

Members

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To Borrow Summary

Microcredit is the small loans given to microlenders in developing regions that are established by micro-financial institutes. The micro lenders may use the given loans to finance their business by investing in machines. By doing this, the lenders can generate more returns and earnings. Although some people think that debt is a burden and an obligation, microcredit has turned the act of borrowing into a kind of transformative and life-affirming experience. Moreover, the new loan from microcredit enables people to get away from the poverty cycle. Jeffrey Sachs, an American economist, stated that "The key to ending poverty is to enable the poorest of the poor to get their foot on the ladder of development. They lack the amount of capital necessary to get a foothold, and therefore need a boost up to the first rung" which microcredit can answer this statement excellently. Nowadays, over a thousand microcredit institutions operate around the world on six continents serving around 155 million borrowers.

Microcredit has many advantages. First, it provides access for those who have no collateral credit which benefits low-income people who have no credit. Second, non-profit microcredit programs offer lower loan repayment rates since they want this loan to be as feasible as possible for their borrowers. Third, the microcredit loan's purpose is to help launch a small business so it will continuously and sustainably benefit the borrowers and pull them out of poverty. Lastly, it improves borrowers' lives. They would have resources to maintain and increase their standard of living such as providing education for their children.

Microcredit sounds like a dream come true and it is for some people! Marta, a microcredit borrower from Ghana who got a loan from opportunity international, a global microfinance network. She buys and sells palm oil for a living. With her opportunity loan, she can widen her palm oil business to set up a kiosk in her town. Now she has money to send her children to school. She said to her lender "Now I am free". Her life and her family's lives truly changed because of microcredit.

Anyway, a microcredit loan has some limitations that cannot compete with local lenders. According to Erlyn, a local convenience store owner from the Philippines, she used to get her loan from a microcredit lender and it went well for her so she thought of getting a larger loan however, she then found out that she cannot put all her money into her business at once so she had to hold on to it which was hard for her to do so. Also, the microcredit bank only made loans over six months so she quit. Erlyn turned her head to the local moneylender who can offer her a shorter amount of time to make a loan (45 - 60 days) and collect daily repayment which reduces pressure on loan repayment.. This helps her not to sweat over money management. Although the interest rate is higher, she is willing to take it.

However, research conducted in Hyderabad, India, discovered that only 10-20% of poor persons eligible for microcredit decide to take the loans. So, what is it that prevents them

from borrowing money to start a business that would enable them to escape poverty? There are a few causes for this behavior. One argument is that they just disregard it because their friends have failed to obtain the loans. This occurred in Sri Lanka when eight out of every nine microentrepreneurs just disregarded the knock of opportunity when they studied the failure to obtain funds. But suppose these persons were unaware of their friends' failure to take out the loans. There are two reasons why individuals did not apply for microloans.

The first is a mathematical quirk. Perhaps the average yearly return on borrowing only tells us half of the picture. A 50 percent yearly return does not imply that all borrowers would benefit 50 percent from the business. Maybe half of them receive a 100% return, while the other half receive a 0% return, implying that they receive nothing in exchange for conducting business. The returns differed depending on the sort of person. Entrepreneurs who are more educated and smart do better than those who are less educated. One more year of schooling also increases profits since a significant predictor of company return, such as cognitive capacity, has increased. The gap between men and women results in disparities between the sexes in return. According to strong evidence, men received larger returns from doing business, whereas women's returns were actually negative. Women are, indeed, the lifeblood of microentrepreneurs in underdeveloped nations, where we can largely hear women's voices in the market. If women have experienced a loss, they may not be the best candidates for entrepreneurial loans. So it brings the question, is this emphasis truly misplaced? I don't believe so, however, the study requires us to do so.

Second, because of the strict limitations on the use of money, very few people obtain microloans. Many microlenders frequently require that loans be utilized strictly for business purposes. However, the borrower did not want to use the funds only for business reasons. The study by De Mel, McKenzie, and Woodruff demonstrates how these borrowers distribute loan funds if they were not required to finance the funds only for their business. According to the researchers, just 58 percent of the money was spent on business purchases. The remaining was used for saving, debt repayment, consumption, and so on. So, if this is the way borrowers desired to spend their money, why do microlenders impose so many restrictions on how the loan may be spent? And this makes us wonder if there is any way to improve microcredit so that more disadvantaged people can borrow.

There is a statement that "the restriction of microcredit is not a tragedy" since not everyone is born to be an entrepreneur, or in other words, not everyone is born to be a microcredit client. Is it going to benefit borrowers if we make the regulations controlling how they spend their loan money more flexible? I don't believe so, since if borrowers spend more money on consumption rather than business, they won't be able to earn enough returns to pay back the loans. So the issue isn't microcredit in and of itself. Microcredit is just a tool for assisting poor individuals, not everyone, but only those with an entrepreneurial attitude, to overcome poverty. The issue then becomes, *"Should we not spend so much of our money, time, and intention on microcredit but focus more on other things like education, the healthcare system, and so on, which are more affordable and work better toward the goal to eradicate poverty?"* The difficulty is how we can encourage more people to engage while also giving them confidence that there are programs that work, so that more poor people will borrow more with the sincere aim of doing business and ending their poverty.

In conclusion, microcredit is an excellent tool to end poverty. However, it depends on the loan receivers. The experientment from India showed that when the loan is given to the receivers who are entrepreneurs, these people generate higher yield from using the loans to their businesses better than those who are not entrepreneurs. Raising the return of borrowing relies on other factors, for example, improving the education system and healthcare. This would make microcredit more effective for microcredit clients—poor people.