CHAPTER – 2

THE EFFECTIVENESS OF MICROFINANCE: AN IDEALISTIC AND THEORIZED FRAMEWORK

2.1 INTRODUCTION

The microfinance industry has achieved proficient fast growth globally yet in spite of this development; there is a paucity of a solid theoretic ground to allow one to analyze the effectiveness of microfinance. The context allows experts to overcome the issue fungibility in microfinance assessment. In accumulation, it show vibrant ways of effects that microfinance created to mark clients and related investors.

Microfinance is considered one of the most important tools for poverty reduction. It has attracted the attention of governments, donors and development agencies all over the world. The United Nations has declared that 2005 is the International Year of Microcredit, which recognized microfinance as an important way to meet the millennium development goals, particularly the goal of halving the world’s poverty rate by 2015.

1. India, microfinance has enjoyed rapid growth over the last ten years. The development of microfinance also coincides with significant progress in the country’s effort to reduce poverty. However, most previous studies on the relationship between access to microfinance and poverty reduction are anecdotal. This chapter presents a conceptual framework which allows one to conduct an effectiveness analysis of microfinance detailed analysis in the thesis. The chapter includes a brief review of previous studies and some definitions. Previous studies on microfinance evaluation generally focus on impact assessment.

2. Individuals, households, enterprises and community. The authors suggested that households should be the focus of impact assessments. In particular, they proposed three impact domains (i.e., the areas where impacts are expected) at the household level, namely income, expenditure and assets.

The authors argued that microenterprise intervention not only has impacts on program participants but also on other household members through intra-household dynamics. Thus, impact domains for individuals in household’s include control over
personal resources, leverage in household decisions, and community participation. This framework was further developed to facilitate the assessment of risk.

In particular, the poor often choose low-risk activities, and thus, generate low returns, which, in turn, results in low asset accumulation. In addition, the poor have few resources to draw on in order to cope with, and to recover from, shocks.

- THEORETICAL STRUCTURE

Otero (1999, p.10) illustrates the various ways in which “microfinance, at its core combats poverty”. She states that microfinance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (1999). By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Otero, 1999).

The aim of microfinance according to Otero (1999) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Littlefield and Rosenberg (2004) state that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999).

More recently, commentators such as Littlefield, Murduch and Hashemi (2003), Simanowitz and Brody (2004) and the IMF (2005) have commented on the critical role of microfinance in achieving the Millennium Development Goals. Simanowitz and Brody (2004, p.1) state, “Microfinance is a key strategy in reaching the MDGs and in building global financial systems that meet the needs of the most poor people.” Littlefield, Murduch and Hashemi (2003) state “microfinance is a critical contextual factor with strong impact on the achievements of the MDGs…microfinance is unique among development interventions: it can deliver

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social benefits on an ongoing, permanent basis and on a large scale”. Referring to various case studies, they show how microfinance has played a role in eradicating poverty, promoting education, improving health and empowering women (2003).

However, not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a silver bullet when it comes to fighting poverty. Hulme and Mosley (1996), while acknowledging the role microfinance can have in helping to reduce poverty, concluded from their research on microfinance that “most contemporary schemes are less effective than they might be”. They state that microfinance is not a panacea for poverty-alleviation. Therefore, there is a need for all involved in microfinance and development to ascertain what exactly has been the impact of microfinance in combating poverty.

- **Micro-finance Combating Poverty**

Most poor people manage to mobilize resources to develop their enterprises and their dwellings slowly over time. Financial services could enable the poor to leverage their initiative, accelerating the process of building incomes, assets and economic security. However, conventional finance institutions seldom lend down-market to serve the needs of low-income families and women-headed households. They are very often denied access to credit for any purpose, making the discussion of the level of interest rate and other terms of finance irrelevant. Therefore the fundamental problem is not so much of unaffordable terms of loan as the lack of access to credit itself (Kim 1995).

The lack of access to credit for the poor is attributable to practical difficulties arising from the discrepancy between the mode of operation followed by financial institutions and the economic characteristics and financing needs of low-income households. For example, commercial lending institutions require that borrowers have a stable source of income out of which principal and interest can be paid back according to the agreed terms. However, the income of many self-employed households is not stable, regardless of its size. A large number of small loans are needed to serve the poor, but lenders prefer dealing with large loans in small numbers to minimize administration costs. They also look for collateral with a clear title –with

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2www.nyda.gov.za
many low-income families do not have. In accumulation financiers incline to ruminate low income families a bad risk stately outstandingly high in observing charges on process.

Microfinance institutions can broaden their resource base by mobilizing savings, accessing capital markets, loan funds and effective institutional development support. A logical way to tap capital market is securitization through a corporation that purchases loans made by microenterprise institutions with the funds raised through the bonds issuance on the capital market. There is at least one pilot attempt to securitize microfinance portfolio along these lines in Ecuador. As an alternative, Banco Sol of Bolivia issued a certificate of deposit which is traded in Bolivian stock exchange. In 1994, it also issued certificates of deposit in the U.S. (Churchill 1996). The Foundation for Cooperation and Development of Paraguay issued bonds to raise capital for microenterprise lending (Grameen Trust 1995). Savings facilities make large scale lending operations possible. On the other hand, studies also show that the poor operating in the informal sector do save, although not in financial assets, and hence value access to client-friendly savings service at least as much access to credit. Savings mobilization also makes financial institutions accountable to local shareholders. Therefore, adequate savings facilities both serve the demand for financial services by the customers and fulfils an important requirement of financial sustainability to the lenders. Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner (Barry 1995). Convenience of location, positive real rate of return, liquidity, and security of savings are essential ingredients of successful savings mobilization (Christen et al. 1994).

Once microfinance institutions are engaged in deposit taking in order to mobilize household savings, they become financial intermediaries. Consequently, prudential financial regulations become necessary to ensure the solvency and financial soundness of the institution and to protect the depositors. However, excessive regulations that do not consider the nature of microfinance institution and their operation can hamper their viability. In view of small loan size, microfinance institutions should be subjected to a minimum capital requirement which is lower than that applicable to commercial banks. On the other hand, a more stringent capital
adequacy rate (the ratio between capital and risk assets) should be maintained because microfinance institutions provide uncollateralized loans.

Governments should provide an enabling legal and regulatory framework which encourages the development of a range of institutions and allows them to operate as recognized financial intermediaries subject to simple supervisory and reporting requirements. Usury laws should be repelled or relaxed and microfinance institutions should be given freedom of setting interest rates and fees in order to cover operating and finance costs from interest revenues within a reasonable amount of time. Government could also facilitate the process of transition to a sustainable level of operation by providing support to the lending institutions in their early stage of development through credit enhancement mechanisms or subsidies.

One way of expanding the successful operation of microfinance institutions in the informal sector is through strengthened linkages with their formal sector counterparts. A mutually beneficial partnership should be based on comparative strengths of each sector. Informal sector microfinance institutions have comparative advantage in terms of small transaction costs achieved through adaptability and flexibility of operations (Ghate et al. 1992). Therefore, formal sector finance institutions could form a joint venture with informal sector institutions in which the former provide funds in the form of equity and the later extends savings and loan facilities to the urban poor. Another form of partnership can involve the formal sector institutions refinancing loans made by the informal sector lenders. Under these settings, the informal sector institutions are able to tap additional resources as well as having an incentive to exercise greater financial discipline in their management.

Microfinance institutions could also serve as intermediaries between borrowers and the formal financial sector and on-lend funds backed by a public sector guarantee (Phelps 1995). Business-like NGOs can offer commercial banks ways of funding micro entrepreneurs at low cost and risk, for example, through leveraged bank-NGO-client credit lines. Under this arrangement, banks make one bulk loan to NGOs and the NGOs packages it into large number of small loans at market rates and recover them (Women's World Banking 1994). There are many on-going research on this line but context specific research is needed to identify the most appropriate model. With this in mind we discuss various possible alternatives of formal-informal sector linkages in India.
In this context, following strategic, institutional and connectivity issues related to micro-finance arise.

**Strategic Issues**

- Is there a prevailing paradigm for micro-finance?
- Are there clearly visible patterns across the country?
- Is there a clearly defined foundation building blocks such as organizing principles, gender preferences and operational imperatives?

What are methodological issues?

**Institutional Issues**

- Is there a need for a new institution?
- Should it operate all India or in a state?
- Where should it be located?
- Who can lead an institution of this sort?
- What will its contextual interconnections be?
- Who will be its beneficiaries?

**Connectivity Issues**

- How should the Corporate Financial Sector be involved?
- What is the role of donor agencies?
- How should communities be involved?
- Are there political issues that should be explicitly considered?
- Are there government policy issues?

- **The Formal Sector Institutions:**

  Traditionally, the formal sector Banking Institutions in India have been serving only the needs of the commercial sector and providing loans for middle and upper income groups. Similarly, for housing the HFIs have generally not evolved a lending product to serve the needs of the Very LIG

3www.garph.co.uk/IJARMSS/Apr2014/5.pdf
primarily because of the perceived risks of lending to this sector. Following risks are generally perceived by the formal sector financial institutions:

- **Credit Risk**
  - High transaction and service cost
  - Absence of land tenure for financing housing
  - Irregular flow of income due to seasonality
  - Lack of tangible proof for assessment of income
  - Unacceptable collaterals such as crops, utensils and jewelry.

The Government has taken several initiatives to strengthen the institutional rural credit system. The rural branch network of commercial banks have been expanded and certain policy prescriptions imposed in order to ensure greater flow of credit to agriculture and other preferred sectors. The commercial banks are required to ensure that 40% of total credit is provided to the priority sectors out of which 18% in the form of direct finance to agriculture and 25% to priority sector in favor of weaker sections besides maintaining a credit deposit ratio of 60% in rural and semi-urban branches. Further the IRDP introduced in 1979 ensures supply of credit and subsidies to weaker section beneficiaries. Although these measures have helped in widening the access of rural households to institutional credit, vast majority of the rural poor have still not been covered. Also, such lending done under the poverty alleviation schemes suffered high repayment defaults and left little sustainable impact on the economic condition of the beneficiaries.\(^4\)

- **The Existing Informal financial sources:**
  The informal financial sources generally include funds available from family sources or local money lenders. The local money lenders charge exorbitant rates, generally ranging from 36% to 60% interest due to their monopoly in the absence of any other source of credit for non-conventional needs. Chit Funds and Basis are other forms of credit system operated by groups of people for their mutual benefit which however their own limitations have.

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\(^4\) [www.garph.co.uk/IJARMSS/Apr2014/5.pdf](http://www.garph.co.uk/IJARMSS/Apr2014/5.pdf)
Lately, few of the NGOs engaged in activities related to community mobilization for their socio-economic development have initiated savings and credit programmes for their target groups. These Community based financial systems (CBFS) can broadly be categorized into two models: Group Based Financial Intermediary and the NGO Linked Financial Intermediary.

Most of the NGOs like Saharan in Delhi, Federation of Thrift and Credit Association (FTCA) in Hyderabad or SPARC in Bombay have adopted the first model where they initiate the groups and provide the necessary management support. Others like SEWA in Ahmedabad or Baroda Citizen's Council in Baroda pertain to the second model.

The experience of these informal intermediaries shows that although the savings of group members, small in nature do not attract high returns, it is still practiced due to security reasons and for getting loans at lower rates compared to that available from money lenders. These are short term loans meant for crisis, consumption and income generation needs of the members.

- **Current State of Micro-Finance:**

  Microfinance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundation of the modern MFIs with establishment of Grameen Bank, Bangladesh in 1976. Today it has evolved into a vibrant industry exhibiting a variety of business models. Microfinance Institutions (MFIs) in India exist as NGOs (registered as societies or trusts), Section 25 companies and Non-Banking Financial Companies (NBFCs). Commercial Banks, Regional Rural Banks (RRBs), cooperative societies and other large lenders have played an important role in providing refinance facility to MFIs. Banks have also leveraged the Self-Help Group (SHGs) channel to provide direct credit to group borrowers.

  With financial inclusion emerging as a major policy objective in the country, Microfinance has occupied center stage as a promising conduit for extending financial services to unbanked sections of population. At the same time, practices followed by certain lenders have subjected the sector to greater scrutiny and need for stricter regulation.

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5www.garph.co.uk/IJARMSS/Apr2014/5.pdf
This report, which contains only a part of the actual report is based on the research work done as a part of the summer internship project at Reserve Bank of India, Kanpur. The research involved study of the past literatures about the microfinance sector, related online research papers and journals. The study also involved survey of all MFIs in the state of Uttar Pradesh through field visits and online survey. The annual reports and the sector reports published by regulatory bodies, MFI associations and major microfinance players facilitated the study, especially in understanding the size, growth and past trends. Interactions with some of the industry experts helped in understanding and analyzing the emerging concerns in the microfinance sector and also to look for some possible solutions.

Although the microfinance sector is having a healthy growth rate, there have been a number of concerns related to the sector, like grey areas in regulation, transparent pricing, low financial literacy etc. In addition to these concerns there are a few emerging concerns like cluster formation, insufficient funds, multiple lending and over-indebtedness which are arising because of the increasing competition among the MFIs. On a national level there has been a spate of actions taken to strengthen the regulation of MF sector including, enactment of microfinance regulation bill by the Government of Andhra Pradesh, implementation of sector-specific regulation by Reserve Bank of India and most recently, release of Draft Microfinance Institutions (development and regulation) Bill, 2011 for comments.

Based on the research work, a few major recommendations made in the report include field supervision of MFIs to check ground realities and the operational efficiency of such institutions. Offer incentives to MFIs for opening branches in unbanked villages, so as to increase rural penetration. Also MFIs be encouraged to offer complete range of products to their clients. Transparent pricing and technology implementation to maintain uniformity and efficiency are among the others which these institutions should adopt. Inability of MFIs in getting sufficient funds is a major hindrance in the microfinance growth and so these institutions should look for alternative sources of funds. Some of the alternative fund sources include outside equity investment, portfolio buyouts and securitization of loans which only a few large MFIs are currently availing.\textsuperscript{6}

\textsuperscript{6}indianresearchjournals.com/pdf/UMFSMR/2012/November/13.pdf
CONCEPT OF MICRO-CREDIT AND MICRO-FINANCE:

Microcredit and microfinance changed the lives of people and revitalized communities in the world poorest and also the richest countries. We have seen the enormous power that access to even modest financial services can bring people. With access to a range of financial tools, families can invest according to their own priorities — school fees, health care, business, nutrition or housing. However, studies have shown that of the 4 billion people who live on less than $1400 a year, only a fraction have access to basic financial services. With this huge unmet demand, the Year of Microcredit 2005 calls upon us to build inclusive financial sectors and strengthen the powerful, but often untapped, entrepreneurial spirit existing in impoverished communities.

Microcredit is a small amount of money loaned to a client by a bank or other institution. Microfinance refers to loans, savings, insurance, transfer services, microcredit loans and other financial products targeted at low-income clients. Microcredit has been changing the lives of people and revitalizing communities worldwide since the beginning of time.

From the functional point of view, the micro-finance revolution is in reality a transformation of the micro-credit revolution that started in the mid-1970s. This perhaps explains why the two terms are often used synonymously, and/or the two types of programme are examined under the same heading (Morduck 1999; Ledgerwood 1999). The authors who use these terms interchangeably regard the differences between them as semantic rather than substantive. This benign view, however, cannot be maintained if one looks at the supply side of micro-finance programmes. The issue has become critical, as underlined by Yunus (2004a): ‘The point is that every time we use the word “microcredit” we should make it clear which type(or cluster of types) of microcredit we are talking about.

NABARD'S Support for Capacity Building and Loanable Funds

NABARD provides capacity building assistance and financial support to its partners for the promotion and broad basing of microfinance operations. As part of its

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1indianresearchjournals.com/pdf/UMFSMR/2012/November/13.pdf
efforts to link larger number of SHGs to the banking system, NABARD also focuses on training and sensitization of partner agencies, through various interventions.

- **Liquidity Support to Banks for SHG-bank Linkage**

  The National Bank continued to provide 100 per cent refinance assistance to banks for financing SHGs. The journey so far traversed by the Self Help Group – Bank Linkage Programme (SHG-BLP) crossed many milestones – from linking a pilot of 500 SHGs of rural poor two decades ago to cross 8 million groups a year ago. Similarly from total savings corpus of few thousands of Indian Rupees in the early years to whopping 27,000 crore today, from a few crore of bank credit to a credit outstanding of 40,000 crore and disbursements touching 20,000 crore during 2012-13. The geographical spread of the movement has also been quite impressive - from an essentially Andhra Pradesh – Karnataka phenomenon in the beginning now spreading to even the most remote corners of India. Over 95 million poor rural households are now part of this world’s largest micro Credit initiative.

- **ECONOMICS OF MICROFINANCE AND GROUP LENDING**

  2.2 **Growth of microfinance**

  The growth of microfinance is visible in many aspects. There are more than 2000 NGOs involved in the NABARD SHG-Bank linkage program. Out of these, approximately 800 NGOs are involved in some form of financial intermediation. Further, there are 350 new generation co-operatives providing thrift and credit services. According to our estimate, the present total outstanding, including Sa-Dhan members and bank linkages is approximately Rs.700 crores (Rs. 150 crores of Sa-Dhan members and another Rs. 550 crores from the Banking system). The total client base is estimated at 6-8 million as opposed to the Government of India (GOI) intention to reach 25 million clients. The growth of community institutions has taken place with the role to take social and financial intermediation. A numbers of community banks have come into existence at village and block levels call 'Federation of Self Help Groups'.

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9 [www.microfinanceindia.org](http://www.microfinanceindia.org)
The inadequacies of the formal financial system to cater to the needs of the poor and the realization of the fact that the key to success lies in the evolution and participation of community based organizations at the grassroots level led to the emergence of new generation of MFIs

- **Capacity Building Needs for MFIs**

  It has been observed that, MFIs are able to reach the poor effectively mainly because they have designed products and channels, which are friendly and suitable to the need of the poor. However, MFIs outreach is limited in comparison with the mainstream financial institutions because of the shortage of financial and human resources. MFIS need grants to build their own capacity as well as that of the borrowers or SHGs. A vast majority of MFIs are NGOs registered under the Societies Act or Trust Act, and they cannot mobilize large amount of lending funds due to the inappropriate legal and financial structure. A few MFIs which have registered as Non-Banking Finance Companies (NBFCs) are able to mobilize equity from development financial institutions and leverage these with borrowing from commercial banks. However, the regulatory framework is not conducive for these MFIs.

  Unfortunately, in India the dominant reform agenda of the mainstream sector clouds the reform and attention that is required at the bottom end. The past few years though has seen an appreciable increase and support to this problem. The present economic advisory team under the leadership of the Prime minister though (PMO) has brought increasing focus to this problem and a group has been constituted to deal with these problems.

  Sa-Dhan, The Association of Community Development Finance Institutions (biggest Apex body of Microfinance Institutions in India) had been asking the Government of India to make more funds available for the capacity building of the microfinance sector. Though locked into bureaucratic procedures, some of these funds have been made available. Hence, the need for capacity building of NGOs on one hand and the capacity building of local communities on the other hand is needed to ensure effective management. In this context, if the Microfinance Development Fund
(MFDF) of 430 crores is not released in the immediate future, it will culminate into disaster for the microfinance sector\(^\text{10}\).

- **Limitation of Government Schemes/Rural Banks**

In India, numerous government schemes have tried to provide various subsidized services to the poor households. However, various studies have exposed the limitation of these programs, showing the lack of access of mainstream financial services for these poor households and their over-dependence on the local moneylenders in meeting their consumption and micro-enterprise demands. According to an estimate, only 16% credit usage was met by the formal sources, while the remaining 84% was met by the informal services. Despite having a wide network or rural bank branches in the country and implementation of many credit linked poverty alleviation programmes, a large number of the very poor continue to remain outside the fold of the formal banking system. Various studies also suggested that the policies, systems and procedures and the saving and loan products often did not meet the needs of the very poor. NABARD refines the microfinance sector loans by banks, but doesn’t undertake direct financing. Thus, its ability to promote innovations or establish any “missing link” units is very limited. Small Industries Development Bank of India (SIDBI) mainly uses the network of State Financial Corporation’s (SFCs) and commercial banks to extend microfinance sector loans in rural small towns. It also faces the same constraint. State Financial Corporation’s (SFCs) largely concentrate on the upper end of SSIs and that too in urban areas. However, through their district branches, a small proportion of lending is done to the microfinance sector. He their lengthy and stringent procedures inhibit the poor. Regional Rural Banks (RRBs) are located in rural areas, have low CD ratio but are suffering immensely from lack of skills, incentives and infrastructure support. As can be seen from above, while there is no dearth of institutions and branch network in urban and rural areas, this physical outreach does not translate into access to credit by microfinance sector producers\(^\text{11}\).

However, wherever mainstream finance institutions are engaged in financing small borrowers, their experience is characterized by a number of factors. Their

\(^{10}\)www.microsave.net////IFN

\(^{11}\)Capacity_Building_Needs_and_Challeng
institutional design and mandate, which determines their procedures, do not suit the poor. The poor find their procedures cumbersome, complicated and unsuitable for the local environment. They have also failed to provide a mix of credit for both consumption and productive loans. Therefore poor feel alienated in dealing with them. They feel scared to go to them. Repeat loans, except for crop production are rare, even for the borrowers who have repaid fully. Further, even though the many of the loans extended to the poor by the public sector financial institutions are subsidized, their ultimate cost to the borrowers is high which includes payments to the middle men, wage and business loss due to time spent in getting the loans approved.

Despite the fact that microcredit has become something of a cause celebration for its potential to help the developing world, there are some serious and credible criticisms of its success. Critics of microcredit say that many of the poorest of the poor still do not qualify for a loan, because they pose too much risk; and those that do qualify use much of their loan, not for business, but for simple needs such as food for their families.

"Grameen borrowers are staying poor," said Gina Neff, an economic journalist writing for the Left Business Observer in 2006. "After eight years of borrowing, 55 percent of Grameen households still aren't able to meet their basic nutritional needs. “Others insist that microfinance is not a complete solution, charging that those who have benefited from the industry overstate its value in order to keep the model going. Institutions like the World Bank and the International Monetary Fund have also come under fire for funneling into microcredit institutions money that could have gone to funding for education, health or other basic social infrastructure needs.

There's no doubt that microcredit has reached the poor in many places overlooked by mainstream banking sources. And even when the rate of return is less than 100 percent, as is the case for most if not all micro lending institutions, putting capital into the hands of small businesses can have benefits for the future. “The real outcome will manifest itself in the education and choices that will open up for their children," says Maria Otero, president of Accion International. "The power of putting capital in the hands of poor people enables them to create their own wealth and invest in their children."
Sources: World Bank; Grameen Bank; The Consultative Group to Assist the Poor; Accion International; Globalenvision.org; BBC; The New York Times; The Year of Microcredit; Clinton Global Initiative Fund; Does Microfinance Really Help the Poor? By Jonathan Morduch; Left Business Observer; United Nations Development Program.

2.3 EVOLUTION OF MICROFINANCE:

The history of micro financing can be traced back as long to the middle of the 1800s when the theorist Lysander Spooner was writing over the benefits from small credits to entrepreneurs and farmers as a way getting the people out of poverty. But it was at the end of World War II with the Marshall plan the concept had a big impact. The today use of the expression micro financing has its roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Mohammad Yunus, where starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hammed Khan. At that time a new wave of microfinance initiatives introduced many new innovations into the sector. Many pioneering enterprises began experimenting with loaning to the underserved people. The main reason why microfinance is dated to the 1970s is that the programs could show that people can be relied on to repay their loans and that it’s possible to provide financial services to poor people through market based enterprises without subsidy. Shore bank was the first microfinance and community development bank founded 1974 in Chicago12.

An economical historian at Yale named Timothy Guinean has been doing some research on Friedrich Wilhelm Raiffeisen’s village bank movement in Germany which started in 1864 and by the year 1901 the bank had reached 2million rural farmers. Timothy Guinean means that already then it was proved that microcredit could pass the two tests concerning people’s payback moral and the possibility to provide the financial service to poor people. Another organization, the cause popularize movement grounded by AL phone and Dorimene Desjardins in Quebec, was also concerned about the poverty, and passed those two tests. Between1900 to1906 when they founded the first cause, they passed a law governing them in the

12www.microfinanceinfo.com/history-of-microfinance
Quebec assembly; they risked their private assets and must have been very sure about the idea about microcredit.

Today the World Bank estimates that more than 16 million people are served by some 7000 microfinance institutions all over the world. CGAP experts mean that about 500 million families benefits from these small loans making new business possible. In a gathering at a Microcredit Summit in Washington DC the goal was reaching 100 million of the world’s poorest people by credits from the world leaders and major financial institutions. The year 2005 was proclaimed as the International year of Microcredit by The Economic and Social Council of the United Nations in a call for the financial and building sector to “fuel” the strong entrepreneurial spirit of the poor people around the world.

The International year of Microcredit consists of five goals:

• Assess and promote the contribution of microfinance to the MFIs.

• Make microfinance more visible for public awareness and understanding as a very important part of the development situation.

• The promotion should be inclusive the financial sector.

• Make a supporting system for sustainable access to financial services.

• Support strategic partnerships by encouraging new partnerships and innovation to build and expand the outreach and success of microfinance for all\textsuperscript{13}.

The economics professor Mohammad Yunus and the founder of Grameen Bank were awarded the Nobel Prize 2006 for his efforts. The press release from nobelprize.org states: “The Norwegian Nobel Committee has decided to award the Nobel Peace Prize for 2006, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts to create economic and social development from below. Lasting peace cannot be achieved unless large population groups find ways in which to break out of poverty. Micro-credit is one such means. Development from below also serves to advance democracy and human rights. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many

\textsuperscript{13} \url{www.microfinanceinfo.com/history-of-microfinance}
other countries. Loans to poor people without any financial security had appeared to be an impossible idea. From modest beginnings three decades ago, Yunus has, first and foremost through Grameen Bank, developed micro-credit into an ever more important instrument in the struggle against poverty. Grameen Bank has been a source of ideas and models for the many institutions in the field of micro-credit that have sprung up around the world.

Every single individual on earth has both the potential and the right to live a decent life. Across cultures and civilizations, Yunus and Grameen Bank have shown that even the poorest of the poor can work to bring about their own development. Micro-credit has proved to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions. Economic growth and political democracy cannot achieve their full potential unless the female half of humanity participates on an equal footing with the male. Yunus’s long-term vision is to eliminate poverty in the world. That vision cannot be realized by means of micro-credit alone. But Muhammad Yunus and Grameen Bank have shown that, in the continuing efforts to achieve it, micro-credit must play a major part.

14 www.microfinanceinfo.com/history-of-microfinance