

# [Microfinance the developing countries, though faced with](https://assignbuster.com/microfinance-the-developing-countries-though-faced-with/)

Microfinance programs have been established in many parts of the world with a target of reducing poverty. To achieve this goal, most micro finance institutions decided to shift their focus from capital provision to education financing on the realization that there was a common knowledge deficit especially in the business sector. Most people running business were school dropouts and lack of the relevant information led to poorly managed business that ended up more in losses than profits.

As a result, the loan capital disbursed to these businesses remained unpaid thus leading to a loss in the micro finance institution (Khumawala 10). The plan to finance education has been successful in most of the developing countries, though faced with a number of hitches. First, most of the institutions tend to focus more on financing higher education, where in most cases children from poor families never manage to reach. The other problem is that most of these organizations do not have a strong loan recovery system and hence most of the loanees end up getting away with the debt. An example of this is the higher education loan administered to university students in the republic of Kenya.

The board has been trying to adjust the loan recovery plan for years without any success and so they end up losing a lot of money to the students. Most of the cases, like the one provided above are mostly government programs. Most of the private micro finance institutions have a rigorous monitoring systems used to monitor and recover loans from the loanees, and hence they rarely fall victim of loan forfeiture. The main purpose of such government micro finance institutions is to ensure that higher education is within reach to many students who have obtained goods grades, and might fail to get the possibility of obtaining higher education due to poverty (Khumawala 12). This program is only applicable to public universities on the assumption that students who can afford private ones do not need to be financed, as they are considered to be well off already. This program is also aimed at providing an incentive to students to work hard in their pre-university education so that they can earn themselves the Loans Board certification.

The tools needed to make this program successful include effective records keeping and updating information system and a team that is knowledgeable in loan recovery systems. The information system should have the capacity to store records for as many years as possible and should have an effective backup system in case of information loss or misappropriation. This will ensure that the debts can be traced for long, and the interest accumulates for as long as the loan remains unpaid. As a result, many people will have an incentive to make them want to clear their loans as soon as possible hence protecting the institution from the possibility of running out of funds. Again as a result of this system, the institution will be capable of providing educational aide to more students in future hence ensuring sustainability. When instituting this program, priority should be factored in collecting all the information regarding past defaulters.

The board should try to determine the current positions of as many of them as possible so that they can recover the debts. Strict measures should be put across to ensure that most of the debts are collected. This will need professional debt recovery personnel who are able to manipulate people to pay back their loans irrespective of how long it has stayed (Khumawala 13).

The other step is to ensure that stringent measures are applied to the current loanees to avoid the problems faced in the past. For example, if the problem of payment defaulting results from the board not being keen on the details of the loanees, they should switch to a system that records all the details and one that is able to identify cases of dishonesty. The outcome of this will be a higher education’s loans board that is able to sustain itself and be in a position to support student from poor families who have the capacity to perform well in school.

## Works cited

Khumawala, Saleha. “ A Model for Microfinance-Supported Education Programs.” The Deans perspective, 2008, 9 (1) pp. 0-13.