

RESEARCH ARTICLE

POVERTY ALLEVIATION IN DEVELOPING COUNTRIES: A SUCCESSFUL APPROACH

Augustine Okon Jacob*

Department of Economics, Obong University, Nigeria
Corresponding Author Email: drjacob.ao@gmail.com

This is an open access article distributed under the Creative Commons Attribution License CC BY 4.0, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.

ARTICLE DETAILS

Article History:

Received 22 March 2022
Accepted 26 April 2022
Available online 28 April 2022

ABSTRACT

Microcredit has shown to be an effective tool for fighting poverty in underdeveloped countries. Microcredit may be traced back to the middle of the 1800s, thanks to the great achievements of the Grameen bank, which was created in Bangladesh in 1983. In poor nations, microfinance success stories have a big influence. This study endeavour looks at whether microcredit is an effective technique for poverty alleviation in emerging nations. Microcredit has a favourable link with poverty reduction, according to the study, and is thus an essential instrument for alleviating poverty in several nations, notably Bangladesh, Bolivia, and others. Nevertheless, there really are concerns about its potential to have a large-scale impact. The research also reveals that the impacts of microcredit on poverty reduction are a hotly discussed topic, with the broad consensus being that it is not a panacea. In general, it has fallen short of expectations. When microcredit is skillfully implemented and maintained, and services are tailored to fit the requirements of customers, it has a significant influence not just on clients, but also on their families and the wider society. It is important to stress that greater efforts should be directed toward institutional development, including adequate group strengthening, particularly for self-help groups (SHGs). The development of an efficient managerial improvement system (MIS) to support the stabilization of long-term functional delivery of services via high-performing self-help groups should be prioritised. It will also be significant. Microcredit programmes in underdeveloped nations will benefit from proper monitoring, oversight, and counselling.

KEYWORDS

Business, Income, Microfinance, Poverty

1. INTRODUCTION

Microcredit is a type of financial service aimed at people and small enterprises that do not have access to traditional banking and associated services. It is a form of banking service that is offered to jobless or low-income individuals or organisations who would otherwise be unable to get financial services. Most emerging countries, particularly those in Africa, are experiencing significant economic difficulties and poor economic performance. Poverty is defined as the state of being exceedingly poor, of poor quality, or of insufficient quantity. As a result, it is one of the most pressing issues facing developing nations today, and it is at the heart of their development strategy (Chirwa, 2002). Finance is one of the most significant barriers to new company endeavours. Many developing countries have embraced the strategy of implementing microcredit programmes to help the disadvantaged manage their companies. This programme has made a significant contribution to poverty reduction in developing countries. A thorough examination found that a variety of favourable effects have been demonstrated on a global scale. Microcredit programmes help to achieve numerous Millennium Development Goals (MDGs), including poverty reduction. Important success stories like Bolivia and Bangladesh, as well as many developing countries like Ghana, have formally embraced microcredit as one of the intervention programmes to alleviate poverty in Ghana. Even though microfinance has been in Ghana in some form for many years, in the 1990s, many governments formally and intentionally began adopting the microcredit strategy to address the problem of poverty to help minimise the negative impacts of impoverished countries. Microcredit is critical in the fight against poverty.

1.1 Conceptual Issues

The term "microfinance" has been defined differently by researchers and practitioners. Most microfinance scholars, practitioners, and experts agree on one thing: microfinance has emerged as an economic development strategy aimed at low-income women and men (UNDP microfinance guide, 1997).

According to recent study (Ledgerwood, 1999), "microfinance" refers to the provision of financial services, insurance, and payment services to low-income clientele. Microfinance is the provision of financial services to low-income and very poor self-employed persons (Otero, 1999). Microfinance is an attempt to enhance access to modest deposits and small loans for impoverished people that are overlooked by banks (Schreiner and Colnabet, 2001). As a result, microfinance entails providing financial services such as savings, loans, and insurance to impoverished individuals in both urban and rural areas who are unable to access them through the traditional banking sector.

According to the consultative group for the poorest, microfinance is giving extremely poor households very modest loans (microcredit) to help them engage in productive activities or build their small companies. As we've learnt, the poor and extremely poor who lack access to established official financial institutions want a varied variety of financial goods, microfinance has grown through time to encompass a wider range of services (credit, savings, insurance, and so on) (www.cgap.org). Notwithstanding this, the Ceylenco Grameen business incorporated in Sri Lanka defines microfinance as the provision of small loans to a significant population of poor businesspeople who may not be eligible for traditional bank loans.

Quick Response Code



Access this article online

Website:
www.seps.com.my

DOI:
10.26480/seps.02.2022.53.56

Microfinance is also defined by the World Bank as "small-scale financial services, primarily credit and savings, provided to people who farm or produce services, work for wages or commissions, earn money by renting out small amounts of land, vehicles, livestock, machinery, and tools, and other individuals and groups at the local level of developing countries, both rural and urban" (The World Bank perspective on development, Winter 2001/2002). "The UNDP Microstart Guide," published by the UNDP and the CITICORP Foundation in 1997. The notion of microfinance may be interpreted in a variety of ways, as seen by the above. The most fundamental is that microfinance gives disadvantaged families with tiny credits (microcredit) to enable them to establish their own business, no matter how little.

1.2 Microcredit

As previously stated, microcredit is just the provision of modest loans to microenterprises, whereas microfinance extends beyond that. As previously stated, microcredit focuses on providing credit services to low-income clients, typically in the form of modest loans for microenterprises and income-generating activities. The word "microcredit" is frequently connected with insufficient savings for the poor. In most situations, the provision of savings services in microcredit schemes basically entails the collection of mandatory deposit amounts intended solely to collateralize such loans. Additional voluntary contributions may be gathered, but customers' access to their imposed savings is restricted. These savings then become the principal source of capital for the financial firm (Bakhtiaric, 2006). The phrases "microcredit" and "microfinance" are frequently used interchangeably in the literature, but it is vital to distinguish between them since both are frequently misconstrued. Microcredit refers to small loans but microfinance is acceptable when NGO's and MFI's supplement the loans with other financial products (savings, insurance, etc.) (Sinha, 1998). Microcredit is a part of microfinance since it provides vital loans to the poor, but microfinance also covers non-credit banking services including savings, insurance, annuities, and utility reimbursement (Okiocredit, 2005).

1.3 Poverty

Poverty is tough to define in a single sentence. Poverty is defined by some as a lack of necessities such as food, clothes, water, and shelter. Most of the time, the two main categories or forms of poverty that are most typically employed are absolute poverty and relative poverty.

Relative poverty compares the resources and living situations of different segments of the population. It is the most basic method of determining the level of poverty in specific nations. Using this approach, the entire population is ranked in terms of per capita income. The poorest 10% of the population (or whatever number the government decides to use) are termed poor or destitute. This is appropriate for national measures, but it also has certain worldwide uses. If, for example, a 10% relative poverty measurement were used in a global setting, both an industrialised country like the United States and a sub-Saharan African country had the same 10% poverty rate, even though poverty conditions in Sub-Saharan Africa are much worse. As a result, absolute poverty measurements are increasingly commonly used to characterise global poverty. Relative poverty metrics define a poverty threshold depending on the anticipated value of a basket of items (food, housing, water, and so on) necessary for adequate survival at a certain yearly income or consumption level. If a country's income poverty threshold is set at \$5 per day, everyone earning less than \$182.5 per year is considered poor. According to www.odi.org, absolute poverty is the bare minimum of resources needed to survive.

Absolute poverty is defined by active deprivation, starvation, early mortality, and pain. The World Bank's absolute poverty line is the most used definition of global poverty. Poverty is defined as earning \$2 or less per day, while extreme poverty is defined as earning \$1 or less per day.

1.4 Models of Microfinance

A few microfinance strategies have emerged because of the expansion of microfinance institutions (MFIs) in underdeveloped as well as some developed nations. Among these are the Grameen model, the Harmony organization, the borrowing design, and the Village Bank model.

1.5 Grameen Model

Consumers under the Grameen model are often (but not necessarily) low-income women in rural or urban (highly populated) areas. Clients are picked based on means criteria, which ensure that those who are really impoverished and involved in income-generating activities (microenterprises) are reached (Ledgewood 1997). This strategy is based on group peer pressure, a study in which loans are issued to people in

groups of four to seven persons who formulated to protect debt payment, and availability to subsequent loans is contingent on successful payback by all participants (Berenbach and Guzman, 1994). Payments are usually made once a week (Ledgerwood, 1999).

1.6 Village Bank

Village Banks are community-run credit and savings cooperatives that were established to provide rural residents with provision of financial services, to form a communal self-help organisation, and to aid participants in saving (Otero and Rhyne, 1994). The Foundation for International Community Assistance created this approach in the mid-1980s (FINCA). A village bank typically has 30 to 50 members, the majority of whom are women. Self-selection is used to determine membership. The bank is funded via internal member mobilisation as well as loans from the Microfinance Institution (MFI).

1.7 Latin America Solidarity Group

Individual members are lent to in groups of four to seven under the Solidarity Group Lending scheme. Participants cross-guarantee one another's loans in lieu of conventional collateral. Clients are typically female market sellers who are given modest, short-term working capital loans. This approach was established in Latin America by ACCION International and has been adopted by several MFIs.

1.8 Credit Union

A credit union is a one-of-a-kind financial institution that is run by and for its members. It is organised and made up of a specific group or organisation of people who have agreed to pool their cash and create appropriate interest-free loans to one another. Members have some common link, such as working at the same job, belonging to the same religion, being members of the same labour union, being members of a social fraternity, or living and working in the same town. A credit union's membership is open to everyone who wishes to be a part of the organisation, irrespective of race, faith, ethnicity, or belief. A credit union is a non-profit, democracy financial institution that is controlled and operated by its representatives, with supervisory board and working group representatives elected by representatives.

1.9 Susu Groups

The Ghana Co-operative Susu Collector's Association governs Susu Groups (SGs), which are by much further Ghana's most prominent informal financial institutions for saving mobilisation (GCSCA). In 1994, the Ghana Co-operative Susu Collector's Association was established as a coordinating organisation for Ghana's provincial Susu Collector Societies.

1.10 Community Bank

The community financing strategy treats the entire society as a single entity, resulting in semi-formal or official microfinance organisations. Non-governmental organisations (NGOs) and other organisations generally aid in the establishment of such institutions, as well as providing training to the community bank. The frameworks of these institutions may include both savings and revenue-generating ventures. Community banks are typically used as part of larger developmental projects that use financial incentives to motivate people to act.

1.11 Rotating Savings and Credit Associations (ROSCAs)

This is created whenever a group of people join forces to provide periodic contributions to a common pool, that is then delivered as a lump sum to one of members of the group once a year (Wrenn, 2005). As per review, this paradigm of credit facilities is very common (Harper, 2002). He believes that the organization's members are mostly neighbours and acquaintances, that it facilitates socialising, and that it is particularly popular among women (Wrenn, 2005). They're also referred to as merry-go-rounds or self-help groups.

2. LITERATURE REVIEW

The question of whether microfinance is a more successful instrument for poverty reduction than other options has piqued the interest of development economists and the public. Is microfinance a method for reducing poverty? Some research attempted to answer this question by comparing modern MFIs to failed rural credit agencies and agricultural development banks established by developing-country governments in the 1960s and 1970s, which not only did nothing to alleviate poverty but also squandered millions of dollars in public funds, and concluded that the modern MFI industry is doomed due to similarities between the two

(Adams and Pischke, 1992). After studying field summary data from Kenya, Malawi, and Ghana, there believes that basic structural improvements in socioeconomic conditions and a greater knowledge of informal sector behaviour are required for microfinance to be effective (Buckley, 1997).

The current microfinance organisations are substantially different from the failed rural lending agencies of the 1960s and 1970s, rendering direct comparisons between the two meaningless. In support of the aforementioned (Woller et al., 1999). Then has contend that top-down macroeconomic reducing poverty and training programs have likewise failed terribly (Woller and Woodworth, 2001).

The microfinance may not be an efficient poverty reduction programme in the United States. Schreiner examines microenterprise initiatives in the United States and finds that, while certain programmes can help individuals transition from assistance to self-employment, they only work 1% of the time (Schreiner, 1999; Sanders, 2002; Bhatt, 1999). Furthermore, Schreiner demonstrates that people that succeed in the shift have assets, education, experience, and abilities that are above average. Sanders examines the impact of microenterprise development programmes and questions their efficacy as a poverty-reduction method.

Meanwhile, the evidence regarding the efficacy of US microenterprise initiatives is equivocal, according to (Bhatt, 1999). Some initiatives have been successful, while others have not. Analyses evidence from developing nations and the United States on the effectiveness of microenterprise programmes. They conclude that microenterprise development in the United States is far more difficult than in developing nations, and they provide some suggestions for overcoming the obstacles to microenterprise development in the United States (Schreiner and Woller, 2003). Other research findings on the usefulness of microfinance as a policy instrument are more equivocal. When it comes to MFIs in Nepal, claims that owing to the country's topography and extreme poverty, it will be impossible for MFIs to have any significant influence on poverty (Bhatta, 2001). Nonetheless, he recommends that MFIs extend into hilly terrain areas, focusing on women, to increase their likelihood of succeeding. A study in Sub-Saharan Africa to determine whether microfinance is an efficient alleviating poverty device or not and deduced that a more thorough and goal-oriented evaluation is needed to ascertain if what microfinance is an efficient alleviating poverty policy (Snow and Buss, 2001).

There is substantial evidence suggesting microfinance may help people, recent observations help achieve the first millennium goal of halving the number of people living in extreme poverty (defined as those who live on less than \$1 per day) between 1990 and 2015 (Morduch and Haley, 2001). Grameen Bank members had an average income that was 43 percent greater than the control village's target group and 28 percent higher than the project village's target group nonparticipants (Hossain, 1988). A study conducted by the World Bank in collaboration with the Bangladesh Institute of Development Studies found that the Grameen Bank not only reduced poverty and improved the welfare of participating households, but also improved the households' ability to maintain their gains over time (Hashemi and Morshed, 1997).

Furthermore, borrowers in microcredit programmes had greater rates of per capita income than non-borrowers. Women (and men) who engage in BRAC-sponsored events have greater income (including both terms of quantity and source), more possessions, and are more certain to be gainfully employed than non-participants (Kamal; 1996; Chowdhury et al., 1991). Members had greater coping abilities during lean seasons, that improved with membership duration and credit acquired (see above for BRAC). Participants in microfinance programmes for at least 48 months had a 112 percent increase in assets, according to the survey (Mustafa et al., 1996).

2.1 Recommendations from Impact Studies

1. To identify the present poverty levels of microfinance consumers, an evaluation of important existing microfinance programmes should be organised using acknowledged poverty assessment/wealth ranking methodologies.
2. A percentage of the money spent by development partners on developing and extending microfinance initiatives should go directly to programmes that serve the disadvantaged individuals. This proportion is related to the size of their population. The usage of well-known income and wealth assessment tools should be used to target the population.
3. Resources for summary evaluations should be included in funding for new and renewing microfinance programmes and projects.

These should be conducted regularly across execution and provide details on the customers' initial poverty threshold as well as basic monetary and emotional evaluations.

4. Increased importance is attached to institutional development, such as improving regarding completion in existing Self-Help Groups (SHGs) and promoting SHG structures.
5. To improve the integration of long-term economic delivering services via high-performing SHGs, more effective administration systems are necessary. SHG member training and capacity building should also be prioritised in the long-term plan, as this would improve the efficiency of monetary delivering services.
6. To address apparent regional inequalities in linkage banking, future initiatives should place a greater focus on expanding the scope of microfinance programmes. Different distribution modalities may be required to boost the success of such outreach tactics. Increased participation in development programmes in the region might help SHGs play a bigger role in development.
7. Customers or beneficiaries of microfinance should be educated about logbook, managing money, advertising, service and support, basic organization, and judgement on a regular basis. It can help in the growth of their businesses as well as the alleviation of poverty.
8. MFIs should charge reasonable interest rates to assist their clients in growing their businesses rather than collapsing them.

3. CONCLUSION

The study concludes that if the aforementioned principles are followed, microfinance can have a positive influence on poverty. This is consistent with research conducted for CIDA, who found sufficient data to demonstrate that microfinance had a positive effect on economic growth regarding all seven Millennium Goals. There is a mountain of research supporting a positive impact on income smoothing and rising income (Morduch and Barley, 2001). However, there is less data to suggest that it has a positive influence on health, nutrition, or primary school attendance. Nonetheless, the available data is overwhelmingly positive.

As we've seen, the influence of microfinance on poverty reduction is a contentious topic, and it's widely acknowledged that it's not a panacea. In general, it has fallen short of expectations (Hulume and Mosley, 1996). Microfinance, on the other hand, has had a good influence not just on customers, but also on their families and the wider community when it is skillfully implemented and maintained, and when services are tailored to match their requirements. However, if the actual value of microfinance to development is to be appreciated, more evaluation of these broader consequences is required (Zohir and Matin, 2004). One approach for establishing the wider effect is a living assurance analysis based on a lifestyle paradigm, which investigates how a decision affects beneficiaries' livelihood.

Microfinance can help the underprivileged in aspects of both economically and socially well-being, according to empirical evidence, and this may be done without jeopardising the MFI's financial survival. While there are several biases in the research which argue for expanding microfinance to the underprivileged, there seems to be little empirical evidence to support this. However, if microfinance is to be adopted, it must be directed at the poorest individuals. MFIs are unlikely to type of contract that are suitable for and centered on that group if they do not have that information.

Microfinance is likewise considered as "a technique with significant extra promise for poverty eradication and economic empowerment" for most worldwide talks on the subject. Microfinance began relieving poverty some decades earlier, according to worldwide literature (mainly women), when organisations in Latin America, Bangladesh, and other poor nations began studying the notion of lending small quantities to needy individuals. ACCION and Garmen's success in the 1980s prompted numerous NGOs and international organisations to provide microfinance services.

By 1999, there were 8,000 microfinance institutions (MFIs) in operation, as more MFIs established that poor remained trustworthy borrowers, industrious, and willing to work hard to escape poverty. The rise of the MFI industry, was valid evidence that microfinance has been a viable solution to poverty (Hussein and Hussein, 2003).

Microfinance's capacity to have a large-scale impact, though, is a source of worry. In the long run, it looks to have a minor impact. They claim that more than credit is needed to achieve sustainable productivity expansion and pull individuals out of poverty (Santen, 2010) because of the small size of its investments. Borrowers seldom employ personnel, and microfinance-inspired enterprises are frequently owned by families. However, the impact on a larger income level and on the lifestyles of non-borrowers is questionable (Hulme and Mosley, 1996). The approach to the

severely poor and chronically poor provides diverse results when it comes to analysing the effect of microfinance. As point out skills in the production and marketing of commodities are critical, but human capital also plays a crucial role in MFIs' capacity to assist the poor. Many programmes require social capital to participate since they deal with group or village loan networks (Kimenyi, 2007; Yunus, 1999; Santen, 2010). Chronically destitute people are frequently found in remote locations (CPRC, 2009). Individuals who are poor and lonely, or who are among the poorest, are less likely to join MFIs because they lack human and social capital (Khandker, 1998). As a result, microfinance will never be able to reach a broad enough audience.

Based on previous studies, there agree that the petty character of the firms, as well as the borrowers' low-skilled productivity and understanding abilities, are threatening the sustainability of the obtained growth. Increases in production and income, rather than spending, need to be observed for the overt's relief to be sustained. To begin long-term poverty alleviation, advocates more activities with high growth potential. An increase in loan size will be required to do this.

Finally, it is claimed (though this is hotly debated) that MFI commercial exploitation stifles the development of micro as well as smaller companies, with some even collapsing because of MFIs' high interest rates. Ghana and other developing nations have examples of these micro and small-scale businesses. Some micro and small-scale businesses have expanded because of the MFIs' aid in the same nations.

REFERENCES

- Adams, D.W. and PISCHE, J.D. 1992. Microenterprise credit programs. *Déjà vu*, World Development. 20: 1463 – 1470.
- Bakhtiari, K. 2006. Microfinance and poverty reduction. Some international evidence. *International Business and Economic Research Journal*. Vol. 5 Number 12.
- Bhatta, G. 2001. Small is indeed beautiful but ... The context of microcredit strategies in Nepal. *Policy Studies Journal* 29: 283 – 295.
- Brenbach, S. and Guzman, D. 1994. The solidarity group experience worldwide. In Otero, M. and Rhyne, E. (Eds). *The New World of Microenterprise France. Building Healthy Institutions for the Poor*. West Hartford, C.T., Kumaria Press, 119 – 139.
- Buckley, G. 1997. Microfinance in Africa. Is it either the problem or the solution? *World Development*, 25: 1081 – 1093.
- Chirwa, E.W. 2002. Microfinance and poverty reduction in Malawi. What has happened to the microfinance revolution? University of Malawi. Wadana Consult Working Paper WC/01/02.
- CIDA. 2001. Analysis of the effects of microfinance on poverty reduction. Canada: Canadian International Development Agency.
- CPRC. 2009. The chronic poverty report 2008 – 2009, escaping poverty traps chronic poverty research Centre, Northampton.
- Harper, M. 2002. Promotion of self-help groups under the SHG-Bank linkage programme in India, New Delhi, India: November. (NABARD, SDC, GTZ, IFAD).
- Hulme, D. and Mosley, P. 1996. *Finance against poverty vol 1 and 2* Routledge London.
- Hussein, M. and Hussain, S. 2003. The impact of microfinance on poverty and gender equity. *Approaches and evidence from Pakistan*.
- Khandker, S.R. 1998. *Fighting poverty with microcredit, experience in Bangladesh*, Oxford University Press.
- Kimenyi, M.S. 2007. Ten commandments of pro-poor growth. In *poverty in focus, analyzing and achieving pro-poor growth*. International poverty center, UNDP, Brazil, 26 – 27.
- Ledgerwood, J. 1999. *Microfinance Handbook; Sustainable banking with the poor: An institutional and financial perspective*. World Bank, Washington D.C.
- Otero, M. 1989. A handful of rice. Savings mobilization by microenterprise programmes and perspectives for the future. *Accion Internationale*.
- Otero, M. and Rhyne, E. 1994. *The new world of microenterprise finance*. London: IT publications.
- Sanders, C.K. 2002. The impact of microenterprise assistance programs: A comparative study of program participants, non-participants and other low-wage workers. *The Social Service Review*. 76: 321 – 340.
- Santen, R.M.V. 2010. Microfinance as a poverty reduction policy. *Lagos*.
- Schreiner, M. 1999. Self-employment, microenterprise and the poorest Americans. *The Social Service Review*. 73: 496 – 523.
- Schreiner, M. and Woller, G. 2003. Microenterprise development programs in the United States and in the Developing World. *World Development*. 31: 1567 – 1580.
- Snow, D.R. and Buss, T.F. 2001. Development and the role of microcredit. *Policy Studies Journal*. 29: 296 – 307.
- UNDP, Citicorp Foundation, Microstart Guide. 1997. *A guide for planning, starting and managing a microfinance programme; private sector development programme*, New York, USA.
- Wooler, G. and Woodworth, W. 2001. Microcredit as a grassroots' policy for international development. *Policy Studies Journal*. 29: 267 – 282.
- World Bank. 2001. *World Development Report 2000/2001: Attacking poverty*. New York; Oxford University Press.
- Yunus, M. 1999. *Banker to the poor, micro-lending and the battle against world poverty*. Public Affairs, New York.

