Microfinance: Combating World Poverty One Small Business at a Time

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Abstract

Poverty is a major problem that reaches millions of people around the world. Although many organizations and individuals work daily to combat this, much of the work done to reduce poverty lacks sustainability and serves only to remedy to the effects of poverty, rather than create a solution to the causes of poverty. Microfinance can be very basically defined as the provision of banking to the impoverished who would not otherwise have access to these services. This purpose of this thesis is to show that microfinance is the ideal solution to the poverty problem by using research and evidence from case studies. This thesis also contains analyses of these studies with the purpose of discovering best practices in microfinance.

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The Problem

Reaching every corner of the globe, poverty is arguably the largest and most widespread problem in the world today. Seven hundred two million people live below the international poverty line, which is set at $1.90 a day (Ending Extreme Poverty, 2016). Although this statistic is an improvement from five years ago, nearly ten percent of the world's population still lives in extreme poverty (World Bank Forecasts, 2015). Though there are many ways people can fight world poverty, microfinance is one solution that has the potential to significantly and sustainably reduce the number of people below the poverty line.

Defining Poverty

In order to analyze the poverty problem and potential solutions, it is important to define what poverty is. There are many understandings of what poverty means, but for the purposes of this paper, it is best defined by those who are experts in the business of microfinancing for the alleviation of poverty; According to the World Bank (2011), poverty is defined as marked deprivation in well-being. There are many factors that go into determining well-being, including education, healthcare, income, and housing. Lack of income is the most recognizable mark of poverty, but marked deficiency of independence and self-esteem are also factors (Mahmood, Hussain & Matlay, 2014). Poverty often results from a combination of low productivity, low income, high population growth, and imbalanced resource distribution (Khandker, 1998). There are also different levels of poverty, including the working poor and the ultra-poor; this diversity has proven to be problematic in

the fight against poverty (Mukherjee, 2014). Poverty is a multi-faceted issue and therefore, any potential solution to poverty must also be multi-faceted.

The Solution

Business initiatives in developing countries create jobs, increase productivity, and reduce poverty. Respected theologian and professor, Dr. Wayne Grudem (2003), wrote, ". . . if we are ever going to see long-term solution to world poverty, I believe it will come through starting and maintaining productive, profitable businesses" (p. 58). Microfinance is defined as the provision of financial services to the poor, most notably in the form of small loans for entrepreneurship purposes (Sainz-Fernandez, Torre-Olmo, Lopez-Gutierrez, & Sanfilippo-Azofra, 2015). The poor have such limited resources and face so many obstacles that it is often impossible for them to exit poverty. Microfinance can provide the resources the poor need to pull themselves out of poverty.

Banking for the Poorest

Although formal credit lending is already available in most countries, those impoverished looking to use institutional credit as a means of gaining sustainable self-employment often do not have access to these loans, as they lack the collateral that banks require (Khandker, 1998). Traditional banking excludes this demographic on the basis that they are not creditworthy, even though these are the very people who could significantly benefit from taking out loans to start up businesses. Microfinance does not require the collateral that regular banks do, and therefore can fill this gap in the banking system.

A Unique Solution

Microfinance has shown itself to have a positive and effective impact on poor communities, which fulfills its primary purpose. What is unique about this particular strategy as a means of poverty reduction is that it requires the poor to take an active role in their own financial situations (Toindepi, 2016). There are many potential solutions to reduce poverty, but microfinance is different in that it is not simply a one-time donation of food, clothing, and so on; rather, the idea of microfinance is to change the economic capacity of poor individuals for a lasting positive change.

Example of Success

A study of a microfinance initiative in Bangladesh indicated that the program not only affected the participants positively, but also improved the welfare of the entire village (United Nations, 2006). This is crucial, as overall economic growth and development plays a major role in widespread poverty alleviation. Although the transformation of a single village in Bangladesh is rather small in comparison to the country as a whole and microscopic in comparison to the world, it is a small-scale example of what can be a large-scale solution.

The Microfinance Debate

Supplying the poor with small loans for the purpose of entrepreneurship and subsequent quality of life improvement is no doubt amicable and promising in theory. However, there is much debate as to whether it alleviates poverty in practice (Gehlich-Shillabeer, 2008). The reason for this is not a flaw in the concept and

theory of microfinance, but rather in the way microfinance institutions structure their business models. There are several types of investors with varying motivations for investing in microfinance; a pattern of influence corresponds with these motivations. Certain programs are modeled for the sole purpose of stimulating economic activity and show low interest or consideration for positive social impact (Toindepi, 2016). Others are quite the opposite and focus only on social improvement, which can also be problematic from a business standpoint. Each sector has its own set of problems, and each of these flaws can cause microfinance to fail at adequately addressing poverty; therefore, careful consideration must be made on the part of microfinance institutions as to how these programs should be modeled.

Microfinance Model Factors

Microfinance business models vary greatly depending upon the motives of stakeholders. Non-profit charities tend to donate funds or resources and operate solely to benefit the recipient(s) and reduce poverty. On the other hand, banks that provide microfinancing loans generate returns from accrued loan interest and therefore also benefit from this investment (Crane & Matten, 2010). The approach these separate entities make is different based on the desired results of each.

A second factor in a microfinance business model is the process by which participants or recipients are chosen. The Group Guarantee Lending Model (GGLM), developed by the Grameen Bank and used worldwide, requires microloan candidates to form a peer group that will pledge to a mutual loan repayment plan

(Gobezie, 2010). The groups meet frequently to plan, discuss, and collect payments. This strategy implements accountability as well as eliminates several entry barriers for those too poor to normally qualify for a loan, such as lack of education or skills training, limited or no money management experience, and lack of collateral (Gobezie, 2010). The "National Strategy for Microfinance," an initiative launched in Egypt in 2005, used a different model for loan distribution; organizers of this initiative developed an application for potential microloan recipients to fill out (Roy, 2010). Each microfinance organization endorses different practices for how loan recipients are chosen, and the way this is modeled can either help or hinder an organization from reaching the poorest populations.

An outside factor that affects the microfinance business model is location of the community that would benefit most from microfinance services. Demographics pose a barrier with micro-loans provided by banks in India, as under five percent of poor rural households have access to them (Kalra, Mathur, & Barman, 2009). This is a challenge that should be addressed and resolved, and applies to other countries as well.

Pre-Microfinancing Evaluation

Microfinance programs stimulate the economy by raising levels of consumption and production among the impoverished; this economic growth has the potential to reduce poverty rates. For these programs to be effective, many factors must be evaluated before money or time is invested. Funds invested in an initiative that is not carefully planned out or sustainably beneficial are wasted, and any effect

on the poverty line will be miniscule at best (Gielnik & Frese, 2013). Therefore, factors such as local market and available human and physical capital should be researched and evaluated before the start-up of a micro-finance program (Khandker & World Bank Development Research Group, 2003).

Providing the poor with small loans is the most consistent and common approach to combating poverty through microfinancing; the monies these loans provide are used to start small businesses, which generate income and contribute to the growth of local economies (United Nations, 2006). This is not a simple process and issues such as lack of education or training, local market demographics, and availability of assets necessary to initiate a small business must be considered, all of which vary greatly depending upon location and culture. For example, if a poor woman received a small loan to start up a sewing business to provide for her family, but she was not taught the skill of sewing, did not have access to a company or store that sold sewing machines, and/or there was no market for seamstress services in the area she lived in, starting her business would have been challenging and probably unsuccessful. Skills training is often critical to the success of a microfinance initiative (Brown, 2010). Many factors contribute to microfinance and the business model used in this process is important.

Motivation

Models of microfinance are greatly influenced by the philosophies and intentions of stakeholders (Toindepi, 2016). There are several types of stakeholders presently working in microfinance. These range from government-run banks to non-

profit organizations; each operates differently and each holds varying motives. Motivation is pivotal in microfinance, as it can determine whether or not it will help to alleviate poverty. In regards to the future of microfinance, the question of whether microfinance institutions should be privately funded, government-run, or strictly non-profit is often raised by critics of the microfinance as a form of poverty alleviation model (Bos & Millone, 2015). There is not a right or wrong answer to this, as there are good models, but no perfect models. All of these organizations feature both strengths and weaknesses, and while there is no definitive “best” microfinance organizational structure, there are different practices that should be gleaned from each.

Private sector. Self-serving motivation is the major criticism often endured by the private sector (Toindepi, 2016). Private investors are mainly focused on personal gain through the investments they make in microfinance. It has been claimed that there is no evidence to indicate private sector investment in microfinance has any interest in poverty alleviation. Critics argue that in this sector, the pursuit of profit completely outweighs the desire for poverty reduction. This argument is not a universal rule; however, it is a major problem in microfinance. In the early twenty-first century, researchers noted a mission drift in the field of microfinance (Mersland & Strøm, 2010). As the field developed and expanded, private investors realized microfinance’s lucrative potential. These investors shifted focus from helping the poorest individuals to gaining better-off clientele who could afford to pay larger interest rates. From a purely business perspective, that was a

fiscally smart move. Unfortunately, this shift fails to benefit the poor people microfinance was originally created to help.

Government. Similar to the private sector, government-run microfinance institutions have little interest in social improvement (Toindepi, 2016). Rather, these institutions strive for economic stimulation. Although this is beneficial, the lack of regulation of microfinance social performance yields little influence on world poverty. There is potential for the very poor to be indirectly helped through the stimulation of labor markets, as they can become employees of those less poor entrepreneurs who do receive microloans from these types of institutions (Mahmood et al., 2014). However, the actual number of ultra-poor individuals that are indirectly helped in this way is likely miniscule. Although financially stable, government-run microfinance institutions often stray from the original goal of microfinance, to reach the most impoverished with the banking services they need to become empowered and raise themselves out of a life of extreme poverty (Mersland, 2011).

Non-profit. Non-profit microfinancing organizations measure success by societal improvement; these types of organizations keep the original purpose of microfinance, poverty alleviation, at the forefront of their actions better than any other microfinance lenders (Mersland, 2011). By definition, the purpose of non-profits is to further a cause rather than seek financial gain for its stakeholders. This approach is extremely important; however, research indicates that financial sustainability is just as important for these institutions. The mission cannot be

accomplished if the organization cannot keep itself afloat. Therefore, there is a need for a shift in the fiscal management of non-profit microfinance organizations. These institutions must set an example of good stewardship for microfinance customers. Hand-outs do not relieve poverty in the long run, and much of the success of microfinance depends upon consistent growth and sustainability.

Staff motivation. Those employed by microfinance institutions who work with customers are called loan officers (Godfroid, 2017). There are several motives driving an individual to become a loan officer, and while they often vary based on the type of institution the officer works for, an officer's motivation does not necessarily reflect the institution's mission and goals, which can create internal conflict for some individuals. Some loan officers are comparable to regular banking staff, while others act more like non-profit workers. The best workers for this job must be both. They must proficiently provide banking services while concurrently counseling customers and following up on debt payments. Role conflict and confusion within microfinance institutions is not uncommon, as it is often difficult to attract staff that share the organization's double mission, which plays into the various roles the officers are meant to fill. Those who are motivated either solely by charity or solely by financial gain have problems carrying out the organization's mission in full, because they seek to fulfill one role more than the others. These officers are the hands and feet of the organization, and are often given personal discretion when working with customers. Therefore, it is a major problem for the institution when its officers do not share and work towards the same goals as the

institution itself. Strong human resource management is important in microfinance institutions. Employees must understand the mission of the employer and be motivated to work towards the organization's goals in order for the organization to be successful.

Analysis. Best practices can be taken from all types of microfinance organizations, including government-run programs, private sector institutions, and non-profit organizations. Having a double-bottom-line in the organizational structure seems to be the ideal approach, as it balances both the mission of reducing poverty with the need to stay in business (Halilbasic & Crnkic, 2010). Without financial stability, microfinance institutions cannot continue to help the poor. Therefore, the twofold method is the most successful model. However, the double mission approach can create problems within the organization, as the motives of individual employees who are supposed to carry out these missions may not be in alignment (Godfroid, 2017). Regardless of the type of microfinance institution, a strong organizational culture and internal unity is important for the success of the organization.

Loan Recipients

The mission and motivation of a microfinance institution is usually revealed in the types of people it attracts and with whom it works. Non-profits tend to work with the least financially stable clientele, while banks and the for-profit sector lend to those with higher incomes. Microfinance can be a great opportunity for the poorest individuals and families; however, it often does not reach those who are

"ultra-poor." Mukherjee (2014) states that there are distinct differences between the "working poor" and the "ultra-poor." The former earn an income that is below the poverty line; they have certain skills and work for pay, but live off of less than $1.90 a day (Ending Extreme Poverty, 2016). There are several definitions of what it means to be ultra-poor, but the definition used by Lipton (1983), the man who originally coined the phrase "ultra-poor," defined it as one who lives on eighty percent or less than the minimum calorie intake per day, yet spends eighty percent or more of one's income on food. Unfortunately, many programs designed to reach the most poverty-stricken population, the ultra-poor, often end up excluding this group of people (Morel & Chowdhury, 2015). This is mainly because those who run the programs see them as one homogenous group with the same needs, goals, and skills (or lack thereof). However, this is not the case, and leaders ought to keep this in mind when modeling microfinance institutions. Reaching out to the working poor is easier than targeting the ultra-poor for several reasons. Firstly, it is costlier to reach the ultra-poor, as they tend to live in rural environments, while the working poor are generally in more urbanized areas. Microfinance institutions also often do not have programs designed to attract those who fear the opportunity risk. The poor are not a homogeneous group; there are different levels of poverty and each must be addressed and reached in different ways (Mukherjee, 2014).

Women entrepreneurs are often chosen as microfinance recipients for a variety of reasons (Gobezie, 2010). The percentage of women who live in extreme poverty is disproportionately high compared to men, so it is natural to see more

women than men receiving microfinance loans. Women also tend to be less risky borrowers, as evidence shows they are far more likely to make their payments. Research indicates that poor female entrepreneurs are more likely than their male counterparts to invest their income back into their families and household needs. Investing in the needs of these children is important, as it sets them on a path away from poverty. Women entrepreneurs appear to be the future of microfinance, and it is important for microfinance institutions to be prepared to invest in them.

Loan Size

The typical size of loans that financial institutions grant is closely related to the average income of its customers (Sainz-Fernandez et al., 2015). Smaller loans pose less of a risk than large loans, so for those with lower incomes who may have more difficulty with repayment, smaller loans are a better option. Microfinance institutions that seek to alleviate poverty should offer small to medium-sized loans, as these attract the poorest customers (Mahmood et al., 2014). Unfortunately, the fear of taking on debt in the midst of poverty often prevents these individuals from applying for microfinance. Women in particular avoid taking large loans that could create more financial hardship for their families. Small loans are less risky, and therefore more likely to reach those who need them the most. However, loan officers can demonstrate personal discretion when working with customers, and each individual has different needs and potential; therefore, loan size should be dealt with on a case-by-case basis, as there is no single magical dollar amount that is just right for all microfinance customers. Microfinance should be customizable, as

this will raise both the success rate of those who take microloans and the chances of full repayment.

Terms and Conditions

For the financial viability of microfinance institutions, theft of loans and loan default must be avoided as much as possible (Mahmood et al., 2014). As mentioned, hand-outs do not help to alleviate poverty, and the payback process is important, as it allows for institutions to continue reaching more and more people who need microloans. Pilfering and loan default issues can be greatly reduced by careful organization regarding accountability and repayment planning. The terms and conditions of the microloan, including interest rates and the schedule of loan payback should be given careful consideration.

Interest. Interest rate is a highly-debated topic among critics and advocates of microfinance. High interest rates may be put in place to help organizations remain financially stable; however, this makes it significantly more difficult for the very poor to repay the loan and often prevents this sector of the population from applying for them (Sainz-Fernandez et al., 2015). In the long run, institutions that charge too high of an interest rate may end up losing money instead of gaining it, as loan default rates increase. Institutions focused primarily on social improvement tend to charge less (or no) interest, while those whose focus is economic stimulation and/or profit charge higher rates. A balance between these two is important, as one extreme can lead to financial ruin for the organization, while the other can result in not reaching those in extreme poverty. Studies show that microfinance institutions

that seek financial stability have a much larger outreach to the poor than those that rely on donations to cover losses resulting from giving out unsubsidized loans (Gobezie, 2010). There are additional measures that should be taken to reduce the risk of the poorest customers failing to repay the loans and accrued interest, which will be discussed later. Overall, it can be concluded that a reasonable and appropriate amount of interest should be applied to microfinance loans. The amount should be enough for the programs to adequately cover their expenses and losses so that they stay in business and help more customers, while also being careful to avoid driving away the ultra-poor with intimidating interest rates.

Accountability. Microfinance programs may not achieve success for a variety of reasons, including failure to repay the loan and failure of the business venture for which the loan is used. Yet a small group system modeled by Grameen Bank can significantly reduce the likelihood of these issues occurring (Siwar & Talib, 2001). These Self Help Groups are a way for microfinance borrowers to form a small community in which each member creates and shares goals, is given help and advice, and is held accountable for microloan management. This model promotes healthy and appropriate peer pressure to honor microfinance contracts. It is also important for loan officers to form healthy relationships with clients, which creates another layer of accountability (Godfroid, 2017). Microfinance structures that promote community are more successful (and more likely to receive repayment on loans) than those that leave customers to figure out finance management on their own.

Benefits beyond Finances

Empowerment of the Poor

Microfinance not only provides the very poor with the financial resources they need, it also empowers them to begin making their own decisions and to pull themselves out of poverty, rather than relying on others to pull them out (Bayulgen, 2008). Empowerment can be defined as the perception of being in control of oneself, and therefore enabled to pursue and achieve certain goals (Weber & Ahmad, 2014). It is related to such qualities as self-efficacy, control over resources, decision-making abilities and opportunities, and the expectation that one will be treated with dignity. Those who live below the poverty line are usually not able to make choices for themselves, and have very little self-esteem as a result (Bayulgen, 2008). Microfinance is a way for those living in poverty to change the trajectories of their lives. The way a person views and treats himself or herself is a strong indicator of how successful that person will be in life. In most (if not all) societies, the poor are looked down upon, and often treated as lesser than those who are financially better off, able to provide for their families, and able to make choices to better their situations. Encouragement and support is a major need for the poor, as society often teaches them to believe they are incapable of taking risks to help themselves out of poverty.

Empowerment of Women

Empowerment of women is another major interest in microfinance today. Throughout the world, and especially in underdeveloped countries, women enjoy

fewer opportunities than men and face more challenges (Gobezie, 2010). Of the world's poorest groups of people, there is a disproportionately large representation of women as compared to their male counterparts. The man of the household is usually in charge of finances (and often is the only money-maker), which can be dangerous for the woman. Marital abuse is difficult to escape from because women are financially dependent upon the men. Death and illness of the husband/father may leave the woman/mother and her children destitute. The socioeconomic power of poor women is so low that it leaves them extremely vulnerable. However, many microfinance programs are working to change this. While not excluding men entirely, the main focus of many programs is to reach poor and vulnerable women.

Empowering women through microfinance leads to lasting positive economic and political change (Mahmood et al., 2014). Women entrepreneurs have a high rate of success, which is beneficial for stimulating the economy. Political participation among women tends to increase after they become involved in entrepreneurship through microfinance. This helps to diversify both voters and those who hold political office, which is grossly over-represented by men in most countries. Evidence from India showed that many women who participated in microfinance self-help groups were later elected to public office (Gobezie, 2010).

The choice to target women entrepreneurs is not only socially, economically, and politically beneficial, it is also a wise business move, as poor women have often shown themselves to be better borrowers than men, with a historically higher payback rate (D'espallier, Guerin & Mersland, 2011). Impoverished women hold

great potential, and microfinance is an opportunity to reach these often-forgotten people by empowering them to reach for a higher standard of living for themselves and for their families (Gobezie, 2010).

Health

Health has a direct correlation to quality of life and to poverty; the poor tend to have more health problems and less access to healthcare. A research study conducted by Mahmood et al. (2014) found that microfinance has a positive influence on family nutrition and health. The transition from a life of poverty requires a movement from an expectation of mere survival to a conviction that thriving is possible; when parents no longer have to worry about where the next meal will come from, they are able to focus on the nutritional value of the food. Women entrepreneurs and microfinance borrowers in particular tend to use this new source of income to take care of health and other family needs (Gobezie, 2010). Some microfinance institutions, Grameen Bank for example, even require customers to adopt certain habits that will improve their health and that of their families (Siwar & Tilab, 2001). The poorest population lacks education, and so healthy habits are often not taught or cultivated. Patel (2014) notes that microfinance organizations have the opportunity and ability to pair financial services with clinical services and health education. Poverty and sickness have a positive correlation, and microfinance services help customers to live healthier lives as well as be prepared for any familial health issues that arise. Microfinance gives poor people opportunities to improve their quality of health, which significantly improves overall quality of life.

Education

James A. Garfield (as cited in Applewhite, Evans & Frothingham, 1992) once stated, “Next in importance to freedom and justice is popular education, without which neither freedom nor justice can be permanently maintained” (p. 332). Poverty begets lack of education, and lack of education begets poverty; therefore, educating the poor is crucial to breaking the cycle of poverty. Studies show a significant increase in the level and quality of education the children of poor microloan borrowers receive (Mahmood et al., 2014). Microfinance is able to facilitate a better education for the next generation, as financial stability allows for parents to send their children to school rather than having them work or beg for money.

Skills

Those who receive microfinance and are successful with it are not only able to give their children a better education, they are able to receive an education themselves. Although this may look like going to school only to receive a degree, many life skills and lessons can be learned through the process of microfinance. Borrowers develop a strong and marketable business skill set, as they must learn how to create a business plan, put that plan into practice, and properly manage finances and other resources. Training in networking and business management is especially helpful for poor entrepreneurs (Mahmood et al., 2014). Examples of other types of business training that should be offered to microfinance borrowers include accounting, customer service relations, and finance literacy. Providing education for

microfinance borrowers to equip them for good business practices helps them to succeed in entrepreneurship, and ought to be included in all microfinance institution models.

Some microloans are granted to buy a specific piece of equipment that can be used to create a business (Karlan & Valdivia, 2011). A saw for carpentry work, a sewing machine for a seamstress business, or farming equipment are all examples of entrepreneurship tools. However, the borrower most likely does not have previous experience in these fields of work; therefore, there are programs that offer training classes to those who use these types of loans. These learned manual skills and abilities open up opportunities for the poor and empower them to become productive and professional workers.

Barriers to Successful Poverty Alleviation through Microfinance

Location

A problem microfinance institutions encounter is the difficulty of reaching the ultra-poor (Monne, Louche, & Villa, 2016). These people are often found in rural areas rather than urban ones, and it can be more costly and time-consuming to reach out to them. After first contact is made, maintaining regular contact can be challenging, and the probability of loan default or stealing increases. Small business start-ups may also be unsuccessful in rural locations, in which case microloans are a waste of time and push the poor into debt. However, research indicates that there still exists a scarcity of financial services in poor rural areas. For example, under five percent of poor households in rural India have microfinance access (Barman,

Mathur, & Kalra, 2009). Until greater access is achieved, it is extremely difficult for those living in these areas to get out of poverty.

Loan Repayment

Before microfinance institutions become available in the areas in which they live, the extremely poor have no access to financial services (Khandker, 1998). As a result, they likely have no finance management experience, and taking a microloan can be intimidating, challenging, and confusing. If there is any miscommunication, problems will likely arise regarding loan repayment. There have been reports of extreme cases in which microfinance recipients in India committed suicide due to the extreme stress they were under to make loan payments (Gobezie, 2010). These types of situations only hurt the poor and push them deeper into poverty, rather than helping them out of it. It is important, therefore, that a consistent, understandable, and manageable repayment contract be drawn up for each customer, and that loan officers keep up good communication and are available to answer any questions, addressing all individual issues that might arise.

Lack of Education

A root cause of worldwide poverty is lack of education (Gow, 2001). The poorest of the world often have no chance at improving their financial and social situations because they lack education, which limits their ability to exit a life of poverty. The World Bank cited education as the best way for poor people to pull themselves out of poverty. It is important for microfinance institutions to have an educational piece in their programs,

as this further empowers and enables the poor to succeed. This can also help to prevent issues with repayment contracts.

Lack of education can have an adverse effect on the microfinance process, as borrowers likely do not have a good grasp on business conduct, financial planning, and financial responsibility. Literacy rates are extremely low among the poor, which can also create communication barriers (Barman et al, 2009).

Reducing Microfinance Barriers

Strategize Reach

Research indicates that microfinance programs often do not reach the poorest of people; this can be due to a variety of reasons, including the possible remote location of these individuals, higher cost of reaching rural areas versus urban areas, the tendency of the poor to shy away from financial investment responsibility, and the higher risk that the extremely impoverished pose with loan repayment (Monne et al., 2016). These are significant obstacles to overcome, and organizations may have to creatively strategize how to reach the people that microfinance is most meant to help. As with any business, those that run microfinance institutions are responsible for setting the goals of the institution and then forming a game plan to achieve these goals. Those institutions that are established to alleviate poverty must come up with strategies for how to reach the target customers, the ultra-poor.

Eliminating the many barriers that keep the poor from accessing microfinance services represents a large part of a strategy for targeting the ultra-poor (Monne et al., 2016). Some of these barriers are erected by the poor themselves. Such self-created

obstacles include fear of financial risk and responsibility, and lack of motivation to take advantage of microfinance opportunities. Making the microfinance process as uncomplicated and easy to understand as possible is a step toward removing these barriers. Another important step for microfinance institutions is to counteract the stigma that the very poor are incapable of loan repayment. Although historically these people do create a larger risk for default, it is not necessarily because of their incapability. Rather, this could be due to flaws in an institution's system of lending to the poor. Such difficulties include miscommunication, unreasonable expectations, and lack of the support needed to help these poor individuals succeed as entrepreneurs.

Staff Training

Sensitivity and awareness of issues relevant to prospective clients are important for microfinance institution staff to consider (Gobezie, 2010). Gender inequality is a major problem in most, if not all, third-world countries, and it is recommended that those who work with these clients be required to take gender sensitivity training. A large percentage of microfinance applicants are women; therefore, it is important for staff to understand how to appropriately work with these women in light of their contextual circumstances. Loan officers should also receive training on how to best work with people of various social classes (or castes) and income levels. Although many customers' situations are similar, each are still unique individuals with different life experiences, worldviews, goals, knowledge, and skill sets.

Microfinance Client Groups

Placing microfinance customers in groups is one strategy that Grameen Bank proposed, and that others have adapted (Siwar & Talib, 2001). These groups represent a support system and accountability team, and those individuals that join one of these groups are more likely to succeed in their entrepreneurial goals, as well as keep up with the obligation of repaying the microloan. These groups can work with loan officers to avoid any miscommunication issues between the lender and borrowers. Microfinance client groups facilitate individual growth and empowerment, as well as community development. They help to reduce barriers to the success of microfinance by facilitating individual growth, empowerment, responsibility, and success, as well as community development.

Grameen Bank

Although there is no definite "best way" to run a microfinance institution, the best example of microfinance success is Grameen Bank. Founded in Bangladesh in 1976, Grameen Bank was one of the pioneers of institutionalized microfinance (Siwar & Talib, 2001). The bank committed to helping Bangladesh's poorest by providing small loans for business start-ups, as well as other free financial services they did not have access to. Before this, poor individuals could not access loans, as banks required collateral that they simply did not have. Mutual trust and accountability replaced assets for collateral, and opened opportunities that many people did not have otherwise. Grameen Bank's success came from the recognition that loan money alone cannot help an individual escape a life of poverty or a society

to reduce the rate of poverty. Rather, building up self-esteem within poor communities is crucial to the success of microfinance programs in reducing poverty.

Self-Help Groups

Grameen Bank established self-help groups that each microloan recipient must join (Siwar & Talib, 2001). The groups consist of five people, and if even one member defaults, the whole group is cut off from the program. This creates major incentive for wise management and timely payments, as each person is held responsible by four other microloan recipients. The groups meet weekly to discuss problems that arise, help each other form and critique business plans, and update each other on their goals. A sense of community is established among these groups that is important for the well-being of poor people. Loan officers work with the groups to monitor progress and keep them on track with payments.

Loan Management

The way Grameen Bank manages loans is unique in that they are not given out in lump sums, or repaid in lump sums (Siwar & Talib, 2001). Rather, small amounts of each loan are delivered to microfinance customers yearly, and a weekly repayment plan is created. Payments are made at the weekly group meetings. Although these payments are frequent, they are actually easier for the poor to make. It can be difficult for the poor to hang onto larger amounts of money for longer periods of time, rather than repaying a very small amount each week. These regular payments build trust and accountability, as well as confidence for those with little to no finance management experience. This method has been shown to work, as the

loan repayment rate reaches over ninety-five percent, proving that those who cannot provide collateral can still be creditworthy. The distribution of loans in smaller sums on a yearly basis is also strategic. It reduces the risk of the bank losing large amounts of money to customers who default, and also promotes growth of small businesses over time. Loan management is consistently a struggle for microfinance institutions, but Grameen Bank is an excellent example of success in this area.

Holistic Approach

Grameen Bank further focuses on improving overall quality of life, beyond mere financial stability (Siwar & Tilab, 2001). Self-help group members are required to follow sixteen rules that are designed to create healthy habits the poor are not always taught. These rules include growing and eating vegetables, working on home improvement and cleanliness, keeping families small, educating one's children, boiling water before consumption, refusing to give or receive dowries for marriage, and not practicing child marriage (Rouf, 2012). The Bank recognized that poor standards of living are not solely due to lack of income, but also lack of education on health, the importance of cleanliness, and unhealthy societal customs. Having customers commit to forming good, healthy habits while simultaneously working toward financial stability creates a holistic approach to the multi-faceted problem of poverty. As argued, extreme poverty is a result of many factors, not just a lack of money. Although increased income does significantly help to increase one's standard of living, practicing healthy habits such as these sixteen that

Grameen Bank loan recipients are required to commit to is also critical to the development of impoverished countries.

Feminist Implications

Bangladesh, like other poor countries, is a patriarchal society in which resources are severely limited for women (Rouf, 2012). Impoverished Bangladeshi women often do not have access to clean water, housing, education, healthcare, food, and other basic human rights. Most societies value men above women, which makes it incredibly difficult for poor women to exit poverty. Grameen Bank understands these issues and although men are not excluded from the microfinance program, women are prioritized and make up ninety-seven percent of borrowers.

The sixteen commitments Grameen Bank integrated into their microfinance contracts are indicative of the Bank attempting to change the way women are viewed and treated in these patriarchal societies (Rouf, 2012). Dowry-less marriage, not participating in child marriage, and keeping smaller families are all signs of a culture's change in attitude toward women and gender roles. Gobezie (2010) noted that mounting evidence shows that gender inequality and discrimination can prevent economic growth and stability. Research indicates that chauvinistic societies also tend to have lower standards of living, which is not coincidental. A culture that suppresses and discriminates against half the population will have great difficulty making positive social and economic advances. Grameen Bank recognizes that this is one of the heart issues from which poverty stems (Rouf, 2012). The bank intentionally targets women entrepreneurs to empower them through financial

services and community, with the knowledge that until discriminatory treatment of women ceases in a society, poverty will always exist.

Takeaway

In 2006, Grameen Bank and its founder, Muhammad Yunus, were jointly awarded the Nobel Peace Prize (Bayulgen, 2008). Yunus and the Bank were commended for their work with the poor in an effort to improve society both economically and socially through a self-sustaining method. The Bank spearheaded the microfinance movement and has been the example of a successful microfinance institution for over forty years. As with any business, it has its share of problems, but overall, it provides an excellent model for organizations that seek to alleviate poverty through microfinance (Siwar & Talib, 2001). This model treats poverty as the multi-faceted problem that it is; it addresses the lack of financial services available to the poorest in society, the importance of empowerment and self-esteem, the need for community and education among the impoverished, and gender issues that hinder growth and development (Rouf, 2012). Many microfinance organizations fail to see the big picture of poverty, and are unsuccessful as a result. The philosophies, tactics, and focus of Grameen Bank should be modeled by all future microfinance institutions that wish to be similarly successful.

Conclusion

Poverty is a problem that impacts hundreds of millions of lives on a daily basis. It is marked by significant deprivation of well-being and usually results from a combination of difficulties such as low income, imbalanced resource distribution, low productivity, and high population growth. Microfinance, the provision of

financial services to those too poor to benefit from regular banks, is a viable solution to alleviating poverty. Small loans for the purpose of entrepreneurship give the poor an active role in lifting themselves out of poverty. These small businesses can create a ripple effect, stimulating the local economy and facilitating long-lasting change not only in the individual lives of loan recipients, but their communities as well. Although there is much debate as to whether or not microfinance works in practice, there are many cases that show positive results. The most notable success story is that of Grameen Bank; best practices can be taken from this microfinance institution and others, to form the foundations of a model that successfully uses microfinance to reduce worldwide poverty.

There is no perfect model of microfinance, as there are too many conditional variables such as country, culture, and resources. However, there are some practices that have proven to work well, and others that have not. A microfinance institution that seeks to alleviate poverty should have a double bottom line structure, which aims to reach the poorest individuals with the financial services they need, while also maintaining financial security within the organization. Disrupting the balance between these two objectives will likely result in either financial ruin for the organization or a drift away from the mission of microfinance. Ensuring that loan officers and other staff are well-equipped to work with different types of people (both genders, various social classes, and so on) is crucial to the simultaneous successes of the institution and its customers. Organizations should also design microfinance programs that help to further equip and empower the poor to lift

themselves out of poverty. Financial management education, other business skills training, and self-help groups are just a few examples of services and organizational tools that microfinance organizations should offer to its customers. A holistic approach to improving the well-being of those in extreme poverty is important; simply loaning money to poor people will not help to reduce worldwide poverty. Each of these best practices can be used to form a microfinance business model that alleviates poverty efficiently and effectively.

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