International Journal of Humanities and Social Science Invention
ISSN (Online): 2319 – 7722, ISSN (Print): 2319 – 7714
www.ijhssi.org Volume 2 Issue 12 ǁ December. 2013ǁ PP.29-34

Leveraging Microenterprise Products at the Global Market: A Strategy to Ensure Sustainable Poverty Alleviation

Mohammed Bashir Saidu[1], Asnarulkhadi Abu Samah[2], Ma'arof Redzuan[3], Nobaya Ahmad[4]
[1, 2, 3, 4]*(Department of Social and Development Science, Faculty of Human Ecology, Universiti Putra Malaysia)*
[1]*(Institute of Chartered Economists of Nigeria (ICEN))*

ABSTRACT: *Across developing countries, microfinance has emerged as an effective tool for poverty reduction. It enables microenterprenuers to get access to finance, income generation, build assets, as well as creating opportunities for poor households to plan for future. This article discusses the role of microfinance as a tool for poverty alleviation and potential of microenterprise products to global market. Previous literature revealed that microfinance institutions have contributed tremendously in poverty reduction through creation of microenterprises, or otherwise strengthened the existing microenterprises in developing nations. Based on the reviewed literature, the authors argued that the scope of microenterprise is beyond poverty alleviation but rather, its contribution to both domestic and international market. The authors recommend that government in developing countries apart from policy formulation and regulations on microfinance institutions however, should also be responsible for creating market for microenterprises products at both domestic and international levels.*

KEY WORDS: *Microfinance, microenterprise, poverty alleviation, global market and community development.*

I. INTRODUCTION

Across developing countries, microfinance has emerged as an effective tool for poverty reduction. It enables microenterprenuers to get access to finance, income generation, build assets, as well as creating capacities for poor households to plan for future. Only recently coined, the term microfinance is already being used in many different ways ([1]), and for this paper microfinance refers to an array of financial services on a micro scale, including providing poor families with small loans to help them engage in productive activities or expand their micro businesses. This kind of loans can simply be referred to microcredit which is small loans that are given to finance self-employment activities to help the poor out of poverty ([2]). The average loan size varies from country to country ([3]). While microenterprise in the other hand, refers to micro business or enterprise operated by individuals, family or group of people of small number ([4]). This form of business enterprise engaged in variety of micro-scale activities such as repairs, vending, vulcanizing, manufacturing/craft making. In the context of poverty, microfinance could be seen as lasting solution to poverty eradication ([5]). It is also about creation and enhancement of basic capabilities both economically and socially which should be seen as an enabling process for achieving empowerment of the poor ([6]) and sustainable poverty eradication. Reducing poverty and unemployment rate through promoting microenterprise development is often the most frequently stated objective of sustainable socio-economic development programmes ([7]). That is why in the last few decades, most developing countries have paid much attention to financial measures at micro level that could encourage poor to participate in productive ventures ([2]). Based on this, the paper discusses the role of microfinance as a tool for poverty alleviation and potential of microenterprise products to global market.

II. CONCEPTUAL FRAMEWORK

The terms 'microfinance' and 'microcredit' are used synonymously to connote the provision of small loans to poor people or groups of people at comparatively low interest rates and with little or no collateral (Midgley, 2008). Microfinance is the provision of financial services such as credit (loans), savings, micro-leasing, micro-insurance and payment transfers to economically active poor and low income households to enable them engage in income generating activities and expanding their small businesses ([8]). It can be seen as a financial intervention that focuses on the low-income group of a given society. The intervention primarily involves credit services and may also include savings, insurance on credits and savings ([9]). According to World Bank ([10]) definition, the term microfinance refers to 'provision of financial services' (including saving and credit) to 'the poor'. While microcredit on the other hand, refers to small loans that are given to finance self-employed activities to help the poor out of poverty ([2]). The definition of microenterprise is not very straightforward due to the complexity of the sector. According to Alam and Miyagi ([11]), commonly microenterprises are small business that engaged in micro services and subsistence agricultural activities that employs a small number of employees. Activities such as street venders, carpentry, machine shop operators, poultry, livestock, dairy, rice/oil mills, local agricultural equipment making, and trading in inputs such as seeds and fertilizers are forms of microenterprise. Microenterprise development has been identified as a programme aim at initiating or supporting small producers and micro entrepreneurs to become established, grow, improve standard of living, provide self-employment opportunities and add value to the supply chain by allowing them to respond to the needs of domestic, and in some cases international markets ([12]). Poverty reduction programme is any process which seeks to reduce the level of poverty in a community, or amongst a group of people or countries. Reducing poverty and unemployment rate through promoting microenterprise development are often the most frequently stated objective of sustainable socio-economic development programmes ([7]). Some other methods for poverty reduction include education, income redistribution and new economic development policy.

III. THE ROLE OF MICROFINANCE IN POVERTY ALLEVIATION

Poverty is one of most challenging catastrophe facing the world especially in developing countries. Poverty refers to a condition in which low income earners cannot meet their basic needs of life. This situation leads to many difficulties in poor people's life such as high level of illiteracy, low standard of living, poor health care, lack of shelter and so on, which in some cases influence criminal activities among poor communities. In order to arrest poverty condition therefore, governments of many developing countries and NGOs have come up with poverty alleviation strategies among which microfinance is determined as one of the most prominent tool. Claims about the effectiveness on the positive role of microfinance institutions on microenterprises development to lift poor out of poverty have been widely disseminated and generally accepted ([1]). Based on available literature, it is generally believed that the microfinance schemes has significantly increased the income of poor comminutes. More importantly, such literature proved that microfinance becomes a phenomenon in reducing poverty as a result of it immense contribution to microenterprise development. As argued by Bakhtiari ([13]) that microfinance has received extensive recognition as strategy for poverty reduction and economic empowerment in rural communities that is mostly dominated by poor populace. This gives them the opportunity to set up their own microenterprise for survival, and help them to smooth their consumption level and manage unexpected risk ([14]), unforeseen circumstances, built assets, educated their children and improve their quality of life as well. Similarly, Gurses ([15]) in his study conducted in Turkey concluded that microfinance served as a powerful tool to reduce poverty due to the introduction of microcredit programme by two NGOs namely; Kadın Emeğini Değerlendirme Vakfi'nın *(*KEDV*) or* (Foundation for the Support of Women's Work (FSWW)-KEDV) and the Turkish Foundation for Waste Reduction (TISVA). Even though, Turkey is not a poor country according global standard but, Gurses mentioned that one fifth (1/5) of the population of Turkey is within the poverty trap. Rhyne ([16]) conducted an impact study on 'Local Initiative (Microfinance) Project II clients in Bosnia and Herzegovina'. The findings of her study indicated that microcredit had a significant positive impact on household income, employment and micro-business investment during post-war transition. Dunn ([17]) also noted that participation in microcredit programme has significantly reduced poverty rate among the clients from 51% in 2002 to 46% in 2004 at Bosnia and Herzegovina.

Similar findings were also reported in India sub-continent. Kumar, Bohra and Johari ([18]) found that microfinance is the only way to overcome poverty in India. They argued that to control poverty in India, an annual growth rate of 20% should be maintained as continuing process in microenterprise sector. Similarly, Panda ([19]) in his study noted a significant increase in borrowers' household income of about 11.41% and asset position of 9.75% higher than non-participants, and the savings increased by about 42.53% in India. A study conducted by the members of the Grameen Bank supported this view in which Yunus ([20]) claimed that the whole communities in Bangladesh benefit from the Grameen Bank loan. Similarly, Khandker, Khalily and Khan ([21]) reported that incomes in villages participating in Grameen Bank lending programme were significantly higher than in non-participating villages. With regards to this, Yunus ([22]) claimed that Bangladesh is likely to be one of the few developing countries to achieve sustainable community development in future, and he strengthen that microfinance/microcredit programme is way to stimulate economic and social development from the "bottom-up" approach. This approach is an important policy instrument of the Millennium Development Goals to reduce global poverty by half by the year 2015 to empower women in society and in their families, and foster the spread of democracy ([23]). In media interviews at the time of the award of the Nobel Peace Prize, Yunus also claimed that the Bangladesh's poverty rate had been declining steadily and that this was largely due to the Grameen bank's activity which is purely "bottom-up" oriented programme to empower the poor ([1]).

Amanah Ikhtiarin in Malaysia (AIM) was establish as microfinance programme as poverty alleviation strategy. According to Gibbons and Kasim ([24]) after conducting the first impact assessment of AIM microfinance programme, it was discovered that there was significant increase of clients' monthly household income by 55%. The second impact study was also conducted by Research and Development Unit ([25]) which showed further improvement of around 98% of increase in household income among participant. In Nigeria, Emerole, Nwosu, and Olojede ([26]) have described that, farmers who have participated in the savings and loan schemes of the Nigerian Agricultural Cooperative and Rural Development Bank (NACRDB) in Abia State, have benefited in terms of increase income, standard of living and self-employment. Kudi1, Odugbo, Banta, and Hassan ([267]) study on UNDP microfinance programme in Kaduna State has shown that there was optimum benefits to participated farmers in terms of improvement in their income and standard of living. The study also established that income of the participating farmers in the study area was higher than that of non-participating farmers. A more recent study conducted in Ondo State by Fasoranti ([28]) found out that poverty was high among the economically active age. Also, it was revealed that all respondents possessed formal education starting from primary, secondary and tertiary education respectively. Therefore, their educational status has contributed significantly to understanding of the microfinance scheme which leads to high level of participation in the scheme. According to her study, microfinance scheme has influenced positively on microeconomic variables such as income, savings, consumption expenditures and asset acquisition of the respondents in the study area due to high level of their participation in the scheme.

IV. MICROFINANCEPOLICIES IN DEVELOPING NATIONS

Traditionally, governments gave priority to the expansion of large-scale urban industrialization which it was believed, would create new wage employment opportunities that would draw labour out of the unproductive subsistence agricultural sector into remunerative wage employment ([29]). However, by the 1970s it had become apparent that the dominant industrialization development strategy was not, with few exceptions, achieving this goal. It was in this context that more emphasis was placed on what became known as the informal sector, comprised of micro-scale businesses and self-employed workers who had migrated to the towns ([30]; [31]). It was recognized that this sector also provided remunerative opportunities to raise incomes, provide employment opportunities and raise standard of living of the poor especially when there is adequate fund to finance the sector (32). Many researchers believed that provision of financial resources to informal sector was the most important external input to poor communities needed to achieve this goal. It was in this context that small-scale microfinance and microenterprise activities emerged in the 1970s, and subsequently expanded to attract international attention ([33]).

In line with this idea, the development literature dealing with microfinance and microenterprise have generally agreed that the promotion of small businesses among poor people is an effective poverty alleviation strategy ([1]). As argued by Smith ([34]) that, the message that micro-credit can be a powerful tool for poverty alleviation has spread throughout the world. Smith ([34]) further argued that the expansion of microenterprise in poor communities have a multiplier effect. By raising incomes of modest number of low-income earners through microenterprise development, the demand for goods and services also increases and this enhance local production and other economic activities ([35]; [36]). This subsequently leads to an increase in microbusiness activities, create more employment opportunities and make a positive contribution to social and human capital mobilization at local level, with positive consequences for poverty alleviation and economic growth. These ideas have informed development thinkers and policy makers that the context of microfinance/microenterprise programmes should be viewed as a significant and valuable resource that contributes meaningfully to global poverty eradication ([37]). For these reasons among others, many development policy-makers and scholars commend microfinance/microenterprise programmes and believe that they have a useful role to play in a wider strategy designed to eradicate poverty and sustainable socioeconomic development. Furthermore, the activities of large microfinance and microenterprise programmes by Grameen Bank, provide insights into the nature and extent of microfinance and microenterprise in the world especially in developing countries. Based on the effectiveness of Grameen Bank in Bangladesh, many developed and developing countries have formulated policies on microfinance programme for poverty alleviation. Example of these countries includes; BancoSol in Bolivia ([38]), Bank Rakyat Indonesia countries (Wolfensohn, 2000), AmanahIkhtiar Malaysia ([39]), and Bank of Agriculture in Nigeria (formerly NACRDB). In addition to these internationally known microfinance and microcredit organizations, many microfinance institutions have also been established in different parts of the world. It has been estimated that more than 10,000 microfinance institutions have now been established across the globe and more predominantly in developing world ([22]).

V. POTENTIALS OF MICROENTERPRISE AND LEVERAGING THE PRODUCTS TO GLOBAL MARKETS

The new way of looking at microfinance emerged in the 70s which witnessed a shift from the earlier negative perception of "the informal sector" as an underground and unrecognized economic activities to the new positive perception of informal sector as a source of livelihood for much of the developing countries' poor" ([40]). This makes the informal sector to be seen as a transitional segment of the economy divorced from the ordinary, and a problem for development policy and programmes, to the new paradigm focused on this sector as a potential source of employment, which required and deserved public sector support to become sustainable tool for poverty alleviation in developing nations ([41]). This leads to the formal establishment of micro-financial services to support microenterprises which were originated form the informal microbusiness activities.

With the success of Muhammad Yunus' experiment with the Grameen Bank in Bangladesh ([20]; [22]), microenterprise grew to become a key anti-poverty strategy worldwide ([38]). By early 90s in some Asian countries, microenterprise experiences a shift from a livelihood of the poor to microenterprise business due to its potentials realized to the global markets. This creates an avenue for microenterprenuers to be integral part of the economy as manufactures, retailers and service providers as well as suppliers and purchasers ([42]). Subsequently, this led to the expansion and sprayed of microenterprise activities around all fields of economic activities such as commerce, agriculture, manufacturing and services but most prominent in the retail trade and service sectors ([43]).

For instance, research has shown that the reason why East Asian economies such as Japan, Korea, Taiwan, and China have achieved fast macroeconomic growth ([44]), was as a result of their market strategies which encouraged leveraging local products to global markets. Trade liberalization is what makes China to be world's fastest growing economy since two and a half decade ([45]). China's influence on the global economy has dramatically expanded not only due to its growing portion of advanced technology product, but, rather accelerated exportation of local products such as apparel, footwear, and toys to global market ([46]). For example, since from the early 80s, most of the toys imported to African countries with a particular reference to Nigeria were made in China and Taiwan, and by mere looking at those goods, one can see that they were either partially or fully local products (handmade). Until recently, many electronics (such as cell phones, TV sets, radio, DVD devices etc.) imported to Nigeria from China are more or less produced by microenterprenuers based on their quality compared to the branded products. This eventually led to significant reduction of poverty and made it possible for people of China (including other Asian countries) to participate in, and benefit from the economic growth process. In this context, countries interested in reducing poverty through leveraging microenterprise product to global market therefore, need to pay more attention to, and learn from the Asian experience.

VI. CONCLUSION

The authors concluded that, in line with the above mentioned points of view it is enough evidence to believe that microenterprise sector represents a huge untapped market in Africa. This is the reason why despite the significant role of microenterprises sector to output and employment in Africa, yet the sector performed below expectation in terms of poverty alleviation compared to East Asian countries such as China due their approach for leveraging microenterprise products to global markets. Therefore, the authors recommends that, the governments of African and other developing countries interested to explore more potentials in microenterprise sector should learn from Asian experience by establishing new policies to encourage microenterprise products to flow rapidly to global markets.

REFERENCES

[1]. Midgley J. (2008) "Microenterprise, global poverty and social development." *Journal of International Social Work,* Vol. 51.No. 4, pp. 467– 479.

[2]. Gundersen A. S. (2009) "Empowerment and Poverty Alleviation: Effects on Targeting Women in Developing Countries". *Unpublished thesis of Master of Social Economics, Department of Economics, University of Bergen, 2009.*

[3]. Iganiga, B. O. (2008) "Much Ado About Nothing: The Case of the Nigerian Microfinance Policy Measures, Institutions and Operations." *Journal of Social Science,* Vol.17. No.2, pp. 89-101.

[4]. Gochhayat, A. (2013) "Political Participation of Women in Gram Panchayat Elections in Odisha: A Case Study of Hindol Block in Dhenkanal District." *International Journal of Humanities and Social Science Invention,* Vol. 2. No. 3, pp. 33 – 46.

[5]. Midgley, J. (2003) "Social development: The intellectual heritage." *Journal of International Development,* Vol. 15. No. 7, pp. 831-844.

[6]. Florin, P., and Wandersman, A. (1990) "An introduction to citizen participation, voluntary organizations, and community development: insights for empowerment through research." *American Journal of Community Psychology,* Vol. 18. No. 1, pp. 41-54.

[7]. Al- Mamun,Adaikalam, J., and Mazumder, M. N. H. (2012) "Examining the Effect of AmanahIkhtiar Malaysia's Microcredit Program on Microenterprise Assets in Rural Malaysia." *Asian Social Science,* Vol. 8. No. 4, pp. 272.

[8]. Iganiga, B. O. (2006) "*The Dynamics of the Nigerian Financial System: Products, Process and Reform.*" Ibadan: Amfitop Books.

[9]. Ehigiamusoe, U. K. (2012) "A Comparative Analysis of Agricultural Performance between the Military and Civilian Regimes in Nigeria." *International Journal of Humanities and Social Science Invention,* Vol. 1. No. 1, pp. 13 – 23.

[10]. World Bank (2004) "*World Bank Development Report 2005: A Better Investment Climate for Everyone.*" World Bank and Oxford University Press.

[11]. Alam, C. M., and Miyagi, K. (2004) "*An approachable analysis of Micro Enterprises in Bangladesh.*"No. 8.Working Paper.

[12]. Rao, P. S., and Priyadarshini, Y. J. (2013) "Microfinance and Rural Credit: Is it an Alternative Source of Rural Credit." *International Journal of Humanities and Social Science Invention,* Vol. 2. No. 3, pp. 28 – 39.

[13]. Bakhtiari, S. (2011) "Microfinance and poverty reduction: some international evidence." *International Business & Economics Research Journal (IBER),* Vol. 5. No. 12, pp. 1 – 7.

[14]. Mawa, B. (2008) "Impact of Micro-finance Towards Achieving Poverty Alleviation." *Pakistan Journal of Social Sciences,* Vol. 5. No. 9, pp. 876-882.

[15]. Gurses, D. (2009) "Microfinance and poverty reduction in Turkey." *Perspectives on Global Development and Technology,* Vol. 8. No. 1, pp. 90-110.

[16]. Rhyne, E. (1998) "The yin and yang of microfinance: Reaching the poor and sustainability." *MicroBanking Bulletin,* Vol. 2. No. 1, pp. 6 – 8.

[17]. Dunn, E. (2005) "Impacts of microcredit on clients in Bosnia and Herzegovina." *Foundation for Sustainable Development of the Federation of Bosnia and Herzegvonia and RepublikaSrpska Development and Employment Foundation.*

[18]. Kumar, M., Bohra, N. S., and Johari, A. (2008) "Micro-finance as an Anti-poverty Vaccine for Rural India." *International Review of Business and Finance,* Vol. 2. No .1, pp. 29-35.

[19]. Panda, K. D. (2009) "Participation in the Group Based Microfinance and its Impact on Rural Households: A Quasiexperimental Evidence from an Indian State." *Global Journal of Finance and Management,* Vol. 1. No. 2, pp. 171 – 183.

[20]. Yunus, M. (1982) "Experience in organizing grassroots initiatives and mobilising people'sparticipation: the case of Grameen bank project in Bangladesh." *Paper presented to the 25th World Conference of the Society for International Development, Baltimore, Maryland.*

[21]. Khandker, S. R., Khalily, M. B., and Khan, Z. H. (1995) "*Grameen Bank: performance and sustainability*" Vol. 306. World Bank Publications.

[22]. Yunus, M. (1999) "Banker to the poor: micro-lending and the battle against world poverty." *New York, NY: Public Affairs,* 48.

[23]. Wolfensohn, J. (2000) "How the World Bank is attacking poverty through small enterprisedevelopment and microfinance." *Small Enterprise Development,* Vol. 11. No. 1, pp. 5 – 7.

[24]. Gibbons, D. S., and Kasim, S. (1990) "*Banking on the rural poor in Peninsular Malaysia*." Center for Policy Research, UniversitiSains Malaysia.

[25]. Research and Development Unit (1991-1993) "*Third Impact Study*." AmanahIkhtiar Malaysia, Selangor, Malaysia.

[26]. Emerole, C. O., Nwosu, I. C., and Olajede, J. (2008) "Participatory Savings And Borrowing For Start-Up And Recapitalization Needs: Farmers Experience In Nigerian Agricultural Cooperatives And Rural Development Bank (Nacrdb) Abia State, Nigeria." *Journal of Agriculture and Social Research (JASR),* Vol. 8. No. 1, pp. 89-94.

[27]. Kudi, T. M., Odugbo, S. B., Banta, A. L., and Hassan, M. B. (2009) "Impact of UNDP microfinance programme on poverty alleviation among farmers in selected local government areas of Kaduna State, Nigeria." *International Journal of Sociology and Anthropology,* Vol. 1. No. 6, pp. 099 – 103.

[28]. Fasoranti M. M. (2010) "The Influence of the Deregulated Tele-communication Sector on Urban Employment Generation in Nigeria." *Research Journal of Social Sciences,* Vol. 5, pp. 1 – 6.

[39]. Midgley, J. (1995) "*Social development: The developmental perspective in social welfare*." Sage.

[30]. Bromley, R. J., and Gerry, C. (Eds.). (1979) "*Casual work and poverty in third world cities*."Chichester: Wiley.

[31]. Portes, A., Castells, M and Benton, L. A. (Eds.). (1989) "*The informal economy: Studies in advanced and less developed countries*." Baltimore: Johns Hopkins University Press.

[32]. Eversole, R. (2003) "Value adding community? Community economic development in theory and practice."*Rural Society,* Vol. 13. No. 1, pp. 72-86.

[33]. Midgley, J. (1986) "Community participation: history, concepts and controversies." *Community participation, social development and the state,* pp. 13 – 44.

[34]. Smith, S. C. (2005) "*Ending global poverty: A guide to what works*." Basingstoke, UK: Palgrave Macmillan.

[35]. Hashemi, S. M., Schuler, Sidney R., and Riley, A. P. (1996) "Rural Credit Programs and Women's Empowerment in Bangladesh." *World Development, Vol. 24. No.* 4, *pp.* 635 – 653.

[36]. Saad, O. Y. (2013) "The location of economic potentials of a frontier community in Nigeria: an exploit on Ilorin in the 20th. Century."*International Journal of Humanities and Social Science Invention,* Vol. 2. No. 1, pp. 35 – 42.

[37]. Chang, H. J. (2003) "Kicking Away the Ladder: The" Real." *History of Free Trade, FPIF, Special Report.*

[38]. Mosley, P and Hulme, D. (1996) "*Metamorphosis from NGO to commercial bank: the case of BancoSol in Bolivia"*. (pp. 1-31). Routledge.
[39]. Sukor, K. (2000) "Impact of Banking on Rural Poor in Peninsular Malaysia: Final Report of External Impact Evaluation Study on AIM Active Borrowers, Non-Borrowing Members, Dropouts and Non-Participating Poor." Penang: *Centre for Policy Research, UniversitiSains Malaysia.*
[40]. International Labor Office (1976) "Employment, Income and Equality: A Strategy for Increasing Productive Employment in Kenya." Geneva: ILO, 1972; DipakMazumdar, "The Urban Informal Sector,".*World Development, 1976 (no. 4, August).*
[41]. Berger, M. (2000) "*Microfinance: An emerging market within the emerging markets*." World Scientific.
[42]. Maria, O., and Elisabeth R. (1994) "The New World of Microenteprise Finance: Building Healthy Financial Institutions for the Poor." *Kumarian Press, 1994.*
[43]. Peattie, L. (1987) "An idea in good currency and how it grew: the informal sector." *World development,* Vol. 15. No. 7, pp. 851 – 860.
[44]. Islam, N. (2009) "*Can Microfinance Reduce Economic Insecurity and Poverty?: By how Much and How?*." United Nations Department of Economic and Social Affairs.
[45]. Gilboy, G. J. (2004) "The myth behind China's miracle." *Foreign affairs*, *83*(4), 33 – 48.
[46]. Lardy, N. (2005) "China: The great new economic challenge." *The United States and the World Economy: Foreign Economic Policy for the Next Decade*, 121-41.
[47]. Otero, M., and Rhyne, E. (1994) "*The new world of microenterprise finance: building healthy financial institutions for the poor*." Intermediate Technology Publications Ltd (ITP).