

# POWER OF MICROCREDIT TO REMOVE THE GLOBAL POVERTY

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## Abstract

The total world population is 7.093 billion of them 1.29 billion do live with absolute poverty [PPP below \$1.25]. Around 4 million of people die cause of starving and malnutrition and 25 million without treatment/year. 100 million is homeless and further 100 million is hidden homeless. Around 200 million is unemployed, of them 75 million that is 13% of the total figure is between the ages of 15 & 24 [IMF-2012]. If dramatic changes are not happened in the world job markets and young jobless is remain stable, its impact would be very devastative for the forthcoming world.

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**Keywords:** Microcredit, Global poverty

## Introduction

For global peace & affluence in today's world stricken with hunger, homelessness, diseases & woe, tremendous poverty has to be removed to ensure the fundamental rights which include the rights of food, cloth, shelter, education and treatment. International aid, which is joke to the impoverished, has deepened the problems rather than alleviate a bit. To pave the way for first and foremost task is either to create direct employment or create condition to create employments. Micro-credit banking, which on one hand creates direct employment and on the other hand patronizes borrowers to create small scale production lines or enterprises to create employments and increase the source & levels of income, is one of the most remarkable options to alleviate the poverty.

The project is about the creation of microcredit bank & invention ways to create direct employment and create condition to create employments to alleviate the poverty and promote the standard of living in Bangladesh.

«Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little» -Adam Smith

«Low income individuals are capable to lifting themselves out of poverty, if given access to financial service»-Dr. Muhammad Yunus

The concepts are the stimulator to apply micro-credit banking as poverty alleviation tool.

## Goal

Represent poverty free Bangladesh to the world in 25 years transforming selves-dependable villages throughout the country and represent the model as global poverty alleviation tool.

## Mission

Create direct employment and create condition to create employments patronizing micro-credit borrowers to create micro scale production lines or enterprises.

## **Hypothesis**

If implemented successfully it will be extended to other regions to remove the poverty and promote the standard of living.

## **Poverty, its impact on socio-economic lives & alleviation tool**

Poverty, a complex society issue, is a condition when people are not able to meet their fundamental needs including food, cloth, shelter, education and treatment properly in proper way.

It is a global issue and cause of socio-economic depression. Poverty not only pushes the improvised to poor living conditions but also slashes the access to basic needs including hygienic foods, pure drinking water, proper sanitation , health care & education. The latter undermines and limits their capabilities and their opportunities to secure employments aftermath prolonging and confinement of the poverty circle.

Together with poor living standard of impoverished, poverty is being cause of various misfortunes which are prevailing in the society, such as crimes, illiteracy, unemployment and diseases like depression, anxiety and stress therefrom not only the poor rather hole society is suffering.

So poverty is a call to action---for the poor & the wealthy alike---a call to change the world so that many more may have enough to eat, sufficient shelter, access to education and health care, prevention from violence and uncertainty and a voice in what happen in community.

Microcredit banking is one of the most potential options to bring the desirable changes. Scientific and apt implementation of it could bring the potential breakthrough.

## **Microcredit**

Microcredit is a financial innovation that refers to various kinds of small loans & financial services meant for the impoverished borrowers who are currently operating businesses or aspiring to introduce businesses or simply unemployed to introduce businesses or financial activities to improve their living standard. The borrowers of micro credit usually lack of collateral, steady employment & variable credit history, thus fail to qualify for regular bank loan. It's designed not only to support employment and combat against poverty but in some cases to empower women & uplift entire communities by extension.

The main purpose of microcredit is to break the cycle of «no income, no investment, no profit» to «small income, small investment, and small profit» by increasing capital from outside into the economic life of poor people.

Underprivileged people may have potentially profitable business ideas but the ideas might not be put into action due to lack of start-up finance. Microcredit loans give clients just enough capital to put their ideas off in the ground.

Over the above concepts microcredit evolved first in 18th century and got momentum only after the establishment of 'Grameen Bank' in Bangladesh by Prof. Muhammd Yunus in 1976. As of 2013 microcredit activities are being manipulated in about 50 countries around the world including USA, India, China, Bangladesh and many other African nations and have brought many changes.

## **Existent Microcredit Banking and Common Scenarios**

In developing and list developed countries like Bangladesh where women are neglected due to their dependability on male partners, microfinance provides them with beneficial banking they need to start up business ventures and actively participate in economy. It gives them confidence, improve status and make them more active in decision- making, greater accession to financial resources, greater social network and greater freedom of mobility thus encourage gender equality.

One of the largest roles that microfinance has in local economies is providing credit to low-income and poor families to startup financial activities with the means to becoming financially stable that helps breaking the cycle of poverty in the current generation and work toward ending global poverty for the future generation. A study conducted by Zohir & Martin in 2004 suggested that clients who join and stay in microcredit program have better economic condition than non-clients, suggesting that programs contribute to these improvements. Households who are involved in program are able to send more children to school for longer period and to make greater investments in their children's education [Litterfield and Hoshemi, 2003].

By reducing vulnerability and increasing earning & savings, micro-financial services allow poor households to make the transformation from «everyday-survival» to «planning for the future».

But the impact of microcredit on poverty alleviation is highly a debatable issue. Since its introduction, microcredit has not had very positive impact rather has led many borrowers into debt trap or in some cases leading suicide or selling organ [Milford, 2010 & Kathrin, 2012].

A study conveyed by Wastover & Khandaker noticed that among six representatives, five found no evidence that microfinance reduced poverty though they found other positive impacts, e.g acceleration of individuals business, children's education etc; Study selected from sample of more than 100 studies as being methodically sound [Wastover & Khandker, 2008].

An another study conducted by Chowdhury & Hussain (2011), showed that micro-credit programs in Bangladesh between 2000 and 2010 that was when only 7% of micro-borrowers were able to rise about poverty line [Chowdhury & Hussain 2011].

Kathrina Hartman, the German Journalist told about trapping in debt of a woman whom she met in 2012 at Kurigram district in Bangladesh. The rural women who were the borrower of microcredit told her about the brutal methods of enforcing debt repayment, including the forced to sale of cattle, house utensils and lands. In order to be able to repay loan, newly indebt men and women even sold their kidneys, as discovered by the police in summer 2011. In order to repay the loans children are dropped out of school to earn money and food expenditures are cut down significantly.

Professor Mohammad Moniruzzaman from the department of Anthropology at Michigan State University has been researching the organ trade in Bangladesh since 1990 stated that such a selling organ to make repayment and they felt no choice but to sell a body part.

Mohammad Mehedi hasan 24, from Molagari village in Bangladesh sold his liver at \$9690 to repay the loan which was taken from a microfinance institution in 2005.

### **Why Micro-credit doesn't work?**

It is a fact that microcredit borrowers, who don't have necessary requirements to receive loan from the formal banks, are marginal and disadvantages inhabitants of the society. They don't know how to receive loan, how to invest the capital effectively for well return on investment, how to produce units, how to marketing.

Suppose, if you somewhere meet a man who is blind and deaf and direct him to go to a certain destination where he will get proper maintenances, he will never reach the destination rather will lose the former shelter if you don't convey him to.

Like the blind and deaf microcredit borrowers will be dropped into debt trap or driven into loan cycle if the borrowers are not apt patronized by the lender from credit receiving to profit making.

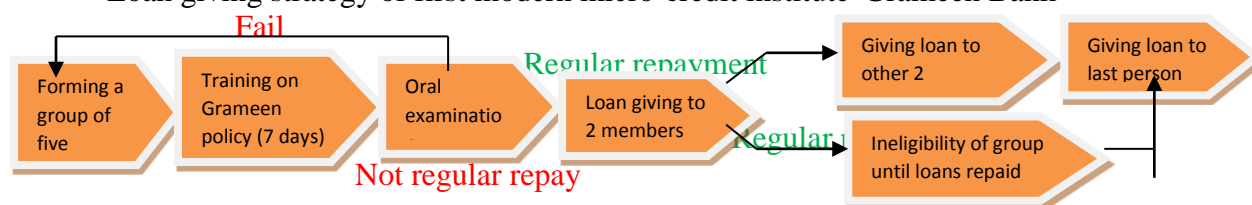
## Non-effective investment

As microcredit borrowers are marginal and lack of business and professional experiences, they don't know how and which sector the capital should be invested in for well return on investment. Most often, the borrowed money are invested either in list profitable or non-profitable sectors fail to earn a well return to repay the loans' capital. The credits are very often used to buy durable products or consumer goods instead of productive investment [Milford, 2010 & Kathrin, 2012].

## Credit giving strategy, High interest rate & Repayment structure:

Loan giving strategies of existence microcredit institutions are not effective to fight against poverty. Micro-credit banks in Bangladesh form a group of five potential borrowers and train them how to receive and repay loan instead of how to go to the production or invest the credit effectively for well return on investment.

Loan giving strategy of first modern micro-credit institute 'Grameen Bank'



Moreover, high interest rate & repayment structure that limit its effectiveness. Global average interest rate of microcredit bank is 37%. In Bangladesh loans are repaid by 52 installments in a year and first installment is started in fifteen days of receiving loan then every week. If borrowers don't manage to earn at list 37% rate of return, eventually ended up poorer as a result of accepting loans.

## How Micro-credit will succeed?

To reach the poverty alleviation goal, Microcredit policies are needed to be implemented and managed effectively & services are needed to be designed to meet the need of clients. Thereby not just only the clients but also their family and the wider community will be benefited.

When loans are associated with an increase in assets, when borrowers are encouraged to invest in low risk income generation activities and when very poor are encouraged to save; the vulnerability of the poor people is reduced & improved the poverty condition [Hulen & Mosley, 1995].

If microcredit seeks to improve the condition of poor by creating proper environment and right opportunities, poverty will be alleviated and living standard will be promoted.

So, together with credit providing, proper patronization of borrowers by the lender in the sectors including effective investment, producing units, marketing the portfolios could bring the desirable changes.

If microcredit activities encourage and patronize borrowers to resolve easy accessible regional raw materials into commercially valuable products, it will be doubly effective. On one hand commercial production industry will be established with huge economic potentiality and on the other hand regional raw material industry will be accomplished commercially & more effectively to bring massive development for local, national and world economy.

## Proposed Project

Creation of microcredit bank & invent strategies to create direct employment and create condition to create employments through patronizing microcredit borrowers to create small scale production lines or enterprises by microcredit banking, microcredit loan and other relevant entrepreneurial activities.

Target is to encourage and patronize borrowers to introduce regional raw materials based production industries. Moreover, other potential sectors where there are rooms available to develop will also be promoted, e.g., poultry farming, fisheries, milk processing, packaging & marketing etc.

We'll select the borrowers on the basis of financial vulnerability and skills first and train them to be skill producers or entrepreneurs. They will also be given very basic knowledge about management & marketing. Then they will be given loan to introduce small scale production lines or enterprises.

For sustainable development of a nation, education standard needed to be promoted to create talented human capital, the nation will discover its own ways to develop. For this prospect we'll establish preparatory and primary schools with up to date curriculum, computer labs, internet access and libraries.

### Application

The project will be manipulated by the name " MPFW (Mission for Poverty Free World) Microcredit Bank" with the slogan "Poverty Free World for Global Peace"

Instead of manipulating the project's activities over the entire country all together, we'll divide the country into several regions according to the geographic location. Every region will be divided into many small branches and developed the branches one after another gradually.

A branch will be selected and activities will be manipulated for numbers of years till annihilating the poverty, transforming the branch into self-dependable and improving the quality of living.

Aim is to produce commercially valuable products by easy accessible regional raw materials. So, we'll remark the regional raw materials of the region where we'll initiate the project's activities and invent the most effective ways to produce commercially valuable products.

Other potential sectors where there are rooms available to develop such as poultry farming, fisheries, dairy milk processing, packaging & marketing etc. will also be initiated.

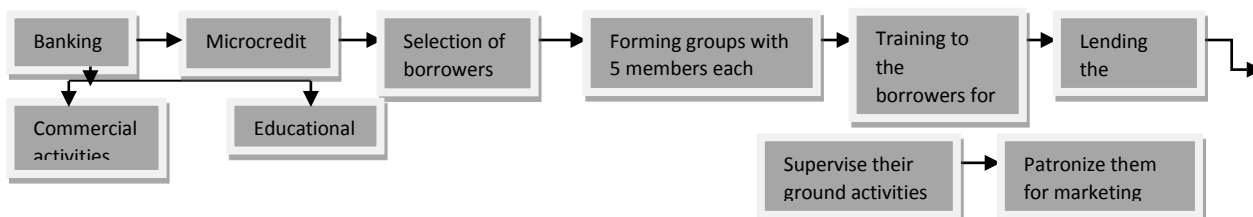
We'll select the borrowers & train them to be skilled producers or entrepreneurs. Well equip training centers will be established within the branches on the basis of production which we'll produce.

Loan will be given to the borrowers to introduce small scale production lines or enterprises when they will be sufficient skilled to go to the production and manage effectively. We'll patronize them to marketing their products.

We'll open & operate selling centers throughout the country by the brand name "MPFW Bank's Green Product" with the slogan "Be Green to Save the Globe".

We'll buy the products from the producers (borrowers) and sell them in project's run selling centers. The products will also be offered to other retailers who are offering the same products we are producing and offering. The producers are also free to marketing their products.

### Loan giving structure



## **Pay back**

Loan will be paid back with 10% annual interest rate. Repayment will be started after a month of their receiving loan as they will start receiving revenue from their portfolios at that time. Total loan of a borrower will be paid back with 12 installments during a year. Borrowers also can open saving account to the bank and deposit for the rainy day.

## **Implementation**

The project will be implemented in Bangladesh. The total population of Bangladesh is 180 million. Of them 50% is between the ages 14 & 30 and 55% is unemployed. 40% of the total population lives below the baseline of poverty [\$1.25/day, World Bank, est. 2012] of them 25% lives with extreme poverty [\$1/day, World Bank, est. 2012]

Poverty, epidemic, famine and hardship of life are the common phenomenon in Bangladesh though there are huge potentialities and lots of rooms to promote for economic sustainability and social stability through promoting handicraft, SMEs and various forms of micro-industrial, small scale commercial & entrepreneurial activities. Through microcredit banking, microcredit loan & effective entrepreneurial activities, the project will pick all of the potential sectors up into account to develop.

Instead of initiate the project's activities over the entire contrary all together; we'll divide the country into four regions (South-West, North-West, South-East & North-East) according to the geographic location and initiate the ground activities in the South-West region first. We'll divide the region (South-West) into 2500 small branches and pick a branch up and manipulate the activities till annihilating poverty and promoting the standard of living, then the rest of branches gradually.

We'll remark the regional raw materials of the reasons and take initiative to invent the most effective ways to produce commercially valuable products by the regional raw materials.

If jute and bamboos are available and cheap in the selected branch like most of the areas of Bangladesh, we'll produce shoes, vanity bags, and shopping bags by jute and jute's garments thereafter and souvenir, toys and household products by bamboos. If the area is surrounded by grasses, we'll introduce dairy farming and small scale dairy products industries. If the area is surrounded by water, we'll go to fisheries and poultry farming. If the area possesses no physical resources but clay, we'll produce attractive souvenirs, ornaments and households things by clay.

This is important to mention that jute was the main export item of Bangladesh where there were 537 jute mills with about 2 million of employees in 1990 since then 433 jute mills have been closed & millions of employees have lost their jobs as we could not diversify the jute product. The successful implementation of the project would revive the very glorious financial sector of Bangladesh.

Women, almost half of the total workforces of Bangladesh but 85% of them are unemployed. Keeping a vast population unemployed, sustainable development of a nation can't be expected. So target is to empower the women involving them in financial activities.

## **Ground Activities**

The ground activities of the project will be initiated on 1st of March 2014 from the village Jaduboyra, a branch in South-West region of the project's planned geographic location.

## **Target is to transform the village Jaduboyra as a poverty free self-dependable village by 2015**

Jaduboyra is a village of 4sq. Kilometers & 6124 inhabitants. Among them 500 students, 20 government employees, 50 in NGOs & other sectors, 800 farmers and vast majority of 1660 are completely unemployed. The total workforces are 2530 of them 98% are marginal farmers.

Like most of the rural inhabitants of Bangladesh dwellers of the village Joduboyra cultivate their lands yield crops and live on it round the year. But agriculture in Bangladesh completely depends on natural climate. If weather is hostile, for example, drought, heavy rainfall or flood, either crops are destroyed or cultivation of land is not commenced in time, hardship of living is started.

Every year 'Monga', a seasonal food crisis, snatch numbers of lives during the months December-January that is when farms are not cultivated and people don't have work at hands or other alternative to survive.

Like most of the areas of Bangladesh, arable lands of the area are very fertile for jute. Every year farmers cultivate jute but they don't get sufficient market value of it. So, they are either to satisfy with low profit or count losses.

Besides, huge livestock including lactescent are also physical asset of the area. Inhabitants use the milk of their cows either for household purposes or sell it in the villages' markets at very cheap price.

As the village Jaduboyra, the first targeted branch, is thrived with jute like most of the areas of Bangladesh, primarily, we'll produce summer & winter shoes, shopping bags and vanity bags by jute and research to produce more innovative products to keep up pace with global demand through project's R&D center.

Moreover, we'll launch other entrepreneurial activities including poultry farming, fisheries and milk processing, packaging and marketing for rapid and sustainable development.

We'll establish necessary numbers of preparatory and primary schools with up-to-date curriculum. Educational institutions would be accomplished with computer labs, internet access and libraries.

### **Common physical assets of village Jaduboyra**

#### **Jute and bamboos**

#### **Huge lifestocks including lactescent**

#### **Arable lands**

#### **Young energetic people**

In next couple of years (from 2014- 2015) the village Jaduboyra, the first targeted branch, will be changed for poverty free self-dependable village and standard of living. By the time five preparatory schools and a high school, five fisheries and five poultry firms will come under full operation. 500 direct jobs will be created through schools, fisheries, poultry farming and milk processing, packaging & marketing activities. Further 500 small scale production lines, which will create employments for another 1200 employees, will be created through loan programs. 1700 families will come out from tremendous poverty. In next couple of years poverty will be removed and massive changes will be brought in socio-economic lives in the village then activities of the project will be extended to other branches with the same message and mission.

### **Consequences**

Poverty free Bangladesh in 25 years and selves-dependable villages

Minimization of unemployment problems, increased the sources and level of income and standard of living

Talented next generation through up to date education programs

Empower the women and gender equity through involving them in financial activities

Regional raw material based green product; innovative & cheap

Diversification of economy, financial sustainability & social stability

## **Conclusion**

Microcredit banking is one of the most useful components to alleviate the world poverty. But it doesn't work it-self. Effective strategies and proper implementation are indispensable to bring the desirable consequences.

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