20%

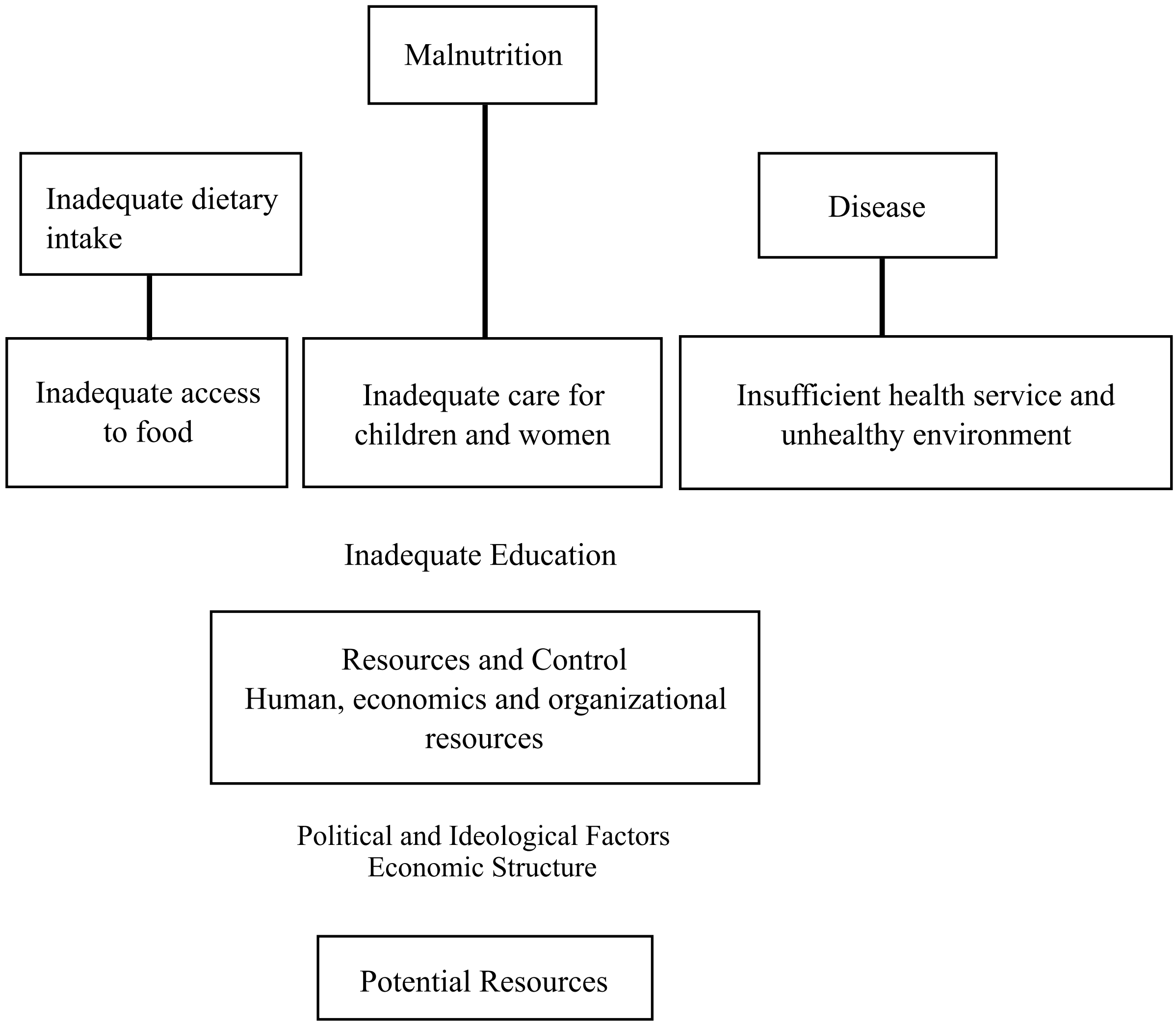
Source: Based on Allen et al. 2006; Brown & Akré 1998; Onis & Bloessner,1997

6.1.2 UNICEF Broad Approach

The UNICEF approach of malnutrition is broader than the physiological approach. It is based on the analysis of both biological and social causes of malnutrition as a basis for action. The predictive model takes into account the multi-sectoral and multilevel nature of the malnutrition problem.

It does not only incorporate proximal causes of malnutrition but also considers more distal socio-economic factors at a basic level. Public health programs are designed based on the identified causes. The UNICEF conceptual framework for the analysis of the causes of malnutrition in specific contexts is presented in figure 4.

Figure 4 Multifaceted causes of Malnutrition



Source: Adapted from UNICEF 1990

Chapter 7 Impact of Microfinance on Education of Children

Education is a fundamental tool for economic growth and development, democracy, and poverty reduction. Access to primary school is connected to increased personal income levels, increased worker productivity levels, and improved health and knowledge of how to utilize healthcare systems.

Primary school is linked to protecting the environment because by fostering agricultural innovation and improving the capacity of people to make good use of their environment sustainably. Education also gives guidance to prevent the spread of diseases like HIV/ AIDS and to combat the practice of child labor. Barbara Bruns writes about the connection between child development and national development:

"Primary education develops the capacity to learn, to read and use math, to acquire information, and to think critically about that information. Primary education is also the gateway to all higher levels of education that train the scientists, teachers, doctors, and other highly skilled professionals that every country, no matter how small or poor, requires."

Bruns, 2003

7.1 Increased Access to Credit Impacts Education

One of the first actions taking by the poor people do with new income from micro-enterprise is investing in their children's education. Studies show that children of microfinance takers are more likely to go to school and stay in school longer. (Hytopoulos,2011). For this reason, many microfinance programs are developing new credit and savings products specifically tailored to school expenses. Low-income families struggle to survive and are usually unable to afford the cost of their children's education. There is much evidence that shows that these families want their children to be educated so they can have a better future, but many developing countries charge school fees for primary education, and even in countries providing free primary education, direct costs are often passed on in the form of books, uniforms, examinations, and transportation charges.

These costs can reach up to 20% of a family's income, which makes it impossible for children to have access to education since is incompatible with family income. Several essential facts are seen here. First, the demand for education is undoubtedly present in these communities, both among the parents and in the children themselves. Second, access to credit became essential to provide education to poor children. Microfinance smoothes fluctuations in a family's income and offers a chance to increase revenue through micro-enterprise projects, eliminating the need to worry about daily living.

7.2 Health Education

Health education is the most common service offered by microfinance providers for several reasons:

- The relative ease of implementation;
- The availability of numerous adaptable delivery models;
- The existence of supporting technical guides, curricula, and evaluation tools.

Studies of microfinance providers, delivering health education increasingly show evidence of positive impact. Multiple studies (Leatherman & Dunford,2010) show that adding health education alone, usually delivered during the regular microfinance group meetings, improves knowledge that leads to behavioral change.

These behaviors are associated with positive health outcomes that are critically important for improving the health status of the poor globally and for achieving the Millennium Development Go in areas such as maternal and child health. These are some examples of areas with positive outcomes from health education combined with microfinance:

- Reproductive health;
- Preventive and primary health care for children;
- Child nutrition;
- Breastfeeding;
- HIV prevention and sexually transmitted disease;
- Domestic abuse/gender-based violence;
- Malaria.

Benefits can be observed across different health issues and countries. In Bolivia and Ghana, MkNelly and Dunford (1999) found that mothers' health and nutrition practices can be changed by a unified‖ delivery of village banking and child-survival education, with resulting behavioral changes in breastfeeding, complementary feeding, and management of diarrhea that lead to significant increased height-for-age and weight-for-age for children of participants. In South Africa, Pronyk et al. (2006) found positive impact of a comprehensive training and education program on microfinance group members, for whom the risk of physical or sexual abuse by intimate partners was reduced by more than one-half as compared to a control group of microcredit-only members and the general community.

Providing health education with microfinance has been very positive to clients, their families and even wider communities. This integrated delivery is increasing in frequency, but can such integration be financially sustained by microfinance providers? Costs to microfinance providers for providing health education vary according to how the education is delivered. Some microfinance providers offer education using their credit staff, or through a separate specialized team who provide the education. Still, others may contract or partner with outside organizations to deliver the education. The total combined costs of microfinance and education delivery are usually the lowest. However, quality of education is likely to be lower when delivered by generalist field staff rather than by special education staff. No single intervention can defeat poverty. Poor people need employment, schooling, and healthcare. Some of the poorest require immediate income transfers or relief to survive. Access to financial services firms is a fundamental basis on which many of the other essential interventions depend. Moreover, improvements in health care, nutritional advice, and education can be sustained only when households have increased earnings and greater control over financial resources.

Chapter 8 Impact of Microfinance on Woman's Empowerment

8.1 What is Empowerment ?

Empowerment is allowing someone to exercise some specific power or offering someone certain means to achieve a given end.Empowerment, as defined by Kabeer is the process by which those who cannot make strategic life choices previously acquire such ability. Banu et al. defined women's empowerment as the capacity of women in reducing their socio-economic vulnerability and dependency on male household members, improving involvement and control over household decisions, economic activities, and resources, contribution to household expenses, increased self-confidence, and awareness of social issues. Empowerment is not directly detectable, and it may be appreciated differently depending on the views of individuals. Empowerment is a complex concept with many definitions (Wiklander,2010)

Table 5 Empowerment subgroups

Subgroup	Definition	Example
Decision-making power in the household	The ability to make and influence process of reaching decisions	The respondent is able to make a small purchase, like a dress, without consulting with her husband
Ownership of assets	The atribute of an economic good	The respondent owns land in her own name
Voice	The freedom of expression	The respondent feels comfortable expressing her opinion in the pretense of her husband or other family member
Mobility	The freedom of movement	The respondent is able to visit the local market without consulting with her husband

Source: Fredrik Graflund, 2013

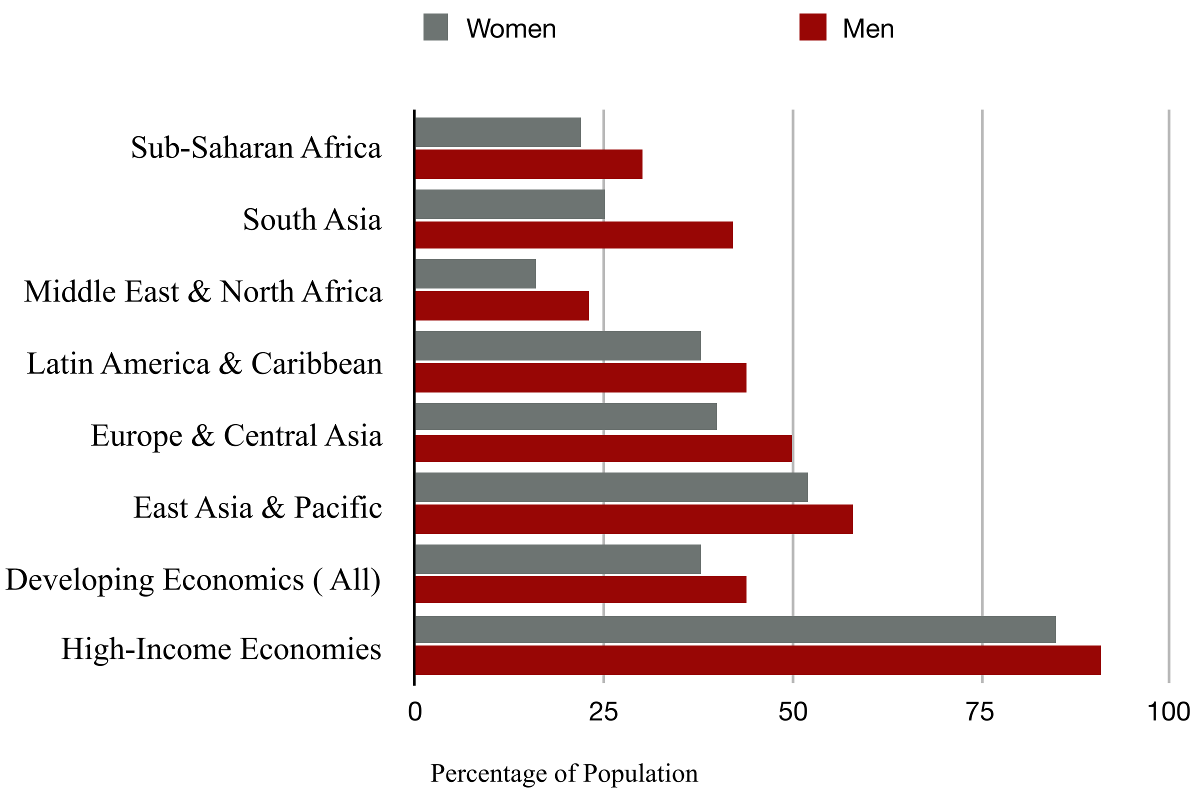
8.2 Gender dimensions

Microfinance programs have mostly targeted women as clients. Women often prove to be more reliable and responsible and have better repayment performances. Also, it has been shown that women are more likely to invest increased income in their family' well being.

To have access to this financial services can empower women to become more confident, more assertive, more likely to participate in family and community decisions, and better able to confront systemic gender inequities.

However, such empowerment is by no means automatic-gender-related issues. Appropriate programs need to be designed to help in this process of empowerment, women need to gain more independence and have a more active role in society that will increase investment in the family welfare. The gender dimensions are critical in the discussion on financial inclusion, both regarding access to financial services across male and females and concerning female empowerment is an important outcome variable. First, women are, on average, less likely to have access to formal financial services than males. At the same time, a large share of self-employed in developing countries is female and thus in need of financing. Demirguc-Kunt, Klapper & Singer (2013) document a significant gender gap in individual account holdings, though with considerable variation across countries.

Figure 5 Account ownership, by gender



Source : Demirguc-Kunt, Klapper & Singer ,2013

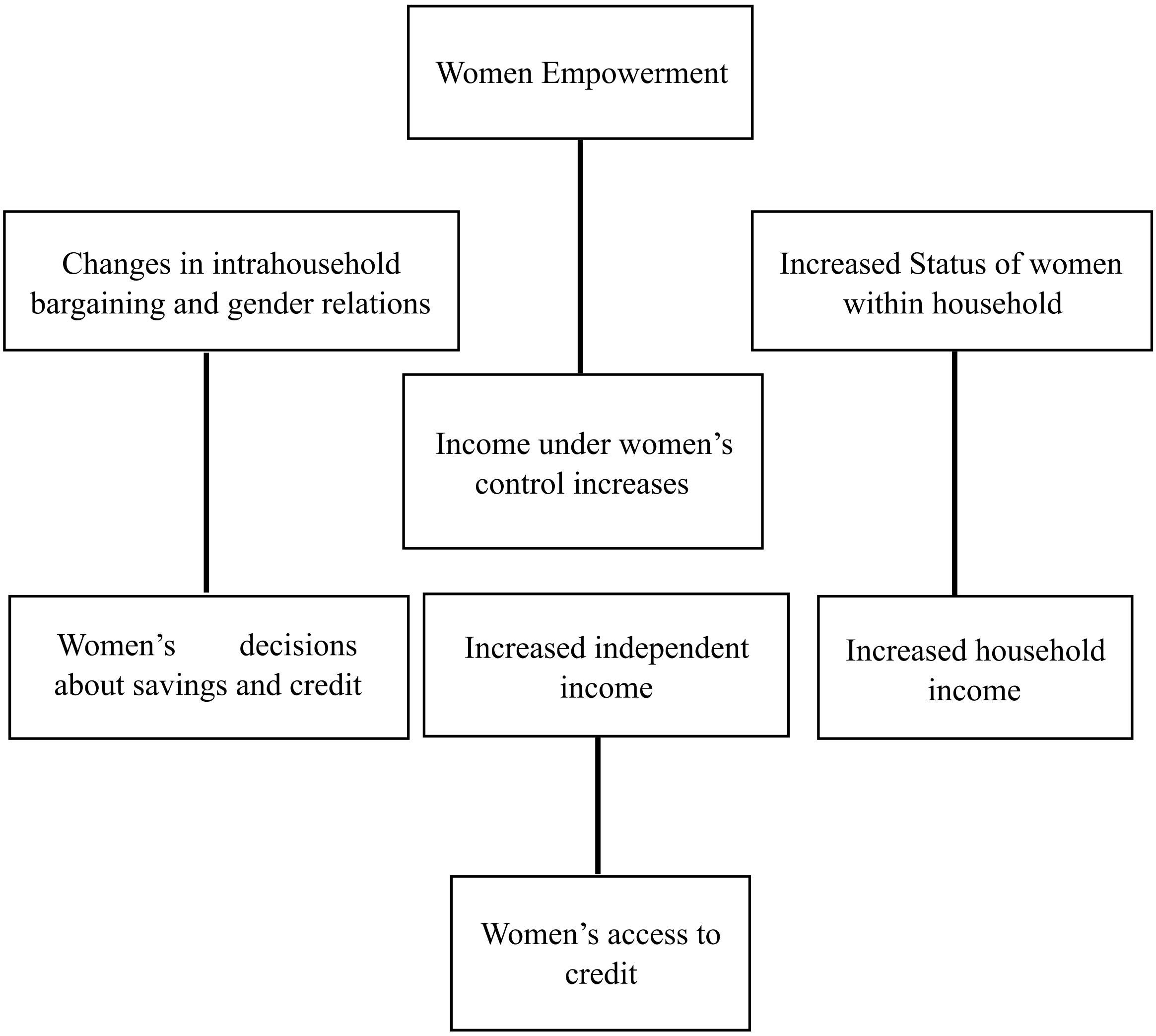
At an immediate level, microfinance can lead to the socio-economic empowerment of the individual client, mainly when the client is female. Microcredit might serve as a capital for initiating or expanding a business and thus resulting in more individual income (Duvendack, Palmer-Jones, & Copestake, 2011; Dunford,2012). Microfinance might also improve the psycho-social position of the individual by increasing self-confidence, decisional power within the household and social engagement in the community (Mayoux, 1999). The low initial income and ability of women contribute to making these effects more flagrant by female clients.

8.3 Microcredit and Women Empowerment

How microcredit leads to the empowerment of women? Microcredit helps empower women by placing capital in their hands and enabling them to earn an income so that they can support their families and communities (Cheston & Kuhn, 2002) economically. Women invest microcredit in their income-generating activity, be it in the form of microenterprise or agricultural production and, consequently, their income, which they control, increases. In other words, involvement in a successful income-generating activity should translate into higher economic empowerment. The economic empowerment of women is then expected to lead to increased well-being for themselves and their families. Moreover, this economic independence is seen as allowing women to renegotiate changes in gender roles, which may lead to social empowerment (Mayoux, 2001). Microcredit can also lead to the increased empowerment of women through increased power in decision making. Still, the link between microcredit and women's empowerment is questioned. As some studies suggest microcredit, may in some cases, contribute to women's disability. Women cannot be presumed to have control over the use of loans, even when they are explicitly targeted. For example, women can be used as low-cost intermediaries between microcredit program staff and male members. Even in the case where women control the loan, this may not result in significantly higher returns. Moreover, even when there is an increase in the income of women, there may be no control over income. The male family member can, for example, take control of income and use it for personal expenses.

For this same reason, men can support women's microcredit activities and other income-generating activities. By participating in a microcredit program, women may be forced to cut their own already inadequate spending on food and healthcare to repay their loans. Low income, lack of control and reimbursement pressure can do little to increase women's empowerment (Mayoux, 1999).

Figure 6 Framework of Women's Empowerment through Microcredit



Source: Adapted from Salman Asim, 2008

Chapter 10 KIVA

Kiva is an international nonprofit microfinance organization that was chosen as a case study for this essay, for being one of the best-known organizations internationally and for having such a high score on charity navigator. KIVA envisions a world where everyone—even in the most remote areas of the globe— hold power to create and start a new life and help their families and community.

Kiva's mission is to alleviate poverty by letting individuals lend money (25$) to people seeking loans in the developing world. Since Kiva found the organization, in 2005, they say that they helped about 1.6 million borrowers in 86 countries.

The first step to the analyst of this organization was to email them asking if they would be willing to answer a few questions about the operation and management of the organization since the topic chosen for this essay is related to poverty and microcredit. Immediately an affirmative answer was received; they would happily answer the questions that were sent. After such a response, the second step was to prepare a list with about ten questions, such as:

- How does KIVA identify communities or individuals to work with?
- Does KIVA have a strategy for identifying areas of improvement and making those changes?
- Are there ways to document successes besides self-reported "success stories"? Are there any metric data that can prove that the organization achieves results? If so, could I have access to some of that data/information?
- How is the organization impact measured? Who is responsible for determining impact and evaluating results?
- What are the main obstacles that stand between KIVA and their mission? How does KIVA plan to overcome them?
- How would you compare your program and results to others working in the same field?

They wait for the answer was of about five days, and it was not exactly the expected, and all that friendly availability had disappeared. The indications that were given consisted on checking the official website, in the frequently asked questions "FAQ" section, and there all the answers to my questions were responded.

The e-mail also came with an attached field of an API page where most of the data were either unavailable or outdated. The Kiva story is complicated and in some cases quite mysterious. There are at least two main problems identified here: the lack of transparency (how the platform claims to be and how it works) and efficiency (high interest rate charged by Kiva's field partners).

The organization is often accused of taking advantage of the public's desire to help through public relations and campaigns, but underneath that perfect camouflage is the same old model of microfinance that has been harmful to the poor around the world. Today Kiva brings in over 17 million a year in profit, "non-profit organization." However, how they make so much money? Big companies back it.

KIVA is also best known for the way it appears to bring individual stories to potential lenders and make them feel right about being able to contribute directly to a project they want to support. However, is poverty being reduced through the work of Kiva? The criticism continues mainly due to non-transparent operations and controversial actions by its funding partners. Does the lender understand that his money may not be supporting the loan he picked on Kiva's Website? Zero percent interest? That is very hard to believe. Kiva itself does not charge the rates, but they also are not the ones making the loans. What they do is send the money to other microlending institutions who in turn charge 100% or more in interest to the borrowers. How much? We do not know because Kiva will not say. All the data they send was outdated portfolio yields instead of the real interest rates on loans. We want to believe in the dream of Kiva. We want it to be real so badly so we can feel good about donating and helping that poor farmer. However, a dream is all it is. The only winners in the microfinance game are the lenders, many of whom charge exorbitant interest rates.

Chapter 11 Conclusion

In this concluding section, it is going to be briefly rehearsed the work done in this essay. Microcredit involves extending small loans and other financial services to people that can not have access to capital. Also, microcredit programmes have an effective contribution in development through children educations, improve on health and nutrition and empowering of woman's (since almost all institutions working in this field target women as their primary audience). However, the failure of microcredit is recognized at even the highest levels, and yet for some reason, it maintains its staying power by refusing to change and improve. However, why is microcredit such a resilient idea? Because it promises an elegant and win-win solution to the problem of poverty. It assures that it is possible to end poverty without even leaving our house (by making loans through organizations websites) and without any threat to existing political or economic agreements. In other words, it offers a revolution without the confusion of a class struggle. Besides, it promises that it is possible to help save the poor while making money from it (usually the borrowers return the borrowed money to the lenders as soon as they begin to have profit.)

It is an irresistible tale. It is also a useful tool for political control. This idea was rooted in the US government's "containment strategy" in Latin America. The goal was to prevent people from subscribing to leftist parties by transforming poverty not as a political and economic problem, but as a private problem.

Microfinance has become a powerful way to blame the poor for their poverty, and it is a great way to keep people docile and in control. If we expand our vision to address the real causes of poverty, it is clear that microfinance will not work. Concerning the targeting criteria of MFIs, it was widely debated on the literature that MFIs do not reach the extremely poor and that more affluent people are the more beneficial part of such programmes. This argument was texted in the conversation with a nonprofit organization called KIVA, that did not want to directly answer some questions about the management of the company. This example can show that problems exist and structural problems require structural solutions.

The first step could be democratizing the World Bank and the IMF, renegotiating trade agreements, clamping down on capital flight, rebuilding labor rights, and so on. If eliminate poverty is the goal, the more developed countries and the wealthy individuals need to feel the pinch – there's no other way to do it. This is not to say that microcredit should be eradicated, but just that microcredit will never work until the background problems that lead to poverty in the first place are addressed. It is also necessary to set up the right systems for small businesses to succeed, such as subsidies, state assistance, and welfare support to prop up entrepreneurs when they fail.

Chapter 12 Limitations and Future Directions - Discussion Analysis

According to many researchers and policymakers, microcredit encourages entrepreneurship, increases income-generating activity, reduces poverty, makes it possible for the poor (especially women), access to health and education, and builds social capital between poor communities and more vulnerable (Khandker,2005; Westover,2008). However, microfinance can also leave their clients in a very fragile situation, with growing levels of indebtedness as well as loss of assets due to the inability of borrowers to repay loans. There are three significant reasons why borrowers are unable to repay loans:

The vast majority of loans are used for consumption smoothing – buying food, medicine and the necessities of better conditions of life, rather than for any income generating activity. Usual only a small percentage of the loans are used to start a business. The majority of the loans are used for other purposes such as dowry payments, income smoothing, house building and repair, and children's education. The expected improve activity that was actively promoted by NGOs and microfinance providers did not yield the results that were expected (which led to increased borrowing and indebtedness). Borrowers took on multiple loans from different agencies, and the new loan was used to repay a previous one, leading to spiraling levels of debt that trapped borrowers. Microfinance loans, while helping smooth income and consumption, can aggravate rather than reduce vulnerability because they increase the debt burden.

More disturbingly, the inability to repay microfinance loans has also been linked to 'hundreds of suicides' among borrowers in India (Associated Press, 2012): *"As first reported by The Indian Express on August 19, 2016, farmer suicides saw a spike of 41.7 percent in 2015 from 2014. The year 2015 saw 8,007 suicides by farmers compared to 5,650 in 2014".*

Is unlike that microfinance institutions will disappear, but just microfinance will not fulfill purpose until it is addressed the background conditions that produce poverty in the first place. It is also necessary to establish the right systems for small businesses to succeed, such as subsidies, state assistance, and social support to support entrepreneurs when they fail. There is also a more immediate solution that could be efficient: Why not give money to the poor for free? Evidence suggests that direct transfers of income, without no conditions or constraints, not only provide success, but also appear to be the single most potent poverty-fighting intervention available.

This would ease consumer deficits, improve health indicators, and enable people to start their businesses. The beauty of this approach is not only that it works but that it will lead to a fundamental change of attitude toward the poor. It is time to stop treating them as victims, but rather as people with all the potential to participate in the financial sector and expand a business. For years it has been told that giving small loans to poor people is a surefire way to help millions improve their living conditions and reduce global poverty, especially among women. This idea has become such a central feature of foreign aid programs, that the microfinance sector has turned into a multibillion-dollar business operating in almost every country in the world. Once again, the research question made at the beginning of this essay is made: Can microcredit be considered a system powerful enough to relieve poverty and create innovative and value-added businesses? Unfortunately, only sometimes.

That is the conclusion of an extensive new study of programs around the world published by David Roodman in the book: "Due Diligence: An Impertinent Inquiry into Microfinance" that details how many loans barely improve poor people's circumstances. The reality that Roodman encountered is far more complex than Yunus's plan that millions of poor could be lifted out of poverty if they had access to credit.

Roodman has gathered evidence over three years from hundreds of lenders and borrowers in microfinance institutions - some with loans of up to 2 dollars, and this data is generating a global debate on the subject.

While microfinance organizations have gained a reputation among the US and European AID agencies for remarkably high repayment rates on their loans - often far better than regular banks - Roodman has found that the impressive payment records of some institutions have a price terrible for the takers. Several women were frantically borrowing money from their equally impoverished relatives or choosing to give up their microcredit lending needs. They were terrified of what might happen if they failed. Many women's microfinance institutions operate through groups of borrowers in which each member is responsible for paying off other people's unpaid loans - creating intense peer pressure. Another failing of microfinance organizations, ironically, is — in a classic case of good intentions gone away — the generosity of Western donors who have rushed to support antipoverty organizations that seem to yield concrete results. Besides the US, other significant backers of microfinance programs in Africa, Asia, and Latin America are the EU and the World Bank. Roodman says the massive success of the microfinance industry has been blinding society on how poor people can best improve their economic outlook, by saving money. Organizations have for years received donations and distributed money to borrowers, far from the perception that the poor have no money to spare. Many say they would rather save money for future emergencies than borrow money to cover their immediate needs. Poor people can save money - they want safe ways to do it.

Chapter 13 References

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