Chapter 1

An Overview of Microfinance

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Abstract

Microfinance has been recognised and considered as the common mechanism to provide credit for the poor and low-income people, especially people in rural areas. Since its initiation in Bangladesh in the seventies, it has been gradually embedded in national strategies of many developing countries as well as universal goal to combat with hunger and poverty in the new millennium. The chapter provides an

overview of microfinance and microcredit. The chapter discusses who are the microfinance providers, who do they serve and how do they help the poor. The chapter also provides a summary of empirical evidence on the impact of microfinance.

Keywords: Capital, credit accessibility, microfinance, poverty, rural household.

1.1 Introduction

Lack of ability to obtain credit from the formal financial sector has long been viewed as the biggest obstacle to improving households' livelihood (McCarty, 2001; Pham & Lensink, 2007). To fulfil credit demand, rural households have to seek informal sources of credit at higher a interest rate to support their production and consumption. This informal debt is believed to marginalise household income and likely leads the borrower into a cycle of debt and poverty. This market failure is eminent in many developing countries where the rural financial market is not functioning well (Musinguzi & Smith, 2000). Therefore, credit inaccessibility in rural areas impedes the development of the rural sector, which potentially decelerates the development of the rural economy. To increase credit access for rural households, many governments have implemented microfinance programmes targeting agricultural and rural areas nationwide particularly in developing countries. The policies aim to assist rural poor households' access to microfinance products through banks at a preferable interest rate. In addition, the governments have recognised microfinance products as a strategic tool to provide cheap credit to rural households.

Microfinance refers to the provision of financial services to the poor and low-income households (ADB, 2000). These services can include credit, savings, insurance, money transfers and equity investments. The feature that most distinguishes these services from those given by traditional financial institutions (FIs) is the small size of the transactions. Hence, microfinance institutions (MFIs) provide mainly microcredit, microsavings and microinsurance. New innovations in microfinance include microtransfers and microequity.

Microcredit involves lending capital in small amounts to poor people who are traditionally considered unbankable to enable them to invest in

self-employment (Kasim & Jayasooria, 2001). The World Bank (2006, p. 12) describes microcredit as “a process in which poor families borrow large amounts (or lump sums) of money at one time and repay the amount in a stream of small, manageable payments over a realistic time period using social collateral in the short run and institutional credit history in the long run”. Different forms of microcredit are available such as individual lending, group lending and village banking. Particularly, microcredit programmes have been developed to provide rural households with greater credit accessibility.

Microsavings are small amounts of money saved by poor people with FIs, mostly MFIs. Some schemes involve a daily collection system and service delivery at the doorstep of clients. As these small savings accumulate they provide a source of lump sum cash for future emergencies, investments and consumption needs of the poor (Mersland & Eggen, 2007).

In some cases, microcredit programmes would involve saving services, but the services are limited to the collection of compulsory deposit amounts from the borrowers to collateralise the loans issued. Borrowers cannot access these compulsory deposits and cannot have voluntary saving accounts in microcredit programmes (World Bank, 2006; Cornford, 2000).

Though microcredit has taken a more prominent role in microfinance, it appears that the poorest of the poor find the provision of savings opportunities more important than the provision of credit facilities (Collins *et al.*, 2010). There is empirical evidence suggesting that in some regions of the world the poor use savings products more than credit. For example, Maes & Reed (2012) report that The Opportunity International Bank of Malawi has 45,000 borrowers and 250,000 savers, the Equity Bank in Kenya has 715,000 borrowers and 4 million depositors and the Grameen Bank (GB) has over US\$1.4 billion in deposits, which is 145% of its outstanding loan portfolio of US\$965 million. Khan & Ashta (2012) also report that 28 Bangladeshi MFI's collectively have 27.8 million depositors compared with about 20.6 million borrowers with 26 out of the 28 MFIs reporting more depositors than borrowers.

Microinsurance is a programme which provides insurance services to the poor and low-income populations and small businesses. It operates

similarly to regular insurance except for the fact that regular premium payments and therefore the payouts are also smaller. Just like regular insurance common types of risks covered are life, health, disability and property including agricultural production. Microinsurance could be directly provided by traditional insurance companies but could also be delivered by MFIs. Some MFIs also provide loans to cover the payment of microinsurance premiums like CARD in the Philippines (Reinsch & Metcalf, 2010).

Microtransfers are a new innovation wherein small amounts of money or remittances sent by migrants and overseas workers back to their home countries. Another new innovation is microequity, which refers to the provision of equity instead of credit to finance projects of the poor. It is so far only in its early stages of development and is being done mainly in developed countries.

1.2 Who Does Microfinance Serve?

Microfinance caters to the financial needs of underprivileged groups including female heads of households, pensioners, displaced persons, retrenched workers, small farmers and microentrepreneurs (CGAP,¹ 2003). In addition, microfinance borrowers are typically self-employed, household-based entrepreneurs who have relatively unstable income sources and can be divided into two groups: rural and urban. In rural areas, the borrowers are usually small farmers and others who are engaged in small income-generating activities such as food processing and petty trade; while in urban areas, microfinance activities are more diverse and borrowers include shopkeepers, service providers, artisans, street vendors and small-medium enterprises (Sapovadia, 2006). However, the client-focus of microfinance varies in different regions. For example, in Latin America, microfinance has been developed into a business rather than an anti-poverty programme, which is a branch of commercial banking and focuses more on urban small-medium enterprises than the rural poor

¹CGAP refers to the Consultative Group to Assist the Poor, which is a consortium of 33 public and private development agencies working together to expand access to financial services for the poor in developing countries.

(Poyo & Young, 1999). By contrast, in Asia where the poor population is more numerous, especially in rural areas, microfinance would inevitably be directed to serve the rural poor as an anti-poverty instrument (World Bank, 2006).

The most common financial service provided by MFIs is microcredit, hence microfinance and microcredit are commonly used interchangeably, but microfinance is obviously much broader than just microcredit. In the next section, we will describe the basic characteristics of microcredit.

1.3 Characteristics of Microcredit

Compared to traditional lending, microcredit has its own vivid characteristics. Loans from the microcredit programmes are usually in small amounts and have relatively shorter repayment recycles. Du (2004) argues that a major difference between microcredit and conventional lending is that the former targets borrowers from the poor and low-income groups. In addition, microcredit emphasises lending to the poor women who are disproportionately represented among the world's poorest people. Another outstanding difference between microcredit and traditional lending is that microcredit is usually offered without the requirement of collateral compared to compulsory collateral requirement in traditional lending (Yunus, 2003). However, in place of collateral, microcredit disciplines borrowers through a special strategy such as group lending, which represents another characteristic of microcredit: mutual accountability. Borrowers form into groups to monitor each other. The potential pressure on the groups helps to keep individual repayment records transparent and the collective responsibility works as 'social collateral' on the loans (Hussain, Maskooki & Gunasekaran, 2001). We discuss these differences more fully below.

1.3.1 Targeting the poor

A major difference between microcredit and conventional lending is that the former often targets borrowers from the poor and low-income groups. Microcredit programmes are poverty-focused, which aim to facilitate the access to financial services such as credit for the poor globally who are usually regarded as disadvantaged groups in accessing conventional

financial services from formal FIs. In addition, microcredit emphasises lending to poor women who are disproportionately represented among the world's poorest people. According to Cheston & Kuhn (2002), about 74% of microcredit borrowers in the world are women. The rationale behind lending to women is that most women borrowers have been proven to be more credit-worthy than men, in addition to the better ability of controlling the use of loans by women (Garikipati, 2006; Ang, 2004).

1.3.2 Collateral free

Collateral is always a compulsory requirement in traditional lending as a way of minimising default risk anticipated by lenders. Such collateral requirement becomes more rigid if borrowers are economically poor. However, the poor usually do not own valuable assets which can be used as appropriate collateral when applying for loans from traditional FIs, and as a result, poor people are historically considered unbankable and precluded from the traditional credit markets. Microcredit is an innovative idea that challenges the traditional lending wisdom of 'no collateral means no credit'. It deems the poor as creditworthy as the rich and provides collateral free loans to the poor to develop entrepreneurial activities.

1.3.3 Group-lending scheme

In place of collateral, however, microcredit disciplines borrowers through a special scheme such as group lending. Loans are made to an individual borrower who is a member of a borrowing group. However, each individual borrower assumes responsibility for the loan repayment of his or her group members, which means all group members are jointly liable. If only one member from a group defaults, the rest in the group will be denied future access to loans from the microcredit programme. As a result, the principle of joint liability creates an incentive mechanism by which individual borrowers are stimulated to select credible members to group with, to monitor the other members' activities once the loan is received and to enforce repayment in case a group member fails to fulfil his or her obligation. In other words, the group-lending scheme creates a special kind of collateral called 'social collateral' on

the loans, which reduces the costs of screening and monitoring borrowers, and ensures timely repayments for lenders (Anderson & Nina, 2000; Besley & Coate, 1995).

1.4 Who are the Microcredit Providers?

A variety of organisations have been involved in the delivery of microcredit services during the last two decades. The World Bank (2006) categorises these organisations into seven types which include commercial banks, wholesale development banks/funds, retail development banks/companies, apex organisations funded by multilateral or bilateral donors and/or governments, MFIs and non-profit non-governmental organisations (NGOs), cooperatives and community-based organisations. Institutions such as wholesale development banks/funds and apex organisations provide lending only to institutions such as MFIs and cooperatives, instead of individuals; by contrast, cooperatives and community-based organisations only lend to individuals.

Different countries have fostered their own local organisations to provide microcredit and such local organisations can be generally classified as NGOs and formal FIs. For example, the Bangladesh Rural Advancement Committee (BRAC) and the Association for Social Advancement (ASA) are two major NGOs, while the GB is the biggest FI providing microcredit in Bangladesh. These three major microcredit providers serve around 11 million borrowers throughout Bangladesh (ADB, 2000). Similarly, Amanah Ikhtiar Malaysia (AIM) is the largest NGO in Malaysia providing microcredit to about 50,000 borrowers for a total loan amount of RM200 million (Kasim & Jayasooria, 2001). In addition, the Unit Desa of Bank Rakyat Indonesia (BRI-UD) in Indonesia is a successful rural FI which has attracted more than 2.5 million borrowers with total outstanding loan of US\$781 million (World Bank, 2006; Timberg, 1999).

Among the most successful microcredit programmes is the GB microcredit, introduced by Muhammad Yunus in the late 1970s. As a pioneer in microcredit, the GB promotes innovative ideas in poverty reduction through its lending programmes. Yunus (2003) advocates that credit should be promoted as a human right and should be based on 'trust' rather than collaterals or legally enforceable contracts. Furthermore,

Yunus stresses that in order to eliminate poverty, appropriate changes must be made in the institutions and policies surrounding the poor, rather than just providing charity to the poor. Based on this belief, the GB created an accessible mechanism for the poor to access credit on reasonable terms to improve their welfare (Yunus, 2003; Latifee, 2003). The Grameen model has been implemented in more than 50 countries in Asia, USA, Australia and Europe (Hussain *et al.*, 2001). Today, the GB has a network of nearly 1,300 branch offices that serve 3.8 million borrowers of which 96% are women, and has disbursed loans worth US\$4.5 billion (Chowdhury, 2004). More significantly, 5% of GB's borrowers graduate from poverty each year and sustain their living standard (Hussain *et al.*, 2001).

1.5 How Does Microfinance Help the Poor?

It is often argued that financial services such as credit, savings and insurance can positively affect the livelihood of the poor thereby improving income distribution (Latifee, 2003; Claessens, 2006). According to Latiffe (2003, p. 2), "credit is a powerful instrument to fight poverty" because "it creates opportunities for self-employment rather than waiting for employment to be created". Credit gives poor people a means of investing and breaking out of the "vicious circle" of poverty because credit has the potential of improving credit users' income and savings, and consequently, enhancing investment and reinforcing high incomes (Mohamed, 2003).

Despite the importance of financial services such as credit in helping the poor to improve their living conditions, poor people are excluded from the formal financial system and such exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in less developed countries (LDCs) (Braun & Woller, 2004). Traditional FIs are reluctant to serve the poor mainly because poor people fail to meet the selection criteria such as the requirement of physical collateral set by FIs. The perceived high risks and costs arising from processing and servicing unsecured small loans make FIs shy away from financing the poor, mainly due to the concern of financial viability. Lacking access to formal credit, most poor and low-income people continue to rely on meagre self-finance or informal credit, which limit their ability to actively participate in and benefit from the development process.

The primary goal of a microcredit programme is to provide credit to the poor by extending small collateral free loans that purposely enable the borrowers to actively generate a range of improvements in economic conditions (World Bank, 2010). Islam (2007) hypothesised that microcredit can create a circle of growth for poor borrowers that 'low income households need credit for investment to create more income and more credit and more income'. In other words, microcredit enhances income growth, which increases a household's consumption level, hence, contributes to an immediate welfare improvement. For example, an enhanced income from borrowing encourages the poor to increase investment in working capital as well as physical assets. Capital and physical asset accumulation attributed to microcredit reinforces the income generating capabilities of borrowers (Aghion & Morduch, 2005; Hossain & Diaz, 1997).

Hulme (2000) argues further that conventional microcredit programmes lead to changes in household income, which leads to changes in economic security, educational and working skill levels. Ultimately, these changes lead to modification in household welfare and social political relations and structures. Morduch & Haley (2001) opine that microfinance helps reduce the impact of economic shocks on the poor and increase their assets and income.

Proponents of microfinance also argue that improved access to credit at reasonable cost could enable the poor to smooth consumption (food and non-food), better cope with crises, develop self-employed businesses, enhance income earning capacity and build up assets gradually. Moreover, Swain (2004) stresses that since microfinance programmes have generally targeted women as clients, access to financial services such as credit can empower women to become more confident, more assertive, more likely to participate in family and community decision making and better able to confront systemic gender inequities. Therefore, microfinance is a mechanism which gives the poor, especially women to better their livelihoods (Mourji, 2000).

Littlefield & Rosenberg (2004) argue that though microfinance is not a panacea for poverty, the poor value it highly because it can enable them to create employment opportunities that might induce improvements in a range of welfare measures, including income stability and growth, school attendance, nutrition and health.

Latiffee (2003) noted that microcredit improves the poor's economic conditions by enabling them to start self-employed businesses, increasing their income, stabilising their consumption and building up their capital assets. The poor can use the generated income to pay for the instalment of loans while leaving their original capital intact. Consequently, their capital base usually increases in large amounts as they borrow continuously, which gives them opportunities to make medium and long-term investments. Therefore, microcredit borrowers are likely to sustain long-term development by participating in entrepreneurial activities and as a result, shake off poverty with economic growth.

In the case of agriculture, credit is an important element in the agricultural production process, which allows producers to satisfy the capital needs of the production cycle.

The provision of microinsurance facilities to MFI clients allows clients better capacity to withstand the consequence of many shocks and paves the way for better risk management. Since the poor are less able to cope with shocks they are less likely to take up higher yielding, albeit more risky, enterprises which might reduce poverty (Churchill, 2007). But if a farmer has crop insurance for example, he might be more inclined to take up more capital intensive cropping systems that could produce higher incomes. In addition, microinsurance also allows the poor to make full use of their loans for productive enterprises rather than having to use them to pay for unforeseen medical or funeral expenses, or having to set aside a portion of their loan as a cushion for unforeseen shocks.

Microtransfer services of overseas remittances also have important benefits to people of developing countries. Overseas remittances are undeniably a major source of external development finance (Hasan, 2006). The World Bank (2006) reports that out of a total of US\$232 billion in remittances worldwide, developing countries received US\$167 billion which was more than double the total development aid from all sources. De Bruyn & Kuddus (2005) report that up to 60–70% of recipient poor households' total income come from remittances. Remittances facilitate investment in both productive and consumption goods in recipient countries (Yang, 2006). Rivera & Reyes (2011) also note that while much of the remittances are used for consumption, the residual are converted into savings that could be used for investment purposes.

1.5.1 Empirical evidence

The empirical evidence on the impact of microfinance is at best mixed. While microfinance, particularly microcredit significantly contributes to alleviating poverty, it is not a panacea for poverty reduction. In a review of empirical studies investigating the effectiveness of microcredit in poverty reduction, Weiss & Montgomery (2004) conclude that the evidence is far from conclusive. More recently, Duvendack *et al.* (2011) reached the same conclusion.

First, we will review empirical studies suggesting a positive impact of microfinance on the poor, especially women and low-income households followed by a review of studies pointing to the contrary.

1.5.1.1 Poverty alleviation

There is rich evidence showing that microcredit has a significant impact on poverty reduction around the world. Pitt & Khandker (1998) report that microcredit increases consumption expenditure, reduces poverty, and increases non-land assets. Zaman (1999), focusing on the BRAC, one of the largest microcredit providers in Bangladesh, also reports that microcredit can help the poor smooth consumption and build assets. More recently, studies show that 48% of the poorest households in Bangladesh have risen above the poverty line with access to microcredit; similarly, BRI in Indonesia has witnessed an increase in its microcredit borrowers' income by 12.9% compared to only 3% increase in non-borrowers' income (World Bank, 2006; CGAP, 2003). Similarly, Kasim (2000) conducted a study on AIM's microcredit programmes in Malaysia and found that the changes in income, expenditure, savings and assets are positive and higher for the microcredit borrowers compared to non-borrowers. In 2002, China Rural Credit Cooperatives (RCCs) launched the microcredit programmes on a national scale becoming the main force in popularising and formalising China's microcredit programmes with their extensive network penetrating the grassroots level (Du, 2004, 2005; Sun, 2003). The amount of microcredit loans issued to rural households by RCCs nationwide totalled 96.7 billion yuan in 2002 and around 60 million rural households had received microcredit loans provided by RCCs. The scale of RCCs' microcredit programme has far surpassed the

scales of both the NGO and government programmes (Gao & Hu, 2005; Du, 2004; Druschel, 2002).

Islam's study (2007) shows microcredit contributes greatly to borrowers' productivity, which is a crucial determinant of the economic condition of the rural poor. For example, financial support from microcredit allows the poor to invest in high-yielding varieties and advanced technology, which significantly stimulates productivity and promotes production. According to Islam, increased productivity is important for a 'concomitant' and 'secular' rise in income, which is crucial for rural poverty reduction. Furthermore, microcredit also creates employment opportunities for a vast under-utilised labour resource by undertaking economic activities on a self-employed basis. As the self-businesses expand over time, more labour is demanded.

1.5.1.2 *Coping with risk and shocks*

Latifee (2003) observed that microcredit borrowers are in better position to cope with different crises. For example, during the 1998 flood in Bangladesh, the microcredit borrowers could borrow more and repay the loans within an extended period of time so that they could maintain their daily expenses and productive investment during the crisis. Therefore, microcredit can minimise the severity of such crisis and help borrowers to recover from their losses (Latifee, 2003; Zaman, 1999).

In addition to maintaining consumption of basic necessities, access to credit can increase poor farmers' risk-bearing ability and help them alter their risk-coping strategies so that farmers may be willing to adopt new and riskier strategies with higher potential return in their production instead of risk-reducing but inefficient strategies (Diagne, Zeller & Sharma, 2000). Hence, credit is a powerful instrument to help poor people invest and break out of a 'vicious cycle' of poverty because it has the potential to improve the users' incomes and savings, and consequently, enhance investment and reinforce high incomes (Mohamed, 2003).

1.5.1.3 *Social status promotion/gender equality/women empowerment*

By joining the microcredit programmes, the poor are organised into groups where they can share diverse information to learn more about the

outside world. As a result, the poor, women in particular, become more mobile and active in participating in social network and commercialisation process, and become more conscious about their life quality and their family welfare. Latifee (2003) concludes that the poor can benefit from microcredit through economic condition improvement and social status promotion.

Maclsaac (1997) acknowledges that microcredit is a powerful tool in fighting poverty and promoting gender equality. The author argues that microcredit can promote gender equality by creating employment opportunities for poor women to generate stable income. Such economic empowerment provides women with new skills, information and organisational capacity, which indirectly results in social and political empowerment. Similarly, Manimekalai (2004) asserts that microcredit plays a major role in many countries' gender and development strategies because of its direct relationship to women empowerment. This view is shared by Cheston & Kuhn (2002), who note that the impact of microcredit on women empowerment can be manifested by increased participation in decision making, more equitable status of women in the family and community, increased political power and rights, and increased self-esteem. More specifically, Manimekalai (2004) studied women borrowers from Self-Help Groups² (SHGs) in India and finds that SHGs microcredit programme in India has greatly helped women borrowers improve their economic conditions and promote their social status.

Since microcredit programmes have generally targeted poor women as clients, access to microcredit can empower poor women by increasing their contribution to household income and asset building, which is a significant contributor toward their increased self-worth and improved family status. As a consequence of participating in microcredit programmes, women borrowers become more financially independent, more likely to participate in social networks and commercialisation processes, and able to better confront systemic gender inequities. A regional study by World Bank (2006) reveals that 90% of women borrowers from SHGs in India

²SHG is the dominant microfinance scheme in India. The operations of SHGs composed of 15–20 members are based on the principle of revolving the members' own savings. The volume of individual borrowing is determined by the volume of member's savings or the savings of the group (World Bank, 2006).

can freely visit local markets and make small and large purchases independently, while 68% of women borrowers in Nepal can make independent decisions on property, children's education and marriage.

Other recent studies also attest to the impact of microfinance on women empowerment (see for example, Pitt, Khandker & Cartwright, 2006; Ashraf Karlan & Yin, 2010) due in large part to increased female income derived from microenterprises. This empowerment is also seen to result in changed family consumption pattern since women are more inclined to spend on children and family goods (Duflo & Udry, 2003).

1.5.2 Counter findings/criticisms against microfinance

1.5.2.1 Poverty alleviation

According to Maclsaac (1997), microcredit may be less effective, or even counter-productive, in helping the poorest of the poor to raise their living standards because the worse-off borrowers use the loans only for consumption or invest in less riskier (and generally less remunerative) activities compared to the better-off borrowers who tend to invest in riskier and more productive ventures including technological improvements, which provides opportunities of generating greater income to improve their living standards. In the same vein Bateman & Chang (2009) more recently, argue that microfinance works against technology adoption by creating an environment that helps perpetuate primitive technology. Maclsaac (1997) suggests that microcredit can be more effective when combined with other financial interventions such as savings and insurance. Chowdhury (2004) echoes this more recently, arguing that microcredit should not be viewed as a sole instrument for poverty reduction; instead, it should be included as a part of broader poverty eradication strategy combined with other intervention programmes such as social protection programmes. As an answer to this criticism, MFIs have innovated new services such as microsavings, microinsurance, microtransfers and microequity. However, Quibria (2012) notes that unless two fundamental constraints are addressed, it would be difficult for poor households to graduate from poverty. The first is the problem of the predominance of primitive or low technologies in rural microenterprises and the second is the challenge of weak domestic demand for their products.

Early studies suggesting positive impact of microcredit on poverty reduction such as that by Pitt & Khandker (1998) are now being challenged. In a follow-up to his earlier study Khandker (2005) finds a much weaker impact of microcredit on poverty. Khandker finds that though microcredit raises consumption and non-land assets of the very poor, it has little effect on aggregate poverty. In addition, Banerjee *et al.* (2009), using randomised control trials which overcome the technical econometric problems of earlier studies, also do not find any robust evidence of a positive impact of microcredit on poverty in the slums in urban Hyderabad, India. Likewise Karlan & Zinman (2010) did not find a positive relation between microcredit and poverty for microentrepreneurs in Manila, Philippines.

1.5.2.2 *Women empowerment*

Though some authors opine that microcredit leads to women empowerment, Quibria (2012) argues that this is not automatic, since female empowerment is contingent on the effect of microcredit on female income. Quibria argues further that if female income from credit falls short of male income, the female might still be marginalised in household decision making. Indeed a number of studies argue that microcredit has had little or no effect on female empowerment (see for example, Goetz & Gupta, 1996; Hunt & Kasynathan, 2001; Banerjee *et al.*, 2009). Furthermore, though Belwal, Tamiru & Singh (2012) find that microcredit can increase income and savings of female entrepreneurs, this did not have any salutary impact on their lives after accounting for loan repayment and interest.

1.5.2.3 *Mission drift*

Another criticism levelled against microfinance is mission drift (Mersland & Strom, 2010). Ashta *et al.* (2014) points out that the mission drift critiques usually centre on (a) diversion of microcredit into consumer credit, (b) larger loan sizes and (c) high interest rates. Firstly, critics of microcredit suggest that these funds are increasingly being used by borrowers for consumption rather than for entrepreneurial activities.

The second critique on larger loan sizes means that the loans are being targeted for the wealthier of the poor rather than the poorest of the poor (Ashta, Couchoro & Musa, 2014). Copestake, Bhalotra & Johnson (2001) found this to be true for PULSE in Zambia. Roth (1997) also pointed out earlier that microcredit has not reached “the poorest of the poor” but “the wealthier of the poor”, and it is limited by poor political institutional framework in some countries. For example, Reeve (2006) suggests that incoherent legal framework and poorly trained management contribute to the inefficient implementation of microcredit in Indonesia. Finally, some critics also point out that a number of MFIs are so focused on profit motivation leading them to charge high interest rates which in turn leads the poor borrowers feeling deceived (Eversole, 2003). Examples include the case of MFI Compartamos which reportedly was charging interest rates as high as 99% per year (Ashta & Bush, 2009; Ashta & Hudon, 2012; Lewis, 2008; Smith & Epstein, 2007), and the case of SKS in India with allegations that its microcredit programmes led to too much borrower stress and even suicides (Ashta, Khan & Otto, 2011). Cheston & Kuhn (2002) also argue that women who borrow from MFIs suffer ill health and exhaustion because of overwork, caused by compulsory participation in the time-consuming meetings, engaging in income-generating activities to pay off the loans, and simultaneously, taking traditional responsibilities of the family, such as looking after children. In addition, microcredit remains inaccessible to the poorest of the poor because microcredit institutions intend to protect their self-sustainability to achieve larger scale of poverty reduction at moderate level (Druschel, 2002).

Despite these criticisms the World Bank (2006) argues that the overall impact of microfinance is positive but the degree of impact varies in different countries.

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