

Microcredits

BERG
HEIDEN
GASSE

helping people help themselves

DEFINITION

An extremely small financial loan given to impoverished people to help them become self-employed. This type of loan typically does not exceed a couple hundred dollars, so an impoverished individual cannot solely depend on this type of loan to fund their business. Also called microloan.

POVERTY

People who have less than the equivalent of one US dollar a day are considered extremely poor, they cannot satisfy their basic needs for survival (not enough food, no access to safe drinking water, no medical care). Additionally, the access to financial services is severely limited.

HOW MICROCREDIT WORKS

The **initial financing** offers the clients the resources to begin **production**. The loan is paid over time as they bring in revenue. As borrowers successfully **pay off** their microcredits, they may become eligible for loans of larger and **larger amounts**.

HISTORY:

Already in 1515, Pope Leo X promoted financial institutions that lent money to poor people. Microcredits were launched in their modern in the 1970s. Even at the beginning of the 1990s, there were only a few players in the industry, meanwhile, the sector has strongly differentiated itself with several thousand players worldwide. Microcredit reached its peak in popularity when the UN General Assembly declared 2005 to be the International Year of Microcredit.

VOCABULARY

- MFI = micro finance institution
- eligible = berechtigt
- revenue = Einnahmen
- collateral = Sicherheit
- interest = Zinsen



Top 10 countries

by borrowers and loan portfolio outreach

Rank	Country	Borrower FY 2016 & borrower growth since 2015 (%)	GLP (USD) & GLP growth since 2015 (%)
1	India	47.0m (+18.4%)	14.7bn (+24.4%)
2	Vietnam	7.6m (0.0%)	7.4bn (+0.2%)
3	Bangladesh	25.2m (+5.1%)	6.9bn (+19.7%)
4	Peru	4.6m (+12.4%)	10.8bn (+16.3%)
5	Mexico	7.0m (+3.2%)	4.4bn (-6.4%)
6	Cambodia	2.3m (-0.1%)	6.4bn (+20.7%)
7	Colombia	2.8m (+0.4%)	6.0bn (+12.5%)
8	Bolivia	1.3m (+2.4%)	7.4bn (+13.1%)
9	Brazil	3.2m (0.0%)	1.9bn (+11.8%)
10	Ecuador	1.3m (-10.0%)	5.1bn (-7.2%)

The top 10 countries listed are defined based on the loan portfolio and borrowers registered in each country during 2016.

ECONOMIC EFFECTS

- important contribution to poverty reduction
- productivity of poor, economically active people has increased
- clients improve their life situation (nutritional situation and health care options)
- children can be sent to school
- purchasing power of borrowers is strengthened

SOCIAL EFFECTS

- Eliminating extreme poverty and hunger
- Ensure primary education for all children
- Promote equality and greater influence of women
- Reduce child mortality / Improve maternal health / Fight HIV / AIDS, malaria and other diseases
- Ensure a sustainable environment

SOURCES

<https://www.mikrofinanzwiki.de/>
<https://www.oikocredit.coop/what-we-do/partners/partner-detail/10925/finca-peru>
<https://mcprosandcons.weebly.com/cons-of-microcredit.html>
<https://mcprosandcons.weebly.com/pros-of-microcredit.html>
<https://www.theguardian.com/global-development-professionals-network/2013/nov/19/microcredit-south-africa-loans-disaster>
<https://bcl-finance.webnode.fr/loan/what-is-microcredit-advantages-and-disadvantages/>
<https://smallbusiness.chron.com/difference-between-microloan-microcredit-39307.html>
<https://keydifferences.com/difference-between-microcredit-and-microfinance.html>
<http://www.grameen-info.org/about-us/>
<https://www.mikrofinanzwiki.de/>
<https://www.investopedia.com/articles/insurance/090116/5-biggest-microfinance-companies-bbrikk.asp>
<https://www.oikocredit.coop/what-we-do/partners/partner-detail/10423/sekem-holding>

TRAINING

In order to ensure that micro-borrowers are not left alone with their entrepreneurial and personal problems in everyday life, many microfinance organizations have incorporated special training and training into their concepts. Mostly this is about economic and legal issues.

GOALS/IDEA: Poverty Reduction Instrument

- focuses on and empowers women
- no credit history collateral necessary
- lifts people out of poverty and elevates them from the vicious poverty cycle by boosting their entrepreneurial potential
- employment to the masses
- immediate financial impact on the clients

SOCIAL MICROFINANCE

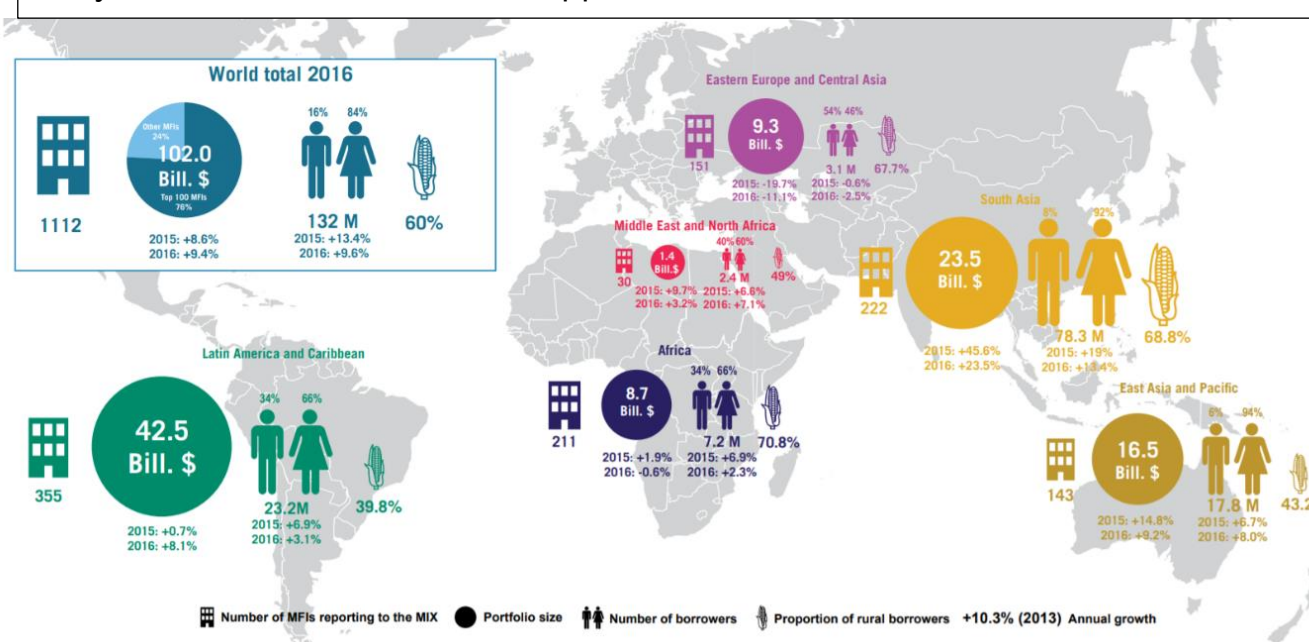
Social microfinance programs are designed in such a way that the services offered serve primarily to reduce poverty and not to generate returns to investors. It is usually not limited to pure lending but emphasizes the importance of access to micro-savings accounts and insurance or training of clients.

CRITICISM

- Many borrowers were unable to repay the debt due to over-indebtedness and some were driven to sell their organs or chose to take their lives.
- Competition increases among these small businesses as more people follow the entrepreneurial path.
- Without governmental support and international donors, microfinance institutions must charge high interest rates.
- In South Africa funds are expended through consumption spending, rather than the establishment or furthering of any form of business or employment activity.

GROUP MODEL

poor people join together to form a group of borrowers, but everyone gets a loan for themselves. The group creates a so-called joint liability, so the entire group has to pay for a possible repayment default of a single borrower. They vouch for each other and support each other in their business ideas.



EXAMPLE: SEKEM HOLDING

- reclaiming desert land for organic, fair trade products
- situated in Egypt
- sustainable social enterprise, growing, processing and marketing agricultural products according to bio-dynamic and fair-trade principles.



REPAYMENT RATE

It is very high, often over 90%, especially when compared to traditional loans. The main reason is seen as the involvement of clients in a group model. Another reason for the high repayment rates is that clients benefit from the business training they often receive as part of lending.

INTEREST

The borrowers must pay interest rates, which seem relatively high at first glance. But Microcredit lending is very expensive due to small loan amounts, training and high transport costs to rural areas. In addition, the running costs of microfinance institutions must be covered.

"At the most basic level, the key to ending extreme poverty is to enable the poorest of the poor to get their foot on the ladder of development."
 - Jeffrey D. Sachs

MICROFINANCE COMPANIES

- **51Give**: founded 2007 in Beijing, provides microfinance solution services for other MFIs
- **Bank Raykat**: Indonesia: oldest Indonesian bank, operating primarily as microfinance lender
- **BRAC**: oldest existing MFIs, founded in 1972 in Bangladesh, provides services in the areas of human rights, education, health and economic development
- **Grameen Bank**: Nobel Peace Prize-winning MFI, founder: Muhammad Yunus (known as Banker to the Poor), pioneered the concept of providing micro-banking services
- **Kiva Microfunds**: headquartered in San Francisco, operates in more than 80 other countries
- **OIKO Credit**: established in 1975 in the Netherlands, offers loans or investment capital for microfinance institutions, cooperatives and small and medium-sized enterprises in developing countries, one of the world's largest private financiers of the microfinance sector

ACTIVITIES:

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QUIZ: testmoz.com/2114547(Passcode: 4HFA)