

# Microfinance institutions

Finance



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The paper " Microfinance Institutions" is an outstanding example of an essay on finance and accounting.

Why Yunus was awarded the Nobel peace prize as opposed to the Nobel Economics prize?

Muhammad Yunus was awarded the Nobel peace prize as opposed to the Nobel Economics prize due to his contribution in inspiring the global movement for entrepreneurial financing. The Nobel peace prize was a recognition of his efforts to create economic and sustainable development through targeting the poor since lasting peace can only be attained if the large groups of poor people in the society find means of breaking out of poverty cycle.

Yunus and his Grameen project offered microloans to the poor people without any credit history or assets to pledge as collateral. His approach entailed organizing women in collective, but not to individuals since this would encourage higher repayment rate and discourage defaults (Peng 2013). Although traditional banks were reluctant to lend to the poor, Yunus and Grameen Bank worked on the core recognition that the poor can manage their financial affairs if provided with suitable conditions and thus microcredit loans were provided to groups of women under easy terms. According to Yunus, poverty deprives the people of their human value and microcredit facilities are essential in restoring human dignity thus enabling long-lasting global peace. Through providing small loans of an average of US \$ 100, Yunus enabled more than seven million borrowers, mainly groups of women to attain higher standards of living for their families thus contributing to higher global peace. Investing in MFIs

In my view, I believe investors from developed economies can do business

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with poor people and earn a fair profit through investing in MFIs. In this case, investors must view the poor people as hard-working and entrepreneurial and combine both philanthropic and business ideas in their investment in MFIs in order to attain sustainable economic development. The objectives of the investment must be to advance the economic well-being of the poor people through ensuring that clients create security and build assets through advocating for reductions in interest rates in the microfinance institutions (Robinson 2001).

As an investor in a developed economy, I have no problem in investing in microfinance institutions since MFIs contribute to the sustainable development of communities through providing access to financial services to the underserved client groups in the society. I believe it is a wise idea for investors from developed economies to invest their funds in MFIs in order to ensure value-driven development of the financial sector in developing countries and stimulate entrepreneurship. Investors from developed economies will enable the MFIs to reduce the interest rates and make the financial institution more robust, customer-centric, well-capitalized and more liquid thus increasing the ability of the institution to respond to the local needs of the poor citizens in the society (Robinson 2001).

#### An opinion piece in defense of MFIs

As a leading CEO of a leading MFI in Kenya, I believe MFIs have done a wonderful job in transforming the lives of the poor and vulnerable people in society through their poverty-alleviation financial products. The MFIs have tailor-made financial services that suit the need of the borrowers and have reduced their lending rates in order to ensure high loan repayment and

increase the benefits to the clients. Although the Indian government bailouts of MFIS and Bangladesh government investigated Grameen Bank, I believe MFIs have implemented prudent lending practices and offered the necessary training to their clients. The institutions carry out due diligence on the client's ability to service the loans and advise the customers on the best investment opportunities in the market that will ensure acceptable returns. For instance, most of the loans are channeled towards small businesses that will supplement the family income or children education thus ensuring those who cannot access loans from the traditional banks have a chance to live a dignified life (Robinson 2001).

The credit recovery methods are not intimidating since the clients are aware of their obligations of repaying the loans and are organized in groups in order to reduce the risk of default. The group members act as guarantors for each thus ensuring that the loan interest and principal repayments are recovered from the other group members in unfortunate cases such as the death of one of the group members or default by one of the group members (Robinson 2001).

Although many MFIs do not require collateral for the small loans advanced to the clients, the small investments such as snack-shops and cattle that are bought by the clients act as a security for the loans thus improving the loan repayment. The notion that the poor will default on their loans since they are poor is a misconception since microfinance repayment rates are high in Kenya due to the low-interest rates and the entrepreneurial spirit of the clients.