

How microcredit help poor people term paper sample

[Business](#), [Customers](#)



The role of microcredit in alleviating poverty has not been understood and realized by various economic planners of various nations, starting with the understanding on the reasons for microcredit and its scope. Microcredit refers to small borrowing by unsalaried people and in microcredit loaning collateral requirement is usually little or at times it is not even required. The impact of microcredit has attracted attention of economists, scholars and national planners more than any other form of microfinance. This is so because micro credit provides a wide list of benefits to poor people.

Generally, microcredit provides financial support, business advice in addition to assisting poor people in building business projects. Microcredit can help poor people in various ways including sustainable income increase and increase in consumption as consumption limiting factor is eliminated. The harsh truth and condition of poverty is that income is not usually dependable and regular in its flow (Islam, 2007). Microcredit thus assists the poor in smoothening income flow and thus avoiding situations of lack of basic needs like clothing, shelter, education or food. There are three ways in which microcredit can help poor people which are by giving financial support, offering Business advice, building Business project.

Unpredictable calamities and shocks such as sickness, natural disasters, and theft can be managed using microcredit loaning to poor people. Credits can also be utilized by poor people in building production assets, for instance land buying which acts security to the poor person in the near future.

Microcredit can also act as an empowerment to poor women which are gained out of self accountability of resources which various women in the developing countries lack. As documented by Yunus poor people only require

financial assistance in order for them to build their future. Poor people could have viable business ideas but lack starting capital to make their ideas and dreams come true. This is true on the basis that all individuals have creative and viable entrepreneurial ideas. It is clear that every child will always strive to go beyond what his or her parent did. This is the same case for poor people; they are not happy and could not wish to continue living in their condition of amnesty poverty. Yunus believes that poor people only require a small financial back up to start their run to financial glory. He called this social business. Yunus gives an example of a woman who worked at Grameen bank but started a chicken raising enterprise using a small loan. The woman after 15 years has had a tremendous change in financial life and at the time the woman owns several cars. From, this account it is clear that microcredit is significant as a financial back up for poor people as they not only assist in increasing poor people's purchasing capacity but also acts as an eye opener for identification of business opportunities (Yunus, 2000). Microcredit lending institutions are usually focused in assisting the poor people financially while expecting for the repayment of their borrowed money after the end of the agreed period. This drives them to follow up their clients and thus ensure that they invest the borrowed capital wisely. It is common for poor people to allocated borrowed money to non-profit making activities (Karlan, 2011). This is usually due to both lacking entrepreneurial skills and knowledge and at times poor people can be having poor consumption habits. Microcredit lending institutions thus realized the importance of attaching business advisory services to financial lending. These institutions over advice to their clients from the point of microcredit

loan application to the entire life of the business if need be. At the application and processing of the loan application, the lending institutions advice their customers on the appropriate type of loan terms and conditions that will be appropriate to the customer as in accordance to his or her requires on the amount of money and the customers financial condition including credit worth. The institutions also give advice and train customers on how to save and utilize various financial systems (Karlan, 2011).

Generally, microcredit institutions give advisory services aimed at building and widening customers' business knowledge and engagement with their projects.

Every business requires a person who is a risk taker. This is because it is not a guarantee that when one will get profit from the business. There are certain factors which may lead to business failure. Mostly the poor people fear to risk their small savings by investing in a business even when they have viable ideas and have identified a market gap. Smith in the book *Living on the edge: Extreme sports and their role in society* makes it clear that microcredit offering institutions gives confidence to low income earners in the society to risk (Smith, 2006). The training and the capacity building that such institutions offers somehow minimizes the risk. For instance, if one wants to invest in poultry farming microcredit offering institutions provides knowledge on the risks that are associated with the business like diseases, lack of ready market e. t. c and further gives advice on how to deal with such risks. Such institution therefore makes it easier for one to invest because you are fully aware of the problems associated with the business and how to deal with them.

Microcredit offering institutions in their pursuit of assisting customers to build a capacity business that will be able to generate income enough to repay the loan at stipulated time; do help customers stabilize their projects. The act of assisting customers through entrepreneurial training is based on what Yunus call creation of social business. The social acts of these institutions involve enhancement of project capacity building, project management and project assessment. Poor people could not afford to pay for these important services and since they are vital to the customers and important to the lenders as success of projects will determine the repayment of the loan, the lenders have taken the responsibility to ensure that poor people pursue their projects smoothly (Yunus, 2000). Microcredit institutions being socialists provide humanitarian services to the poor by helping them to build their projects while ensuring that they do not go out of the financial institutions market. In conclusion, microcredit is a very important tool for alleviating poverty in the economy as a part from assisting poor people financially, microcredit institutions ensure that their lenders are trained in financial matters and are engaging in financially viable projects. This done by training them on record keeping, separation of business from household expenditure and putting efforts on identification of new ideas or opportunities and new markets for their products.

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