

Sample Answers to BLM 3.3 Microfinance — Giving Credit Where Credit is Due

1. A sample answer chart is provided here. Encourage your students to think of even more advantages and disadvantages.

	Microfinance Loan	Traditional Bank Loan
Advantage	<ul style="list-style-type: none"> - no collateral/assets needed to get a loan - loans are available to rural poor who would otherwise not be able to access loans (such as rural, poor women in developing countries) - repayment periods are short to help the rural poor save and repay loans - ability to get larger loans if initial small loans are repaid - NGO or bank may facilitate the income generating project and possibly set loan conditions that will help the business succeed. Training may also be provided by the NGO as part of the loan program, such as animal management practices or bookkeeping skills. 	<ul style="list-style-type: none"> - those who qualify can gain access to large loans - possibly longer time between loan repayment periods - fewer conditions for the loan associated with the specific project or purpose of the loan
Disadvantage	<ul style="list-style-type: none"> - only a small amount of money loaned initially 	<ul style="list-style-type: none"> - people without assets do not qualify for these loans, therefore they are inaccessible for the rural poor - inability to repay can result in significant debt depending on the size of the loan

2. If a family has a successful microfinance project, for example raising and selling chickens, they will be able to earn an income for the family. The family could use this money in numerous ways to improve the family's quality of life. The family would derive social benefits:

- If the money were used to send one or more of the children to school;
- If the money were saved and used to buy medicine or transportation to take a family member to the hospital when an emergency occurred;
- If it were used to buy additional food to create a more nutritious diet for the family;
- If it were used to buy the seeds and equipment needed to produce more diverse crops (such as vegetables rich in vitamins and minerals to supplement a rice-based or starch-based diet).

Environmental benefits could result from a microfinance project if the money were used to improve the environmental conditions of the family farm. For example, trees could be planted in part of the family's land for environmental benefits, shade, and fruit or nut production. If families are able to generate an income from the microfinance project, they may not need to grow as many crops each year to support and feed their family, thereby allowing longer rest periods between crops on the land. This can make crops more plentiful during the times they are planted from the build up of soil nutrients and can reduce soil degradation.

If many members of a community are combined in a microfinance project that is very successful, they may be able to combine individual incomes for purchasing larger items that could benefit many families or the community. For example, several people could jointly purchase a water buffalo, a large animal that can be used for pulling heavy loads such as ploughs or carts. The buffalo could be used by the owners to plough fields and transport heavy loads. It would also be a resource available to other community members, possibly through money or bartering agreements.

3. A woman's status could increase significantly if she became a successful business woman through a microfinance project. Status is often associated with money and power. Prior to microfinance programs a rural, poor woman would often be dependent on her husband with no access to income and with limited power over family resources. Women rarely obtain ownership of land.

An income can provide a woman with the power to use the money where she sees the need and it gives her control over some of the family's resources. This could allow the woman to purchase goods and services and negotiate on the family's behalf within the community, thereby changing her status at the community level.

As with any change in family or community dynamics, this may initially result in some tension between husband and wife or between the women and community members. Changes in gender roles and power structures are ongoing, but require entire family and community acceptance of the changes in order to be most beneficial for everyone.

4. (Answers will vary) Microfinance projects can be very successful in breaking the cycle of poverty for the rural poor in developing countries. Microfinance projects provide a unique opportunity for people to access loans who would otherwise be unable to for the purposes of income generation using individual skills and talents. Money earned can be used to improve social and environmental conditions for the family and the community, contributing to breaking the cycle of poverty.