

The Role of Microfinance on Poverty Alleviation and Its Impacts on People and Society: Evidence From the Grameen Bank

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Abstract

The Origin of Microfinance has started in 1976 by Muhammad Yunus in Bangladesh it has positive impacts on poor people and societies. Grameen Bank (GB) provides microfinance services for people in rural regions so they can use the capital for productive work and become financially stable and independent. According to the (Report of the Post Enumeration Check of the Population and Housing Census: 2011: 23) 78.3% of the population still lives in rural areas, the development of rural Bangladesh depends to a large extent the development of poor people. In this article, we have described the role of microfinance in poverty alleviation and its impacts on people and society. Here we have Grameen Bank's model explained, the main purpose of this article is to present Microfinance and how it can be useful for the well-being of society and the reduction of poverty. The first section we described the history of Microfinance Grameen Bank, and then we explained the consequences Microfinance, and in the last section, we discussed the conclusions and the recommendations.

Keywords: Financing, Microfinance, Grameen Bank, Poverty Alleviation, rural poor, women empowerment, Group lending, economic growth, credit

1. Introduction

Microfinance is a tool to enable poor to start their own business to survive in the society, lift out themselves from poverty, and save something to fulfill their basic needs. The provision of microfinance products enables poor people to set up income generating activities that ultimately provide them with income for their domestic consumption. Therefore, the intervention through micro finance has a substantial positive impact on their lives of the society in general and the poor people in particular.

“Microfinance refers to an array of financial services, including loans, savings, and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan”.

Microfinance is a broad term for financial services for people with low income, or who they do not have access to traditional banking services. Microfinance is the realization that people with the low income they can escape poverty if they have access to financial services. Second Canadian International Development Agency (CIDA), "Microfinance is a distribution of a wide range of financial services for the poor Family, poor micro-enterprises, who usually do not have access to formal financial institutions (Hussain, Ahmed, Latif, & Zhuang). The term micro credit and micro finance belong to the continuation of small loans to entrepreneurs too poor to get traditional bank loans. Especially in developing countries, microcredit makes it poor for self-employment projects that generate income, allowing them to improve the quality of life for themselves and their families (Khan & Rahaman, 2007).

1.1 HISTORY OF MICROFINANCE

In 1970's Muhammad Yunus presented a model which called as Grameen bank or Grameen model. This model is a strategy of empowering the poor to reduce the poverty and become the base of modern microfinance. Microfinance ideologies more closely linked to the Economist Muhammad Yunus, who was a professor in Bangladesh in early 70. He has propagated the concept of microfinance in the midst of famine throughout Nation began to make small loans to poor families in nearby cities, in an attempt to break the vicious circle poverty. The experiment was an incredible success, Yunus receives the timely return and observes essential Changes in the quality of life of borrowers. Muhammad Yunus introduced a model called Grameen Based on the model established in the Grameen Bank model. In order to focus on the poorest, the Bank Supplied only to families, at least half an acre of land. Repayment rates remain high, and the Bank He began expanding his activities to other parts of the country. In less than ten years, the Bank operates independently Government founders and advertising rates for the return of 98 percent. In 2006, Yunus He received the Nobel Peace Prize. The success of Grameen Bank has not gone unnoticed. Institutions Copy the missed model to almost all regions of the world. Between 1997 and 2002, respectively, the number of MFIs increased from 618 to 2572. The collection of these institutions, it was found that about 65 million customers, in 1997, up to 13.5 million euro and an increase of 35% per year? The amount of money flowing fast and also growing Grameen Bank has provided a \$ 750 million loan over the last two years (Kevin, 2015).

1.2 How Grameen Bank Model Works:

The Grameen Bank or Grameen Bank model launched by Muhammad Yunus in Bangladesh. Essentially, it does the following method:

Field managers and bankers visited villages and cover an area of 15 to 22 villages. Finding customers can benefit from microfinance services and has started a movement to make people aware about microfinance. They told the local population about Grameen Bank's activities. A group of five borrowers they have been developed for the first time, only two of them can use the credit line. The group was monitored for Repayment with the interests and payment of the first successful loan to make the other two are eligible for the loan. All members have a collective responsibility to make it clear for the record of the next loan payment, Therefore, group work as a loan guarantee (Hari).

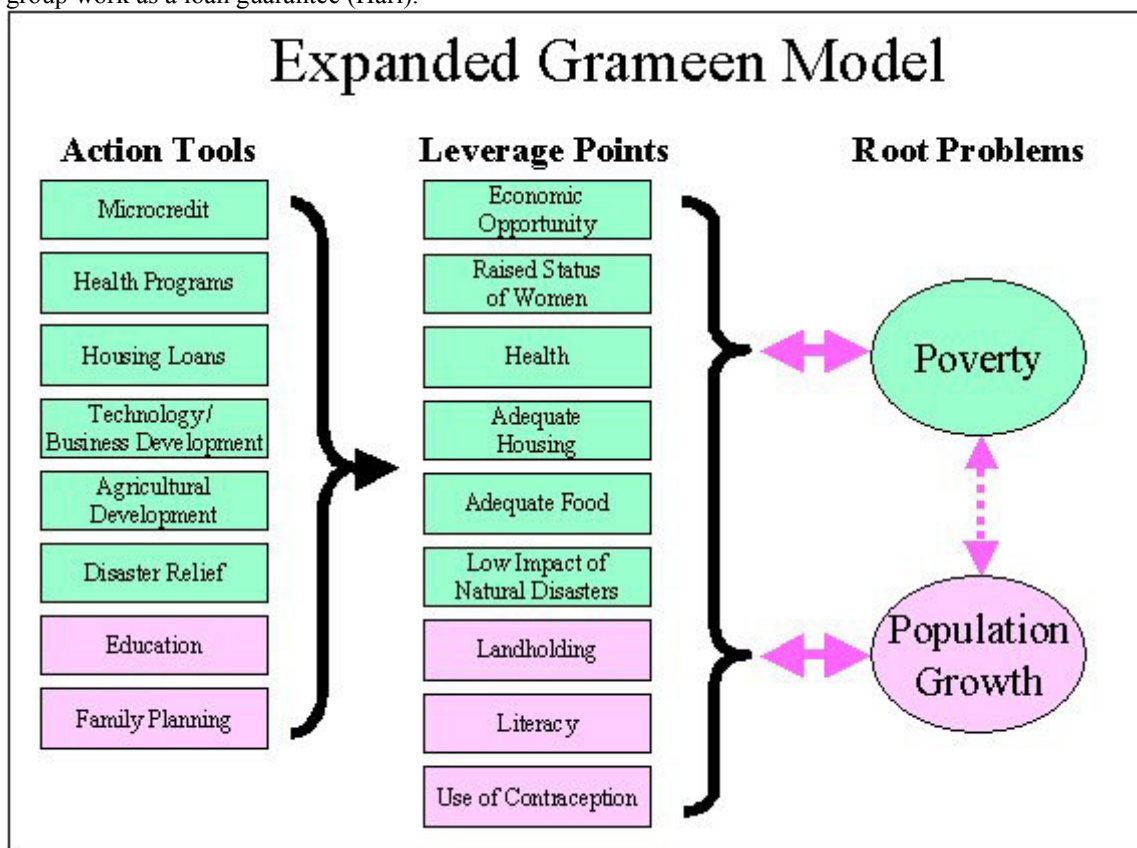


Figure: 1
 Source: (Garvin, 1999).

1.3 What is the difference between microfinance and microcredit?

Microfinance refers to savings, insurance, loans, transfer services, microcredit and other financial products to customers who have low incomes. Microcredit is a small amount of money provided to the client by the Bank or other institutions. Because the poor people have no physical collateral and have a higher risk in return payments of the borrowing money, that's why they have only small credit in views of financial institutions and the amount of money that they can borrow is relatively small.

1.4 FEATURES OF MICROFINANCE

Microfinance provides access to low-income financial and non-financial services access to money to start or develop their income generating activities. Individual loans and savings for the poor Small customers. Microfinance has been noted with satisfaction that some micro-entrepreneurs and poor people it can be "repaid", that is, how can you pay the loan and interest on time, and also make savings; Services are designed to meet your needs. Microfinance has created financial products and services, with low-income people to be customers of the bank (Khan & Rahaman, 2007).

1.4.1 The characteristic of this model are following:

- ❖ Provides short term loan (one year).
- ❖ Funds mainly granted to women
- ❖ Weekly compensation

- ❖ Periodic meetings
- ❖ Small loans and savings.
- ❖ Group uses (5 per group)
- ❖ Frequent or Frequent Payment Schedule.
- ❖ Registering capital size and interest,
- ❖ higher interest rates on loans (calculated by 20% per annum) (higher than commercial bank rates, but lower than the rate of usury)
- ❖ Easy access to microfinance services, which saves time and money and provides customers with better customer ideas for their financial and social situation.
- ❖ The application procedure is simple.
- ❖ Times L), short treatment (between the end of application and delivery).
- ❖ Customers who pay on time are eligible for a large number of credits for the next time
- ❖ No Poor Mutant Material (Khan & Rahaman, 2007).

1.5 IMPACTS OF MICROFINANCE ON PEOPLE AND SOCIETIES

Microfinance provides small loans to the poor on flexible conditions, who don't have access to traditional banking. Through microcredit poor people can set up their own small business and become able to earn income for their basic needs, therefore, microfinance can change the lives of poor. Microfinance does not only provide small credit but also offers savings and insurance to the poor, in this way microfinance have positive impacts on individual and society. These microfinance services holders contribute to the economic growth and poverty reduction.

Microfinance services may aid in reducing eruption of social and moral evils like prostitution, crimes and the likes. For example, income poor can be provided with soft credits to start up viable businesses to support their daily life. Similarly, the identified youths who are engaged in crimes can be trained on how to set up income generating activities to support their daily life by issuing those credits as a seed money.

The potential impact of microfinance, to understand how microcredit has a positive impact on life very poor people in the area they are in. It is important to note that the poor in rural areas and Small farmers in developing countries severely affected by extreme poverty threats. Supply Microfinance services can be one of the efforts that can escape poverty. Microfinance program they have a positive impact on the lives of the poor. Microfinance increase awareness of health and health community. He found support to improve the living conditions of marginalized groups. Access to and control of resources and participation of women in decision-making the microfinance program. The Microfinance Program is dedicated to women and marginalized segments community. But there is much to be done, such as the still low level of coverage of microfinance services for the poor Excluded communities. They are very poor, socially and economically. If the holders of government Community social sector (health, education, etc.), the MFI will provide services Economic recovery. Thus, socially and economically disadvantaged communities can be improved Co-operation with the public sector, donors and microfinance institutions (Chandra, 2008).

The impact is to understand how financial services affect the lives of the poor. Effect It can be measured in terms of reducing poverty, health, education, income and social improvement in the general ranking in a society.

Household level: Use of microfinance services at the household level as an increase in revenue people. Many people can invest in education, health, and income growth. Access Microfinance will enable them to better manage the risks and opportunities (Monique, 2003).

Individual level: Microfinance has strengthened the woman, due to better money management, Controllers and women's resources lead to greater choice in family and social affairs. Women can do it It's better to save and invest with wisdom.

Enterprise level: Growth in sales comes from microfinance services. Creating jobs in the same person seems insignificant. However, when the total number of companies, residential customers often creates jobs for others put together. For example, in Peru, a microfinance client created three more working days per month for non-domestic workers (Monique, 2003).

1.6 MICROFINANCE IMPACTS ON LOCAL ECONOMY

Microfinance has a positive impact on the economy of the poor. Microfinance in its simplest form consists of the provision of credit to a group of borrowers (usually referred to as self-help groups), who agree to help others through informal savings groups. The typical self-help group consists of 10-20 people who meet regularly to discuss activities and social issues and put their savings in a joint bank account. Once you have accumulated enough savings, team members can apply for the national loans within the group or apply for loans through the commercial bank. Self-help groups of microfinance are at their best in the allocation of resources because it uses the most comprehensive local information regarding local needs and controlled costs, mitigate the problem of bad faith and adverse selection. As a result, the transfer of resources for self-help groups should lead to

efficiency and enhance local capacities. On the other hand, the resources devoted to self-support group can be adapted local elites.

In addition, these resources are channeled through parallel institutions, local authorities may weaken, not strengthen local capacity. There are significant economic benefits from participation in the program in the form of better nutrition, active storage above, increased consumption and consumption smoothing. Beyond the economic impact of self-help groups have important social consequences, as reflected in measures of violators of rights and opportunities for women. Generally, microfinance produces couples of positive impact to the economy arranging from household level to community level.

Also, microfinance may contribute in discouraging immigration of poor rural people to urban areas in searching for jobs and other opportunities. This can help in decentralize development in developing countries.

Microfinance services have a potentially positive impact on the local economy and the agricultural sector. Small farmers' access to microcredit can increase agricultural productivity and improve access to food. In addition to improving micro-credit as they allow them to invest in agriculture and generate income from family members. Community participation in microfinance activities contributes to local economic growth.

- ❖ Microfinance work as a fuel to the local economy.
- ❖ The poor become able to earn for their basic needs and they work as self-employed.
- ❖ Microfinance provides job to the people.
- ❖ Reduce the poverty and other challenges.
- ❖ it empowers the women and increases the household income.
- ❖ Microcredit has increased the level of education, health, and nutrition (Morduch & Haley, 2002).

1.7 DOES MICROFINANCE CONTRIBUTE TO ECONOMIC DEVELOPMENT

Microfinance generates access to productive capital together human capital through education and training. This is because income generated from capital gained through microfinance can be used for investment in human capital through training and further education. And also social capital can be achieved through the development of the Organization, and this will ultimately allow people to escape from poverty. Providing tangible capital for poor persons, strengthen their sense of dignity, and can help to empower poor people to actively participate in the economy and society (Wrenn, 2005).

Microfinance program has a positive impact on the lives of the poor. Microfinance has sensitized the health and education of society. It was based on improving the living conditions of the poor. Microfinance program improves access to and control over resources and women's participation in decision-making. In a world where almost half of the population lives in poverty, offer microfinance innovation, small loans to low-income groups to generate income and employment for local authorities. Thus, micro has been elaborated as an important tool for economic development. The poor have to wait long for the benefits of economic growth, which are separate from one another to a distance from urban areas, where economic activity is concentrated. It is important that this part of society is more convenient conventional balanced part growth for long-term sustainability of economic prosperity and social development is essential. Strengthening Social, Economic and Financial Services for People with Low Income, Living in Rural Areas (Singla, 2014). Microfinance has a very important role to play in economic development. Microfinance plays the following significant roles in economic development:

Poverty Alleviation: Microfinance has found an operating tool for raising the poor how to provide financial services to start or expand small businesses, enabling them to escape poverty. This allows the poor to earn an income, so they do not have to pay for food, drinking water, medical care, and education for their children. These small businesses also generate job opportunities for local communities where jobs are rare, they can earn extra income.

Women Empowerment: Microfinance is an important tool for women's empowerment and poverty decrease. Poor women used small loans to start a small business and increase revenue. It helps to empower women by supporting the participation of women in income generating endeavors and thus contributes significantly to gender equality.

Financial Inclusion: Microfinance has made banking services can be funded by financial services, such as saving and obtaining funding, etc.

Mobilization of Savings: Microfinance develops people's habits of saving. Now, low-income people also save money and become bankable

Financial Stability: Microfinance provides financial stability to people who contribute to significantly. Small loans provided additional income opportunities for people to pay for their extreme needs.

Development of Skills: Microfinance helps find potential rural entrepreneurs. SHG inspire its members to create their activities independently or (Singla, 2014).

1.8 MICROFINANCE SERVICES ARE TARGET CLIENTS AND BEST ABLE TO CONTRIBUTE TO ECONOMIC GROWTH

Microfinance services are especially belonging to the low-income people who don't have access to food education and health resources by availing microfinance services poor people can access to financial services and improve their living standard. Microfinance services help the poor to lift out poverty, provide them self-employment and empower the women. In this way, microfinance services made poor people start their own business through they can increase income and be bankable which contribute the overall economic growth and poverty reduction. So, we can say that microfinance can best contribute to economic growth.

1.8.1 WHY IS LENDING TO THE POOR DIFFICULT?

The lending to the poor is quite challenging since the Poor's have relatively inadequate resources of which they can be used as collateral in the formal financial institutions. And also the poor are considered as risky borrowers and their capacity to repay back the loan is considerably weak.

Moreover, it is assumed that lending to the poor is coupled with high transaction cost since the poor tend to borrow the little amount of money hence consuming a lot of loan officers time for minor transactions. That's why financial services providers tend to ignore the poor people in the formal financial markets because apart from little transactions which consume much of banks time they frequently deposit and withdraw the saved money so the bank becomes unhappy since the capital for lending mega investors are frequently deducted.

Nowadays, microfinance is growing fast, which has done a great job of fighting poverty and economic growth but there is still a poor credit risk due to some common reasons:

- ❖ Basically, mostly poor people have no guarantee/collateral
- ❖ High risk
- ❖ The rate of depreciation of the poor is very low, so the loan is expensive for them
- ❖ A significant gap between the rates of lending and deposit rates within the same sub-economy
- ❖ The extreme variability of the interest rate within the same sub-economy:
- ❖ The poor get smaller loans and pay higher interest rates
- ❖ The production of financing and trade are the main reasons, the data on debt, even in cases where the interest rate is relatively high
- ❖ Asymmetric information (moral hazard: costs of monitoring the multiplier)

1.9 How Microfinance Solves the Moral Hazard Problem?

If the moral hazard is genuine, the credit market can lead to the poverty trap at individual and social level (Esther, 2011). On the other hand, adverse selection, if interest rates are high, can frighten customers who plan to pay and encourage low cost and non-compliance customers in all cases.

Microfinance has solved the problem of moral hazard by adoption the Grameen model. The Micro Credit Model (Grameen Bank) has the following elements:

- ❖ Without collateral loans
- ❖ They lend almost exclusively to women.
- ❖ Paying weekly payment plan
- ❖ Credit Group (a group of 5 women, who know each other).
- ❖ Regular meetings in the centers, where participants can discuss business, take suggestions for businesses
- ❖ And the families.
- ❖ In the initial phase, there are very small loans provided they can increase over time.
- ❖ Regular monitoring of customer loan officers.
- ❖ High-interest rates (at least 20% a year, often much more)

1.9.1 Why is Lending to Women ratio high than men?

Women are generally more trustworthy than men, women, the loan is to expand opportunities for women what is the goal of improving the home? Women have a higher depreciation rate because they have Access to credit. Therefore, Muhammad Yunus focuses more on women.

1.9.2 Microfinance Revolution and innovation?

Microfinance Revolution is basically a way to help the poor in society. Microfinance has brought hope to the poor, not only runs programs to reduce poverty, but also provides other services for the poor in terms of savings and insurance. Through microfinance can help poor people, so they can help themselves and get rid of poverty without spending too much money. The worldwide success of this vision calls for repeating the model in other areas of the social enterprise. The answer to microcredit was no less extreme, new lenders, poor myopia investors. The evidence leads to a much slimmer conclusion that financial innovation is access to credit for some families, which can start a new business is given. Help others save or delight surprises. However, not everyone is a natural businessman and has poorer barriers to build up (time of inconsistency, endogenous discouragement). Microfinance is a great innovation, should be supported, and we must continue to develop new projects to

improve financial access. However, it is not possible to replace antediluvian methods to help the poor (Esther, 2011).

The process of disbursed loans or credit to the poor peoples was a constraint with the lack of tangible collateral. Thus the emergence of microfinance revolutionizes the process of issuing loans to the very poor people by coming up with the pro poor model of group lending.

The group lending in the form of joint liability lending emerged as an innovation that made lending to the poor possible because the poor people can be lent without having tangible collateral rather the group stand as a guarantor in accessing credit from financial services institution. Therefore, this innovation brings poor people together in the entire process of accessing credit from financial institutions.

In this innovation, there is a feature which makes lending to the poor possible. Few of those feature includes peer monitoring among group members were by this reduce cost of transaction and monitoring by the formal financial services since the group members are responsible to ensure full responsibilities in repaying the credit. Also, this innovation minimizes the problems of adverse selection since the participants are well informed about the capacity of every group member in repaying the loan.

The feature that necessitated the frequent by weekly meetings of group member's in collecting money stimulate reimbursement since members put pressure on their fellow group members who often lag behind in credit reimbursement.

The success of a joint liability model brought several changes to the financial market system. Currently, the informal financial markets employ this model in extending and scaling up the outreach for the poor. However, in formal financial markets group lending is hardly accepted, and this imposes obstacle for the poor to access loan from formal financial markets. Grameen bank model has changed the rules of the game and it had shown that the poor people are bankable unlike in the conventional banking practice, in the process; Professor Yunus brought policy changes at the national level, so he helped in the development process of reaching the remote poor people.

2 Conclusion and Recommendations

Finally, we can draw a general conclusion that microfinance plays a very significant role in the development process. However, while acknowledging the fundamental role of microfinance there is varying perception over the fore mention roles from various development stakeholders. Microfinance might be a very good weapon in fighting against poverty but without sportive infrastructure, it is hard to attain the desired development objectives in order for microfinance to work all structure should be properly instituted in the favor of microfinance operations. The current state of the poor people could have been very poor without the help from microfinance interventions. Therefore, microfinance seems to be a very usefully bridge in a lifting poor people out of extreme poverty.

From what has been said above about of microfinance it has been shown that microfinance is an innovative way to reduce poverty. Through microfinance services, the poor can use their skills to improve home-grown growth to grow their children and improve the quality of life. The poor can contribute to economic development and can fight hunger and poverty. Micro-finance emancipating women so that women can also contribute to economic growth. Therefore, Muhammad Yunus focused mainly on women, because women are more trustworthy than men, and better manage their family than men. Many have agreed that microfinance is not a magic wand for poverty reduction, however, is how to improve the poor living Stander. IFM needs to conduct micro-credit awareness programs for the poor because poorest people are not aware of microfinance services for the poor can be brought micro-finance services. MFIs and the common efforts of the poor can benefit from microfinance services and win the fight against poverty.

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