

Case Studies: Microfinance is a Concept of Building a Balanced Social Economy

Gazi Farok*

Toronto Metropolitan University and York University, Toronto, Canada

***Corresponding Author:** Gazi Farok, Toronto Metropolitan University and York University, Toronto, Canada.

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Abstract

Microfinance is used to offer key financial services to some of the world's poorest and mostly of vulnerable community people. Thousands of women and men are not viewed as valuable clients by traditional banks but they feel lack access to services. Muhammad Yunus is a Bangladeshi social entrepreneur. He is the pioneer of the concepts of microcredit and microfinance. 'Elevator Pitch' idea says that Muhammad Yunus established the Grameen Bank (GB) in Bangladesh in 1983 with anti-poverty concepts and he accelerated his belief that credit is a fundamental human right.

Keywords: Microfinance; Bank; Clients; Services; Economy

Introduction

Microfinance steps in and just to help families become self-sustaining, but as a key driver of social change, including women's empowerment. He is a banker, economist, and civil society leader. He was awarded the Nobel Peace Prize in 2006 for founding the GB and afterwards he was renamed as Banker to the Poor [1]. The primary idea of this Nobel Laureate was to help poor people and how to get rid of poverty. This concept headed by providing loans on terms basis and teaching them a few sound financial principles so they could help themselves perfectly. The idea of Yunus personal loan of small amounts of money and its applications uplifted rural economy in Bangladesh in the late-70s. The GB has contributed to the forefront of a financial world by eradicating poverty through micro lending. At present 'The Popular GB model' operates in more than 100 countries in this globe.

Actually, Yunus was feeling terrible that there he had taught elegant theories of economics. Those theories were of no use at the moment with the people who were going hungry in 1974, a catastrophic famine in Bangladesh. So he would like to share himself a human being as well as a useful person for some people [6].

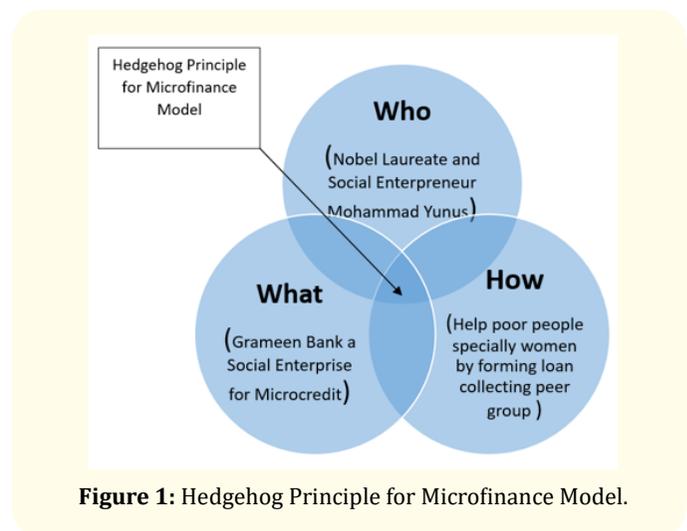


Figure 1: Hedgehog Principle for Microfinance Model.

According to Greek parable, "The fox knows many things, but the hedgehog knows one big thing" [19]. Muhammad Yunus is a passionate social entrepreneur. He is the pioneer of the concepts of microcredit and microfinance. 'Global best' idea says that Muhammad Yunus established the Grameen Bank (GB) in Bangladesh in 1983 with anti-poverty concepts and he accelerated his belief that credit is a fundamental human right [3]. He is a banker,

economist, and civil society leader. He was awarded the Nobel Peace Prize in 2006 for founding the GB and was renamed as Banker to the Poor. The primary idea of this Nobel Laureate was to help poor people and how to get rid of poverty. This concept headed by providing loans on terms basis and teaching them a few sound financial principles so they could help themselves perfectly. The idea of small personal loan amounts of money and its applications uplifted rural economy in Bangladesh. The GB has contributed to the forefront of a financial world by eradicating poverty through micro lending [11]. Currently, 'The Popular GB model' operates in more than 100 countries in this globe.

Yunus was born in June 28, 1940 at Chittagong, Bangladesh. He plotted GB as an opportunity for rural family of organizations. He followed 'The 10x rule concept' which says that whenever he thinks to achieve something, he is used to do 10 times more than he previously thought. That's why during (1976) his visits to the poorest households and Yunus found that a small loan could have a disproportionate difference between people to person. Rural women were used to design wood furniture, borrow loans to buy wood, and return their loans from profits. Traditional banks were not used to make tiny loans considering interest rate and risk to the poor [2]. Alternately, Yunus nursed an idea of possibility to repay the money from the poor as microcredit and it was a viable business model [3]. Yunus derived the concept of microcredit by lending US\$27 for 42 women toward a profit of US \$0.84 total.

As an optimal opportunity in December 1976, Yunus got approval a loan from public owned Janata Bank to lend to the poor in Jobra village close to Chittagong University, Bangladesh. The institution committed to operate and secured loans for its projects for 28,000 members in 1982. The pilot project began operation as a rural bank on October 1st, 1983 for poor Bangladeshis as GB. Total 7.4 million borrowers got US \$6.38 billion by July 2007. A system of "solidarity groups" concept applies binder for loans and its members act as co-guarantors of repayment and help one another's efforts at economic self-advancement [4]. Very soon, Grameen observed threat of substitutes to switch fishing ponds and irrigation pumps for dry seasons. In 1989, these diversified interests started growing into a couple of separate organizations on Fisheries, Agriculture, Software, Knitwear, CyberNet, Telecom etc. [5].

The competitive advantages and success stories of the GB microfinance model inspired similar efforts in about 100 developing countries and developed countries including USA. Many microcredit projects emphasized of lending to women and 94% of GB loans had used to women of disproportionately from poverty and they were better than men to devote their earnings [7]. For ties with GB, Yunus was named an Ashoka: Innovators for the Public Global Academy Member in 2001 [8]. Grameen Social Business Model (GSBM) has accepted a theory to an inspiring practice adopted by leading institutions, entrepreneurs and corporations in worldwide and Yunus microfinance model demonstrated by launching GB as entrepreneurial spirit to empower poor women and alleviate their poverty to become self-dependent [9].

The strength of the effort of Yunus was infinitive and 'The Nobel Committee' acknowledged himself to be a leader. He has managed to translate visions into practical action for the benefit of millions of people in worldwide. It was a great idea to provide loans to poor people without any financial security. A modest beginning of 38 years ago, the first and foremost through GB, Yunus developed micro-credit into an ever more influential tool in the struggle against poverty. Bangladesh civil society recognized a potential of new entrants in global performance for intellectualities.

Yunus was the first Bangladeshi Nobel laureate and after receiving the news of the important award, Yunus did spotting of his share of the \$1.4 million money to create a company to make low-cost, high-nutrition food for the poor and the rest would be used to establish a Science and Technology University and an eye hospital for the poor in Bangladesh [1]. Former US president Bill Clinton advocated in his autobiography 'My Life' for the awarding of the Nobel Prize to Yunus [10].

In figure 1 (S-curve): P1, P2, P3, P4, P5 indicated 1983, 1991, 2000, 2010 and 2021 respectively.

Yunus renamed as one of 12 greatest entrepreneurs [11]. He inspired countless numbers of young people to devote themselves to social causes all over the world and January 2008, Houston, Texas declared 14 January as "Muhammad Yunus Day". He was named among the most desired thinkers the world should listen to FP 100 [12]. The British Magazine New Statesman carried out Yunus at 40th in the list of "The World's 50 Most Influential Figures 2010".

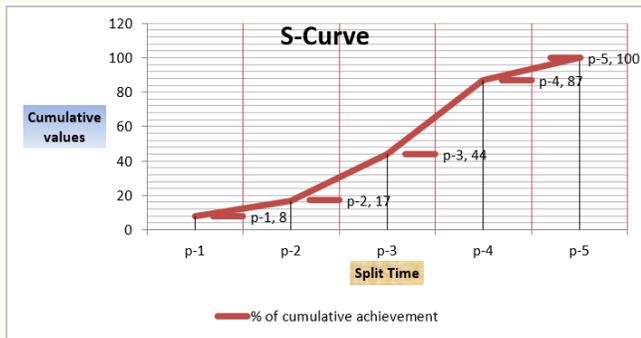


Figure 2: S-curve (period and cumulative achievement) for GB.

GB has faced a significant number of controversies and threats as entrepreneurship. On January 11th 2011, Bangladesh Government notified to review GB activities [13]. A couple of international leaders stepped up their support of Yunus as “Power of platform” of GB; unfortunately the Finance Minister of Bangladesh declared that Yunus should “stay away” from GB for the interest of fair and transparent investigation.

Consequently, the government replaced Mohammad Yunus as Managing Director by Muzammel Huq, a former Bank employee [14] as the Chairman of GB. GB General Manager issued a statement that Yunus should continue his office until finalize the legal issues. Yunus appealed the Bangladesh High Court challenging the legality of the decision by the Bangladesh Central Bank to remove him as Managing Director of GB [15]. In addition, nine elected directors of GB filed a second appeal. The power of customers was disregarded and the High Court hearing on the appeals and ultimately dismissed him.

The weaknesses of GB were derived by the allegations against the entrepreneurship of Yunus and the effectively run of microfinance [16]. The techniques of peer pressure and power of suppliers were reportedly used as loan repayment practices in microfinance and commercialization of microcredit [17]. During the Clinton Global Initiative meeting, Yunus criticized microfinance Indian investor V. Akula and he added that microcredit was not a platform to make money off the poor. The calculation of actual competitive industry interest rate of GB was close to 23%. During this time the organization enjoyed a tax-free status for a long period and later it removed [18]. Well wishers of Yunus argued that the government was practiced ill motive activities to damage Yunus’ career.

Finally, microcredit and microfinance loans are prioritized to entrepreneurs too poor to qualify for traditional bank loans. Nobel Peace Prize recommended Yunus and the GB efforts of upcoming microcredit to create economic and social development.

Case study on FINCA Canada

Introduction

FINCA Canada (Foundation for International Community Assistance Canada) was established in 2006. It provides small loans for entrepreneurs, insurance, money transfers, modeling businesses, savings accounts, and other financial services [20]. The annual report carried out that there are 853,888 borrowers and 41% of them are female in FY2019. Female empowerment is a key concept and average 29% of businesses are run by women. In addition, FINCA supported to create 586,465 jobs for women. Microfinance loans are used to expand an existing business, restructuring the future plan etc.

Management team and objectives of leadership

FINCA Canada is a charitable social enterprise. Nicole Burgess, Philanthropy and Engagement Manager and Drew Boshell, Executive Director are the top management executives for FINCA Canada. It has three objectives:

- To organize entrepreneurs’ ambitious ideas about local markets
- To build a trust relationship among existing microfinance clients
- To mobilize philanthropic capital by donating for social enterprises globally

Now a day, these social enterprises are used as the banker of the poor.

Company profile

It is a medium-sized company with funding of average \$2.0m in FY2019 [20]. It was accepted \$2.6m in government funding, revenues of representing 55% of total. Administrative costs are 13% of revenues and fundraising costs are 25% of donations [24]. Actual overhead costs are 38% and overall efficiency is 62%. It is used to empowering people in poor countries, specifically women with microfinance providing access to financial services. FINCA

Canada is collected fund as a sister concern of FINCA International and is used in implementing its microfinance. It currently serves 2,669,933 clients in different social programs.

It has been carried out \$3.2m in program supplies and has been contributed to programs in 20 countries across Africa, Eurasia, Latin America & the Caribbean, the Middle East & South Asia. Pakistan has the highest number with 1,128,248 clients distributing a \$144.9m loan portfolio overall and followed by Tanzania, DR Congo, Kyrgyzstan, and Uganda.

Prospects of microfinance

FINCA is committed to advancing economic prosperity for low-income women in the developing world. It has provided to grow their small businesses, develop structures for visions, increase their incomes, and plan for the future. It helped millions of people to get rid of poverty with a sense of power that fuels ignite to break the cycle of poverty [21]. It has designed Bright Life social enterprise for clean energy products. This solar light plan can improve the health of a society [25].

Microfinance leads the operations for small loans where traditional banks are unwilling to consider interest and risk of repayment. Borrowers without financial security are not accepted by ordinary banks. The small loan amounts involved in microfinance has less interest rate and it does compare banks insufficient returns. Microcredit fuels social investor to invest in agriculture, energy and financial sectors etc. It is a mechanism to help poorest people to be a harder worker with a bright future plan. The financial resources can come from individual, cooperative, religious organizations etc. Microfinance helps people to getting start, empowering women. FINCA Canada is practicing microfinance concepts in Canada and global aspects of microfinance clients: 2.7 million, Lives impacted: 75 million, Women Served Overtime: 4.5 million, Raised Overtime: 439 million, Countries served: more than 40 countries.

FINCA's founders trusted poor people to pay back small loans which could transform their lives. The concept of microfinance has played a great role to establish millions of hard working people more than 30 years. Peoples are used to build businesses, diversify careers, increase their everyday incomes, and improve their lives and status. It provides goods and services to their communities and builds assets for their own families. It generates jobs, provide strong local markets, and confirm minimum wage services for vital goods.

Clients' perspectives

Microfinance implies to the financial services provided to low-income people empowering self employment. FINCA reached more clients by investing in innovative technologies and solutions. This vital financial service allowing them to fix up market prices as well as saving their operation time and money [25]. FINCA Canada services help families start and build small businesses that become critical sources of employment, income, and economic viability. Access to essential financial services can bridge the economic expectations. It can provide economic sustainability and self-reliance for the poor. Higher wage-paying jobs are scarce in many developing countries. Many clients can earn through informal markets and operate their own small enterprises [Figure 1].

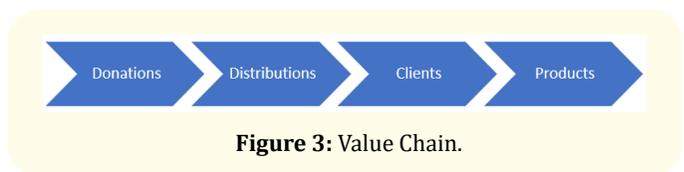


Figure 3: Value Chain.

Financial services can empower clients economically and socially. It has better integration into a country's economy by contributing to their society Formal financial system, access to credit; savings etc. are excluded for minimum two billion people in the globe. Micro loan segment is used to work in the informal economy.

Components of microfinance: With the help of microfinance, people everywhere can gain the power of confidence to: i) Start a entrepreneurship with basic training, ii) Expand to workers by empowering women, iii) Save for larger items like machinery following payday, rate of interest etc. iv) Insure their crops against threats, emergencies like drought, v) Provide opportunities for borrowers, vi) Send funds to suppliers or innovators, vii) Access markets credit rating, expand fund toward immediate community [Figure 2].

Microfinance programs have a long vision for transformation. Most of the programs offer training, management consultancies, skills for change in financial literacy, and support services such as hiring procedures, business coaching.

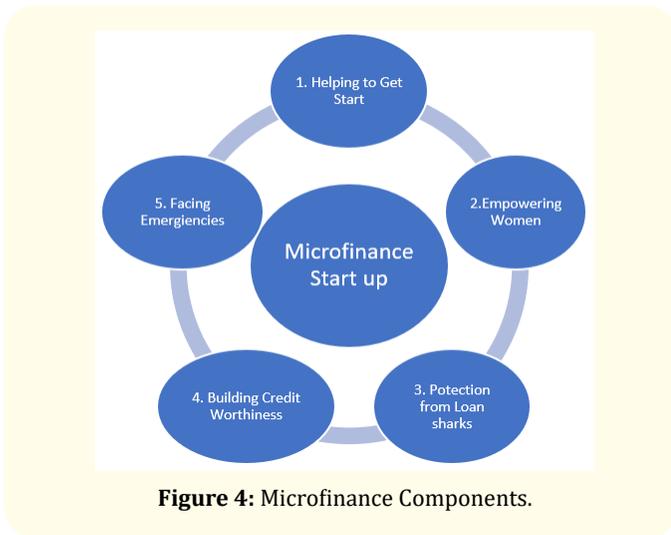


Figure 4: Microfinance Components.

Product differentiations and financial performances

FINCA Canada is also expanding to provide social products, including solar lanterns, clean cook stoves, and water purification products. Financial inclusions, S-Curve have always been at the core of FINCA’s work. It has economic opportunity and justice for every level in the worldwide. As a non-profit microfinance organization, FINCA has been providing business loans to economically disadvantaged entrepreneurs in developing countries from 1984 [22]. It acquired capital largely through government funding [Table 1].

Human rights are important than origins, gender, age, and ethnicity etc.

People expect equal opportunity to live a peaceful and prosperous life. Specifically, Canadians have equal access to education, health care, food and nutrition, jobs, and protect from violence, conflict and Canada’s international assistance seeks to confirm it [23]. It is a movement for social change. It has concept that investment program can help to transform lives in the developing world [Table 1].

| Components | FY 2019 | FY 2018 | FY 2017 |
|---------------------------|-----------|-----------|-----------|
| Program cost coverage (%) | 56.9% | 72.7% | 59.4% |
| Donations | 2,018,908 | 1,334,770 | 3,181,783 |
| Government funding | 2,580,807 | 2,978,910 | 633,373 |

| | | | |
|---------------------------|-----------|-----------|-----------|
| Total revenues | 4,662,436 | 4,369,526 | 3,867,340 |
| Total spending | 4,313,265 | 4,665,313 | 4,834,751 |
| Cash flow from operations | 349,171 | (295,787) | (967,411) |

Table 1: Financial data [20].

Conclusion

In conclusions, microfinance helps the poorest and the most vulnerable people in the globe to achieve brighter futures by paying loans without any guaranty. It maintains equal access to financial services to help people become self-supporting. It carries social change, including women’s economic empowerment. Traditionally excluded people can get benefit from the formal financial system. It is a power house for poor and low-income people to make everyday decisions how to purchase a sewing machine or an agricultural tool, repair a broken attic, pay for a child’s back to school shopping, raise the funds emergency funeral or medical treatment. Microfinance clients are hard workers and are used to nurse a long vision. They are committed for children better lives and improve their communities.

Future recommendations, microfinance social enterprises can help correct persistent market failures. GB and FINCA have commitment to advancing market-led innovations for the poorest community. Both have targeted eradicating global poverty in upcoming generations.

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