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**Microfinance: Empowering the People**

*"Here we were talking about economic development, about investing billions of dollars in various programs, and I could see it wasn't billions of dollars people needed right away." Mohammad Yunus, founder of the Grameen Bank in Bangladesh*

At the start of the 21st century, burgeoning economies, advanced technologies, and progressive politics seemed to bring a sense of reassurance to the international community. However, much of this progress was still plagued by fledgling monetary policies, political instability, and general discontent with the standard of living**.** In particular, the plight of developing countries—their attempts to stabilize economies and boost standards of living—have seen little to no progress. There are still over 1.4 billion people living on less than $1.25 per day while additionally, the rise in food and fuel prices threaten to push 100 million people into poverty.[1] Since the end of World War II and the beginning of the Bretton Woods System, which eventually produced The World Bank and the International Monetary Fund, it has become quite common for developing countries to beseech developed countries and international organizations, like the World Bank and International Monetary Fund, for large amounts aid as a way to support everything from their economies to the public health framework. Unfortunately, many of these countries find themselves hard pressed to pay back these loans.

Global lending, intended to contribute to economic, social, and political development in poor countries, is increasingly embroiled in a variety of problems. First, according to the Organization for Economic Cooperation and Development (OECD), in 2005, donor countries were forced to forgive substantial amounts of loans, ranging from $3 billion of Iraq's outstanding debts to $11 billion of Nigeria's.[2] Despite these numbers, the United States, in addition to other countries, gave $104 billion to poor countries in 2006.[3] Second, the OECD reports that only about 65% of aid arrives on schedule and its transitory nature means governments may hire teachers, clinicians, and civil servants, but fire them when aid runs out.[4] These problems, combined with issues of corruption, uncoordinated aid efforts by numerous agencies, and governments that simply provide financing with no specific objective, contribute to millions of dollars wasted. As a paragon of economic freedom and prosperity, the United States can play a significant role in encouraging global institutions as well as the international community, to support and contribute to development in poor countries by utilizing specific strategies and targeting specific populations known to be effective and capable of success in a development plan undertaking.

Today most people in developing nations are unbanked—meaning they have no access to formal financial services. This problem is prevalent even amongst countries that have experienced increased development in the last couple of decades. When people have access to

[1] Website: www.worldbank.org/WBSITE/EXTERNAL/NEWS/0,contentMDK:21914817~pag ePK:64257043~piPK:437376~theSitePK:4607,00.html, 2 September 2008. Access: September 27, 2008.

[2] "The Non-Aligned Movement." *Economist*. Vol. 383, No. 8523. April 7, 2007.
[3] Ibid.
[4] Ibid.

financial services, this is considered the first step in breaking the cycle of poverty and securing a more stable, economic household. One such method, microfinance, has helped many climb out of the depths of poverty and attain some level of low-income.

Microfinance is the distribution of financial services, usually in small sums, from $50 to $100, to the families unable to access funds from a formal bank. Before the introduction of microfinance, the causes of poverty and lack of food security were usually attributed to lack of education, lack of necessary income, and too few skills. Therefore, the solutions were to create employment, develop skills, and redirect assets of the poor to the rich. However, microfinance can play an important part in reducing poverty and improving food security in undeveloped countries. Dr. Muhammad Yunus is credited with establishing microfinance in 1983, in Bangladesh. Professor Yunus established the Grameen Bank in Bangladesh because of a belief that credit is a fundamental human right. His goal was to help people escape from poverty by providing loans on terms that were suitable to them and by teaching them some financial principles.

Microfinance usually consists of nongovernmental organizations, village banks, and specialized banks for the poor. These organizations are mainly for the poor, and they do not have firm restrictions on those receiving them. These organizations focus on educating the borrower, about using the loan to increase production on their farm, or to pay for other needs. They also offer bonuses for repaying on time, such as access to bigger loans. These organizations are usually very successful in return of loans. These organizations have three objectives they try to obtain. They strive for sustainability, a large clientele, and improving food security and lowering poverty. However, long-term sustainability is key for the success of the organization and of people. Only a few of the established institutions in Asia can be considered successful. Those institutions are able to reach many people while also profiting. Most organizations cannot cover all the costs and this is why most microfinance organizations are moving away from just lending and looking into leasing, insurance and other services to attract more customers.[5]

Families usually would receive loans from family members or sell livestock. By having access to credit, households could continue producing economically without the risk of losing their mainstays of income potential such as their land and/or livestock. Furthermore, with access to micro loans, credit or alternative means of financing such as insurance, persons can alleviate potential debts without diminishing their traditional means of income such as their livestock, farming land etc.[6]

To increase economic development, developing countries, in addition to microfinance institutions are geared towards women in South Asia, Africa, and Latin America. The microfinance institutions should be modeled after the Grameen Bank, a program created by Professor Muhammad Yunus, who first began banking with poor women in Bangladesh.[7] The Grameen Bank provides women with no collateral or access to financial services at a banking institution, the opportunity to access credit and savings facilities. With initial loans as small as

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[5] Meyer, Richard L. "Microfinance, Poverty Alleviation, and Improving Food Security: Implications for India." *Food Security and Environmental Quality.* Rattan Lal. Boca Roton:CRC Press LLC, 2002. 347-369.

[6] Ibid.

[7] Gow, Kathryn N. "Banking on Women: Achieving Healthy Economies through Microfinance." WE International. Summer/Fall 2000.

$50, women can buy into or improve businesses, buy more crops, animals or other materials. Once women have sufficient funds, they focus their efforts on increasing their income, whether it is through agricultural, aquaculture, or animal husbandry, or other industries.[8] The Grameen Bank has found that women are better borrowers because they repay their loans more faithfully than men repay and tend to spend money on improving the standard of living of their family.[9] Because a women's status in her household is determined by her control over available resources, having access to financial funds will greatly increase her influence, and her role in the decision making process.[10] Microfinance institutions are so effective in countries like Malaysia and Bangladesh, that the governments have started providing large amounts of funding to assist rural poor to improve their per capita income and standard of living.

While countries like Bangladesh have been at the forefront of microfinancing, India has not been so fortunate. In India, over 72% of the population lives rurally, the majority subsistent farmers. Families tend to live in small mud and straw huts, the staple diet being rice, wheat, and lentils. Since the 1900's, India has increased its food production of wheat and rice, however one-third of the population is malnourished because they cannot afford food. Women tend to be more malnourished, because in Indian culture men tend to eat first, leaving the rest for the women. The life expectancy in these parts is very low because of poor hygiene, malnutrition, and even pollution. Over half the rural population is illiterate, however, the constitution provides an education from 6 to 14. Nearly all children receive an education until the age of 14, however, only half of them continue their schooling. Most children leave school because they are needed on the farm to support the family. It is obvious that agriculture is the main source of income for these families. Farmland sprawls over more than half of India, and they happen to be self-sufficient in food production, thanks to the Green Revolution. Two-thirds of India's farmers own the land they work, however the size of the farms tend to be quite small, just two and a half acres in area, but there are a select few over 25 acres. This may be accredited to the custom of splitting the father's land between the sons', thus making each plot smaller and smaller as each generation passes.[11]

Thus, in India, poverty alleviation and food security is a major issue, and microfinance is seen as a way to achieve those goals. Microfinance can help food security in three ways. The loan that is provided can temporarily increase the households productivity and access to credit will increase the household potential to take more risk, which in turn could lead to more profit bearing activities. This increased income can lead to increased production on the farm and further investment. Second, access to credit will also reduce the cost of having the household "self-insure" itself. Thirdly, by having the household adjust their disposable income, so in the event of bad weather or illness, families do not have to resort to traditional methods of helping their situation.[12]

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[8] Ibid.

[9] Ibid.

[10] Sharma, Manohar. *Empowering Women to Achieve Food Security Microfinance.* {Online} Available http://www.ifpri.org/2020/focus/focus06/focus06_11.htm, 26 August 2008.

[11] "India." *World Book Encyclopedia*, 2002

[12] Meyer, Richard L. "Microfinance, Poverty Alleviation, and Improving Food Security: Implications for India." *Food Security and Environmental Quality*. Rattan Lal. Boca Roton:CRC Press LLC, 2002. 347-369.

As stated before women receive the majority of loans. However, in some male-dominated societies, men could diminish the role of women, by making them conduits of cash rather than breadwinners. Even if women are able to be self-sufficient in their access to these funds, they must meet the burden of having to manage the loan and repay it. If their investment fails, they have to pay the loan back, adding even more pressure on to them. Also, if women are not used to interacting in marketplaces, there may be difficult learning periods, which can lead to failed investments. Many women, not having confidence in themselves, depend on their husbands to utilize the loans. 95% of women may receive loans but only 37% have control over them.[13]

Problematically, from a global standpoint, international financial institutions might shy away from microfinancing, fearing that the profits they receive from the poor could be seen as exploitative, even if the sum received by the institution itself is minimal ("Economic focus: Smalls loans and big ambitions"). Additionally, supporting and implementing microfinance institutions goes beyond the scope of the United States' role in simply providing aid. Lastly, from a cultural standpoint, making loans available to women, and emphasizing that they, and not men, have a better chance at improving the standard of living for their family may impede the acceptance and implementation of microfinance institutions in many countries.

In essence, despite the immense strides made in economic growth in the developing world, many countries, even entire continents, are still plagued by attempts to generate a sustainable economy with little to no success. While microfinancing has its drawbacks, the successful campaigns in Bangladesh show that there is potential for success in other countries with similar agrarian economies (India, Pakistan). Because microfinancing utilizes comparatively small amounts of currency in order to spur on economic growth, it can be a boon to larger loans pumped in from developed nations. Perhaps the greatest characteristic of microfinancing is its ability to place responsibility for economic growth in the hands of the people, rather than in the hands of a government without the necessary expertise to make larger loans available to rural populations where it is desperately needed. Furthermore, as evidenced in Bangladesh, micro financing can be an empowering tool for women. Thus, not only does micro financing provide economic opportunities for rural populations, it has the potential to increase the human development capacities in many developing countries. Specifically, microfinance is evidence of a program that helps propel women into the labor markets by giving women the opportunity to have access to small amounts of money to build small enterprises and slowly build a better life.

[13] Sharma, Manohar. *Empowering Women to Achieve Food Security Microfinance*. {Online} Available http://www.ifpri.org/2020/focus/focus06/focus06_11.htm, 26 August 2008.

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