The Good, the Bad, and the Ugly: Microcredit in Developing Countries

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**Introduction**

Microcredit, a human development strategy, is a loaning practice that provides small loans to people, usually women, in developing countries who cannot get approved for loans from banks; it is typically offered and funded by non-governmental organizations (NGOs). Groups of 6-10 women receive a loan together and are insured by “social collateral.”

Two models prevail: the self-help group (SHG) and the Grameen replication model (Ray-Bennett, 2010).

Microcredit is meant as a way to economically and socially empower women. This poster will explain how microcredit can achieve this goal of empowerment, as well as how it can harm the women who take part.

**The Good: Economic and Social Empowerment**

**Economic Empowerment**

Microcredit provides women more access to male-earned income, as well as more opportunity for input into household decisions, shown in surveys conducted in Bangladesh (Mahmud, 2003).

**Social Empowerment for Vulnerable Populations**

In South India, widowed and abandoned women (often ostracized) felt less excluded in their communities after a disaster. This effect was derived from the group interactions required while participating in the program (Lombe, Newransky, Kayser, and Raj, 2012).

In Uganda, people living with HIV/AIDS (PLHA) need access to microcredit due to the discrimination they face by banks unwilling to loan them money. 90% reported microcredit had a positive effect on their lives and experienced greater respect and support from the community—unfortunately, only the men who participated felt more respected and supported by the community (Wagner, Rana, Linnemayr, Balya, & Buzaalirwa, 2012).

**The Bad and The Ugly: Downsides to Microcredit**

Microcredit offered during times of disaster can also be harmful, opposed to Lombe et al.’s findings above. Women in India experienced issues regarding:

- Other women in the group acting unfairly.
- Being forced to tap into other sources of credit to pay off microcredit loans
- Heckling from other women and the microcredit officials when unable to make payments on time (Ray-Bennett, 2010).

**Conclusion and Suggestions for Improvement**

It is clear that the microcredit system, while useful, is imperfect and requires further development. Improvements can be made to the system, including:

- Extended time between payments (Wagner et al., 2012)
- More attention paid to where women are investing the loans to ensure that they are investing them wisely (Jahiruddin, Short, Dressler, & Khan, 2011)

However, the positive effect that microcredit has on the lives of those who receive it demonstrates that it is a helpful strategy that can change the lives of those who attain access to it.

See handout for references.

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