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### **Summary : To Borrow**

As getting poor people to borrow has been considered one of the best hopes to relieve global poverty, debts are usually undesirable for many people. However, microcredit has changed what they think of as an obligation into transformative and life-changing experience. With its basic idea that the poor lack the resources to take advantage of economic opportunities, it targets micro business owners to help them find a way to obtain economic benefit.

One of the well-known microcredit stories is the small loan made by Yunus, who later established Grameen bank. With the behavioral commitment and low interest rate, the loan he made to bamboo craftswomen was created to help them escape the cycle of financing their businesses with moneylenders who charged very high interest rate. The craftswomen got boosted up to the first step of development and, therefore, could keep more of their profit, prosper, and escape poverty. His effort has inspired people so much that they followed his method.

However, microcredit just doesn't work for all people such as those whose business had limited need for capital. Microcredit can put them into deeper debt with its too long borrowing period and their behavior of spending money. Hence, they would turn to other sources of borrowing that suited their business more such as moneylenders.

In addition, it is common to find that many modern microcredit institutions charge high cost of borrowing, even more than the for-profit organizations. The only thing that differs microcredit from normal moneylenders is the social mission to remove global poverty, promote microentrepreneurship and women's empowerment. This leads to the question whether loan in general can make people better off or not by considering only the important matters of loan: the borrowing amount, maturity date and interest rate.

The case study with Credit Indemnity showed that people who randomly got approved to take loan were better off although they were being charged high interest rate.

They were more likely to keep their jobs, earn higher income, and their families prospered as well. In addition, the money was spent as transport-related expenses and aid for needy families so that they can avoid being fired by the employers or leaving to help their relatives in person.

In reality for microentrepreneurs, such economic opportunities cannot be exploited so easily. Due to the fact that microcredit can work only if the borrowers keep paying back, if they are going to set aside some profit as the loan payment, it depends on how much they can make extra profit after getting the credit.

To measure the marginal return to capital for the enterprise, a case study was performed by randomly giving money to microentrepreneurs in Sri Lanka. It showed that the business owners who received the grant can generate more profit by 70% of the grant amount annually. Nevertheless, evidence indicated that people still don't borrow.

There are 2 reasonable explanations for this. Firstly, 70% increase was just the average. There existed people who got no increase in return at all such as people with lower education or those who are female (although they are considered as the main agent in micro business) and as a result, they wouldn't see the need to borrow.

Secondly, the excessive restriction on loan usage. Microentrepreneurs would want to spend the granted money on both their businesses and other things. To prove this explanation, different kinds of the grant were made in the study. In-kind grant (can be spent on only business purchase) and no string attached grant (can be spent on anything). They found that the group receiving no string attached spent 58% of the grant amount on business and the other 42% on savings, paying the debts, and consumption. If this really is the portion they want to manage by themselves, they would see that this entrepreneurial loan doesn't properly answer their needs.

As another study with First Macro was performed, even the more traditional microcredit which charges low interest rate doesn't statistically earn significant higher profit for the microentrepreneurs. Plus, the insignificant increase is the result of cutting costs rather than the business actual growth.

Other than claiming to make people better off, microcredit has claimed to be capable of pulling the whole community out of poverty. To test whether it is true, the study was performed by asking all people at a community where microcredit newly arrived. The

result showed that there was no significant change in women's empowerment, school enrollment rate, spending on health, hygiene and food, and total expenditure of household. The community was not really better off.

However, there were different kinds of people in a society meaning that their responses to new access in credit also differed. The study was performed further to answer if the poor share equal ability to exploit microloans for their families', communities' and for their own sake by classifying them into 3 groups: actual entrepreneurs, likely entrepreneurs, and unlikely entrepreneurs. The first group tended to spend money in their business, the second group cut down their consumption on temptation goods and started purchasing whatever they needed to start business while the last group just chose to consume more of everything.

As for all things discussed in this study, it does not mean that microcredit is a total failure. It actually offers more options to people. But the problem is it is advocated as a solution that ends all problems to poverty which is not true. Instead of encouraging microcredit to be the number one answer, there are many more inclusive ways for the poor to escape poverty, such as saving, insurance, investment in health and education.

