



International Journal of Development and Sustainability

ISSN: 2186-8662 – www.isdsnet.com/ijds

Volume 7 Number 5 (2018): Pages 1749-1758

ISDS Article ID: IJDS18042803



A comparative study on the role of microcredit and social business in sustainable poverty reduction

Zobayer Ahmed *, Masud Pervez, Bodrul Huda Jayed

Department of Economics and Banking, International Islamic University Chittagong, Bangladesh

Abstract

Microcredit is one of the widely applied tools for poverty reduction in most of the developing countries across the globe. Dr. Muhammad Yunus, a noble peace laureate from Bangladesh is called the father of microcredit. In recent years, he has come up with a new idea of business- social business that serves humanity's most pressing needs. Poverty alleviation is one of the targets that social business aims. Both of the means (microcredit and social business) contribute significantly in poverty alleviation throughout the world. The present study aims to make a comparative study of the sustainability of microcredit and social business in poverty alleviation. Based on available literature and published documents, the study argues, as a tool of sustainable poverty alleviation, social business contributes more than microcredit. Apart from this, social business generates some other positive externalities that microcredit lags behind. Having widespread impacts of social business in promoting human welfare, state can patronize social business by providing legal structure, necessary funds and investing in research and development for social business.

Keywords: Microcredit; Social Business; Sustainable Development; Poverty Alleviation; Positive Externality

Published by ISDS LLC, Japan | Copyright © 2018 by the Author(s) | This is an open access article distributed under the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original work is properly cited.



Cite this article as: Ahmed, Z., Pervez, M. and Jayed, B.H. (2018), "A comparative study on the role of microcredit and social business in sustainable poverty reduction", *International Journal of Development and Sustainability*, Vol. 7 No. 5, pp. 1749-1758.

1. Introduction

Poverty alleviation is immense need to ensure an equitable income distribution in any society. However, raising the income level of present generation may not benefit the future generation if it is not sustainable (Norton and Foster, 2001). Without generating a sustainable income source, the poverty reduction measures taken at present time may not have long-run impact on the future generations.

There is a number of poverty reduction strategies practiced around the world. The most common one is microcredit, initiated by Nobel laureate Prof. Dr. Mohammed Yunus from Bangladesh. However, it has severe criticisms both at home and in abroad.

Sustainability supporters claim that microcredit has very insignificant impact on poverty reduction (Bateman, 2014). Dr. Yunus later on, came up with a new business concept of 'Social Business' that serves humanity's most pressing needs, according to him (Yunus, 2001). Social business encompasses more social issues though self-sustaining business model (Hoque, 2014). Apart from all these, there are many other poverty alleviation strategies including eco-tourism, agro-forestry, food for work, indigenous development (Chok et al., 2007).

Since poverty is a hinder of development, Bangladesh is also facing this problem significantly. Various measures have been developed to reduce poverty since 1990 and the process has worked significantly. The rate of poverty has been declined from 58.8% in 1991-92 to 31.5% in 2010-11, whereas the extreme poverty declined from 41% to 17.6% during this period (Planning Commission, 2010). Though Bangladesh did well in reducing poverty, still the rate is very insignificant.

These large numbers of people who are in poverty have a source of vulnerable income such as construction workers, fishermen, potters, day laborers and seasonal hand made goods sellers and so on. It has a negative impact on our GDP and reduces our per capita income and obviously has a negative impact on the socio-economic condition of those people. A sustainable income source is beneficial for the economy as a whole and also increases the socio-economic condition of those poor people (Krantz, 2001).

There are significant numbers of people in Bangladesh having the poverty problem as mentioned above. Moreover, there are many poverty alleviation tools being practiced around the world. Among those, microcredit is one of the most popular ways, introduced by noble laureate Dr. Mohammed Yunus in the mid 70's. Recently he has developed a new tool for poverty reduction named as "Social Business". This study tries to find out the sustainable poverty reduction tool between microcredit and social business. The study is based on available literature and data on microcredit and social business presents its findings in a descriptive manner.

2. Sustainable poverty alleviation

Poverty, hunger, destitution, inequality of income, illiteracy can be treated as the root cause of various national, social, global and economic problems. Economic development of a nation has to be fulfilled by the condition of infrastructural assessment and the ignorance of vulnerability. Promotion of infrastructure, GDP

growth, income inequality, standard life style, modern education and healthcare facility, improved law and order, mental satisfaction etc. are the basic parameters of development (Krantz, 2001). To achieve these parameters and break vulnerability, the prime impediment is poverty.

According to latest improvement in development discourse, poverty alleviation is the apex target (Lélé, 1991). In both Millennium Development Goals (MDGs) and Sustainable Development Goals (SDGs), poverty reduction is given most emphasis around the world.

Sustainable livelihood is defined as a more coherent and comprehensive approach to poverty that targets some vital aspects of poverty including vulnerability and social exclusion (Krantz, 2001). Likewise, Sustainable poverty alleviation used in this study basically means the long-run effectiveness of poverty reduction strategy. It emphasizes not only rise in current income but also a flow of future income that improves economic, social and political condition of the target people.

3. Role of microcredit in poverty alleviation

In early 70's the new born Bangladesh had faced various problems as it was the aftermath of liberation war. The underlined problems were drought, monsoon floods along with the destruction of Pakistani army. As a result of these, the famine had broken out here and there. This actually means that the people weren't worthy of meeting their basic needs. The inability of meeting basic needs implies that the people were poor. And the poverty was spread throughout the country which was created famine as we mentioned above.

Some self-reliant and socially established individuals came out and tried to support the abandoned community. Nobel laureate Dr. Yunus was one of them who tried to assist the suffered people of the neighboring territory of Chittagong University. Here he found that the procedure of money lending was so irrational that the borrower remained within the vicious cycle of poverty. From the conventional view point, they (poor) are treated as non-creditworthy. Since the poor cannot able to access in traditional way, a new collateral free lending technique was introduced by Dr. Muhammad Yunus known as 'Microcredit' (Yunus, 2007a).

'Microcredit' as a tool of poverty alleviation, working tremendously for four decades not only in Bangladesh but also all over the world especially in the third world country. The achievement of 'Microcredit' in the field of poverty alleviation found from available researches as following.

Various studies showed that 'Microcredit' has helped the improvement of the countryside economy which increased the living standard of poor as well as their disposable income. As a result, increased living standard leads to reduce hunger and extreme poverty covering the both individual and household levels, which also leads to better access to healthcare (Westover, 2008). Moreover, it mainly focuses on women that gives them to act as leaders, resulting the breaking down of gender inequality (Westover, 2008; Cervantes and Montoya, 2014; Das and Pulla, 2014). It is also found that microfinance encourages their borrowers to send their children at primary school and also give incentives to complete their education. As microcredit programs hovering the accessibility to healthcare which makes them aware of child health status reducing the child

mortality and also mother to reduce infant and maternal death (Das and Pulla, 2014). It is also provide credit to male slum dwellers for the purpose of reducing poverty (Das and Pulla, 2014). Microfinance providers is also working to create awareness against preventing HIV/AIDS and disaster management among the rural marginal people who are not aware of the dangerous impact of HIV in human society and the terrible aftershock of natural disaster (Parker, et al., 2000; Agrawala and Carraro, 2010)

4. Does microcredit generate vicious circle of poverty?

Microcredit is a dynamic tool of poverty alleviation as mentioned earlier. This is compressed at microcredit summit and some well-intentioned person regarded as imprudent believe that the cure of poverty is microcredit. This belief shows a thrilling argument that it diverts the attention from the poverty reduction fact. Because poverty reduction involves with various important fronts-social safety net programs, effective education system, low-cost and steadfast health services, effective law and order, rigorous macroeconomics policy and several other concerns (Hulme, 2000). That means microcredit can't be a standard mechanism of poverty alleviation. Now we are going to deliberate the downside of microcredit as per available researches.

Although microcredit reduces extreme poverty but in reality this program brings benefit for the moderately poor rather than the extreme poor (Westover, 2008). Microfinance institutions generally target the rural women for lending credit but the male member of their family are forced them to collect the loan and they use the loan in their intended purpose. But the women have nothing to do because of their socio-economic condition (Bateman, 2014). If the female borrowers are not able to collect the loans, they may face the domestic abuse. The male members use the money or profit desperately causes inadequate balance to repay the loan. In this circumstance, all the burdens go on the female borrower's shoulder and this results severe pressure on them. Most often the borrowers have to do home based activity for the sake of repayment (Cervantes and Montoya, 2014). Sometimes police arrest the defaulters and there is also the record of suicide of default women who are unable to bear the consistent pressure of lending organization (Hulme, 2000). Studies also reveal that some women borrow from a number of microfinance institutions to pay back their earlier loans from some other institutions. The poor remains poor with a better consumption status for a short period of time within the circle of loans.

5. Social business as a model of poverty alleviation

Conventionally, the main purpose of business is to accumulate profit (known as profit making business). They are not concerned about the welfare of society rather than maximizing their profit. There is another type of organization broadly known as NGO, which is working for the enhancement of social welfare. Basically this type of organization is charity or donations based. So, they have to spend a lot of time, energy, knowledge, money to manage the donations. That's why it losses the efficiency parameter. The fundamental weak point of these two types of business is generating efficient social welfare (Yunus, 2007b).

To break the inefficiency, a new kind of business model has been developed by noble laureate Dr. Mohammed Yunus known as social business. According to him, a social business is a non-dividend, non-loss business where the ultimate goal is to maximize welfare of the society (Yunus et al., 2010).

There are two types of social business. According to Dr. Yunus, these are called Type 1 social business and Type 2 social business. Type 1 social business as a new form of business concept which is no-loss and non-dividend company that aims to dismiss social problem and owned by investors who do not take any profit from the business but reinvest all their profit to expand their business. This is also a self-sustaining business concept where the investors can claim their invested money but not profit. Grameen Danone, Grameen Veolia Water, BASF Grameen are type 1 phenomenon (Yunus, 2001).

The other type of social business is Type 2 social business which is also a non-loss and non-dividend company is owned by the poor through a trust or directly. This type of social business is also addressing a social problem and aims to dissolve it. Grameen Bank is an example of this category and Otto Grameen textile factory is the second example of type 2 social business which was in planning stage in 2012 (Yunus, 2001).

Since social business itself is business that is sustainable, the employment generated through social business activities would also be sustainable. Figure-1 shows the level of employment generation by various social business projects in Bangladesh by 2015.

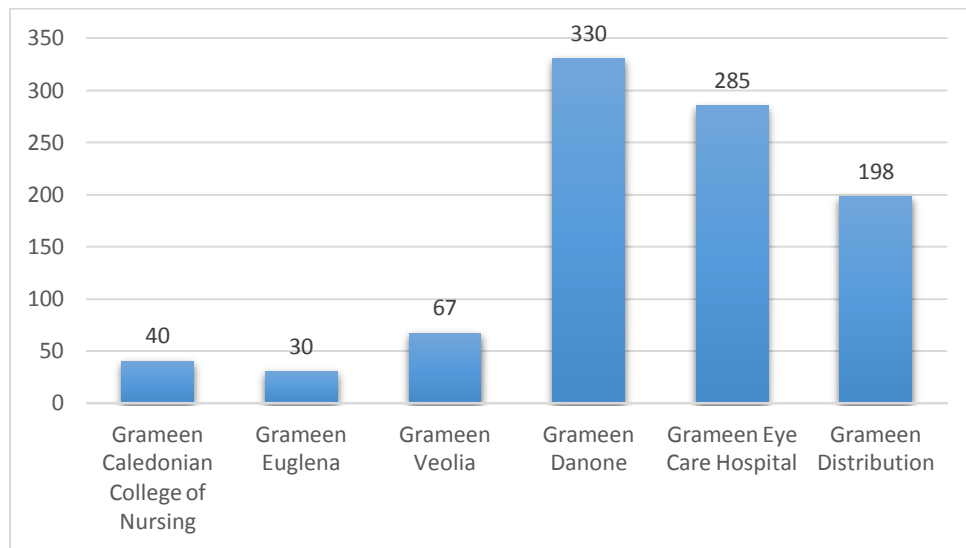


Figure 1. Employment generation by various SB projects (Source: Yunus Center)

In many of the projects, poor are employed permanently that ensures a sustainable income source for them. For instance, Grameen Distribution strives to create employment opportunities for the poor and make them self-reliant in terms of livelihood. Using the innovative Grameen Marketing Network (GMN), GDL undertakes marketing and distribution of imported, local and own manufactured products all over Bangladesh. It has generated 198 employment opportunity.

6. Comparison between SB and MC

6.1. Similarities

Microcredit and social business address a social problem and are working to solve the problem in a broader sense. The present study has found some similar characteristics among Microcredit and social business.

6.1.1. Poverty reduction

Microcredit is basically linked with the poor people who have no access in the Bank for loan because they treated as 'Non-creditworthy'. MFI's are financing the poor people in income generating purpose and that helps to reduce poverty. Social business is focused on reducing poverty which is the first of seventh key characteristics of Social business (Yunus, 2001; Vetrivel and Kumarmangalam, 2010).

6.1.2. Creating employment

Providing small loans by the MFI's helps the poor people to generate income. It gives them the opportunity of self-employment and sometimes it creates employment for others. And Social business is a new form of business addresses a social problem and tries to solve the problem by applying business method. So there is also a huge chance of employment creation through social business (Hoque, 2014; Mawa, 2008).

6.1.3. Access to healthcare

MFI's are trying to aware the poor people about the importance of caring pregnant women, infant and healthcare. They are also working for making primary healthcare facilities available to the village poor. And Social business also give emphasize on healthcare as a social problem because the poor have very limited access to it. And there is already separate hospital run by Grameen organization in under the social business concept where the poor get healthcare facilities at low cost (Yunus, 2001; Westover, 2008).

6.1.4. Economic effect

Both Microfinance and Social Business create employment implies that the disposable income of the poor is increased. That leads to upgrading their standard of living and reducing the inequality of income (Yunus et al., 2010; Mawa, 2008).

6.1.5. Creating awareness

MFI's are working with the poor people of village. They are not aware about their health condition, pregnant women and infant, education. They don't take family planning, give their child an early marriage, do not maintain the basic hygiene rules and so on. MFI's are trying to aware the people about the bad side of avoiding the very basic rules of health. Social business is also working on creating awareness among poor people through Geameen Danone, Geameen Veolia water, Geameen Adidas and other Social business

organizations are intensively working with people who are unaware about nutrition, arsenic contamination and so on (Yunus, 2001; Yonus, 2007a).

6.2. Dissimilarities

Though Microcredit and social business are working in the field of poverty alleviation and there have some similar activities both of them are performed. As they are different by name, there also have some dissimilarity among both of them.

6.2.1. Scheme

Microfinance works only with the poor people. MFI's provide them small loan and the poor people are trying to generate income by using the loan. And the poor people are trying to be financially solvent. On the other hand, Social business is focused on a specific social problem which caused a lot of misery of people in a specific area. It tries to solve the problem by using business technique and do not take any profit from it. So Social business is not focused on providing loan. It emphasizes on any social problem and generate income (Hulme, 2000; Yunus et al., 2010).

6.2.2. Repayment system

The loan which provided by the MFI's to the poor must have to be repaid by borrowers within very short time. But Social business do not provide any loan, and repayment system is absent here (Yunus, 2001) (10).

6.2.3. Profit

MFI's provide small loan to the poor people and collect the loan with interest. The rate of profit can be treated as profit after subtracting the operating expense. But Social business on the other hand does not take any profit from their business rather than emphasizes on maximizing social welfare. The investor of a Social Business can take back his invested money after a certain time but taking profit spoils the spirit of the concept (Hoque, 2014).

6.2.4. Women empowerment

Since microcredit borrowers are mostly women, it helps rural women to empower themselves in the family and in the community they belong to. Social business does not target women empowerment specifically (Yunus, 2001; Karnani, 2007).

6.2.5. Creating employment

Microfinance focused on poverty reduction through small loan and Social Business also largely emphasize on poverty alleviation as it is first objective of social business through using business mechanism. But MFI's give micro loan to the poor people and the poor make income by their own effort. Besides, Social business creates

jobs and provide to their target group as we have example of Grameen Danone and Grameen Veolia water (Hoque, 2014; Roodman and Morduch, 2009).

6.2.6. *Eco-friendly business*

One of the seven principles of social business is that the company must be conscious environmental quality. In the age of climate change and rising global warming, the issue of environmental conservation is a burning question. However, micro-loans do not target environment (Yunus, 2001; Anderson, 2002).

6.2.7. *Social welfare*

Most of the microcredit institutions try to generate profit from their loans. They never target many other social issues e.g. education, health, technology access and environment. However, social business encompasses all the above social facts through self-sustaining business (Bateman, 2014; Yunus, 2001).

7. Conclusion and recommendations

There is a divergence among the studies that test the role of microcredit in poverty alleviation. However, social business covers various social aspects apart from poverty alleviation both theoretically and empirically. In various microcredit projects, the borrowers failed to use the borrowed amount for productive purpose. To pay their loan back, they simply borrow from another microfinance institution. Their consumption and living standard improves for a short period of time and in the long run they remain poor. It is also found that microcredit benefited many rural families to improve their livelihood. A large number of activities related to social business is being increased around the world faster than its birth place in Bangladesh. In Bangladesh, all the social business activities are somehow related with Grameen Bank and Dr. Muhammed Yunus. However, there are a number of different initiatives across the globe is running on to promote social business both in academia and in application. Because, such business ensures investor's self-sustenance so that he/she can devote his/her life to serve the humanity. From the self-less value perspective, social business can be promoted further.

The major limitation of the present study is that it is based on secondary information. Based on the above analysis, more empirical researches can be conducted to find the effectiveness of social business as a sustainable poverty eradication measurement.

References

Agrawala, S. and Carraro, M. (2010), Assessing the role of microfinance in fostering adaptation to climate change, FEEM Working Paper No. 82.

- Anderson, C.L., Locker, L. and Nugent, R. (2002), "Microcredit, social capital, and common pool resources", *World development*, Vol. 30, pp. 95-105.
- Bateman, M. (2014), "The rise and fall of Muhammad Yunus and the microcredit model", International Development Studies Working Paper #001.
- Cervantes, M. and Montoya, M.A. (2014), "The Bright and Dark Sides of Microfinance", Working paper series, Centro Asia Pacífico.
- Chok, S., Macbeth, J. and Warren, C. (2007), "Tourism as a tool for poverty alleviation: A critical analysis of 'pro-poor tourism' and implications for sustainability", *Current issues in Tourism*, Vol. 10, pp. 144-165.
- Planning Commission (2010), *Outline Perspective Plan of Bangladesh 2010-2021-Making Vision 2021 A Reality, Final Draft*, General Economics Division, Planning Commission, Government of the People's Republic of Bangladesh, Dhaka, Bangladesh.
- Das, T.K. and Pulla, V. (2014), "Is micro credit in urban poverty making a difference? A review from Bangladesh", *International Journal of Social Work and Human Services Practice*, Vol. 2, pp. 73-81.
- Hoque, S. (2014), "Social Business: A Revolutionary Idea in the Field of Poverty Alleviation", *IIUC Studies*, Vol. 8, pp. 81-94.
- Hulme, D. (2000), "Is microdebt good for poor people? A note on the dark side of microfinance", *Small Enterprise Development*, Vol. 11, pp. 26-28.
- Karnani, A.G. (2007), "Employment, not microcredit, is the solution", Working Paper, Ross School of Business.
- Krantz, L. (2001), The sustainable livelihood approach to poverty reduction, SIDA. Division for Policy and Socio-Economic Analysis.
- Lélé, S.M. (1991), "Sustainable development: A critical review", *World Development*, Vol. 19, pp. 607-621.
- Mawa, B. (2008), "Impact of micro-finance towards achieving poverty alleviation", *Pakistan Journal of Social Sciences*, Vol. 5, pp. 876-882.
- Norton, A. and Foster, M. (2001), *The potential of using sustainable livelihoods approaches in poverty reduction strategy papers*, Overseas Development Institute London.
- Parker, J., Singh, I. and Hattel, K. (2000), *The role of microfinance in the fight against HIV/AIDS*, Development Alternatives Inc: Bethesda, Maryland.
- Roodman, D. and Morduch, J. (2009), "The impact of microcredit on the poor in Bangladesh: Revisiting the evidence", Center for Global Development Working Paper.
- Vetrivel, S. and Kumarmangalam, S.C. (2010), "Role of microfinance institutions in rural development", *International Journal of Information Technology and Knowledge Management*, Vol. 2, pp. 435-441.
- Westover, J. (2008), "The record of microfinance: The effectiveness/ineffectiveness of microfinance programs as a means of alleviating poverty", *Electronic Journal of Sociology*, Vol. 12, pp. 1-8.
- Yunus, M. (2007a), *Banker to the Poor*, Penguin Books, India.

Yunus, M. (2007b), *Creating a world without poverty: Social business and the future of capitalism*, PublicAffairs.

Yunus, M. (2011), *Building social business: The new kind of capitalism that serves humanity's most pressing needs*, Public Affairs.

Yunus, M., Moingeon, B. and Lehmann-Ortega, L. (2010), "Building social business models: Lessons from the Grameen experience", *Long range planning*, Vol. 43, pp. 308-325.