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MICROFINANCE AS A TOOL FOR POVERTY ALLEVIATION IN AFRICA

Аннотация: Микрофинансирование направлено на расширение прав и возможностей малоимущих путем содействия деятельности, приносящей доход для внутреннего потребления. Этот документ актуален для научных кругов, поскольку в нем предлагаются принципы и методы борьбы с бедностью с помощью эффективных стратегий микрофинансирования. Цель исследования - оценить инклюзивность микрофинансирования в борьбе с бедностью на уровне домохозяйств, общин и общества в целом, уделив особое внимание его возможностям в африканских странах. Предметом исследования является анализ влияния микрофинансирования как финансового инструмента на борьбу с бедностью. В исследовании используются такие методы, как сравнительный анализ, дедукция, бенчмаркинг и синтез, которые показывают, что микрофинансирование является инновационным подходом к сокращению бедности. Ключевые выводы подчеркивают, что прибыльность микрофинансовых организаций имеет решающее значение для их самодостаточности, выживания и вклада в сокращение бедности.

Abstract: Microfinance aims to empower the impoverished by facilitating income-generating activities for domestic consumption. This paper is **relevant** to academia, offering principles and methods to address poverty through effective microfinancing strategies. The **purpose** of the study is to evaluate the inclusiveness of microfinance in alleviating poverty at the household, community, and societal levels, focusing on its capabilities in African countries. The **subject** of the study us to analyze the impact of microfinance as a financial instrument in poverty alleviation. The research **employs methods** like comparative analysis, deduction, benchmarking, and synthesis, revealing that microfinance is an innovative approach for reducing poverty. The **key findings** underscore that the profitability of microfinance institutions is pivotal for their self-sufficiency, survival, and contribution to poverty reduction.

Ключевые слова: Микрофинансирование, бедность, регулирование, Африка.
Keywords: Microfinance, Poverty, Regulation, Africa.

Introduction

Microfinance serves as a valuable instrument, providing impoverished individuals with opportunities to establish businesses, sustain their livelihoods, and save for the future. Its purpose is to empower the poor to engage in income-generating activities for domestic consumption, making it a crucial tool for poverty alleviation at various levels—domestic, individual, community, and societal.

Defined as a range of financial services, including loans, savings, and insurance, microfinance caters to entrepreneurs and small business owners lacking collateral or eligibility for standard bank loans. Widely used in the financial sector for those with limited access to traditional banking services, microfinance instills confidence in the poor, suggesting that with capital for business initiation or sufficient income for basic needs, they can escape poverty.

From the supply perspective, microfinance emerges as an effective tool for poverty reduction, easing constraints on capital accumulation, fostering a favorable investment environment, providing accessible consumption opportunities, and addressing liquidity emergencies. On the demand side, empirical evidence indicates that a significant portion of the poor acts as savers. Microfinance institutions play a vital role in safeguarding and securing these savings, facilitating interest accumulation and, consequently, positively impacting people's overall quality of life.

This paper contains four parts, which includes:

- Part one– Introduction of the article;
- Part two of the article presents literature review highlighting the regulation framework that surrounds the microfinancing activities in Africa.
- Part three we outline the contemporary state of Africa's microfinance
- The fourth part is the recommnendation on further developmemt of microfinance in Africa and conclusion.

II.Literature Review

This section examines the regulation system in Africa on microfinance activities and how they should be structured according their local regulation board and institutions.

Regulation system of microfinance in Africa

Regulation of financial institutions is essential to safeguard the savings of depositors and ensure the stability of the financial system. The primary objective is to protect clients' hard-earned money and foster trust in these institutions. For microfinance institutions (MFIs) to remain viable and address clients' needs, stringent regulation is crucial, treating them as financial entities requiring continuous monitoring. The focus of regulation should extend to maintaining a positive reputation for MFIs, preventing fraudulent activities, and enhancing transparency in financial accounting and transaction reporting. This transparency contributes to greater financial and operational sustainability, ultimately reducing poverty.

The diversity of MFIs in the provider classification table underscores the need for varied regulation and oversight. While regulatory frameworks may differ across countries, there is a common set of standards and objectives. The conclusion drawn is that regulation serves a mutual purpose: ensuring the stability of these institutions while simultaneously contributing to poverty alleviation through their various activities.

2.2 Regulation terms for countries

To conduct a thorough comparative analysis, it is imperative to examine regulations in terms of countries' regulatory standards, diverse approaches to regulation and governance tools:

- Regulatory Framework for Banking Laws

The regulations governing banking laws serve as the framework through which microfinance institutions (MFIs) are governed, utilizing the existing legislative measures. Governments employ on-site or off-site regulatory approaches through relevant regulatory agencies.

In Egypt, the microfinance sector adheres to banking law regulations, specifically Act No. 88 of 2003, overseen by the Central Bank of Egypt (CBE). Kenya's regulatory oversight is conducted by the Central Bank of Kenya, operating under the Banking Act and the Microfinance Amendment Act 2011.

In South Africa, regulation falls under the purview of the Central Bank of South Africa, managed by the Department of Banking Supervision and governed by the Banking Act of 2008. [3]

To ensure compliance with banking legislation, regulatory bodies impose various requirements on MFIs. Regulators actively monitor MFI activities, ensuring the efficient utilization of resources through the implementation of reforms. Supervisors play a crucial role in promoting risk management within a legal framework, enhancing the overall functionality of MFIs.

While questions arise about the suitability of general banking regulations as benchmarks for MFIs, it is generally agreed that existing financial and general regulations can be tailored to MFIs through a tiered banking approach. Additionally, there is a consensus on the necessity of establishing a regulatory structure that allows for adaptable legislative changes to address the evolving dynamics of the microfinance sector.

- Government Intervention

The government ought to formulate policies facilitating Microfinance Institutions (MFIs) to capitalize on formal financial markets. Additionally, it should exercise some level of influence over the informal sector through non-prudential disclosure, safeguarding donors and clients from the fraudulent activities of unregulated MFIs.

Central banks, in their regulatory role, are anticipated to be impartial referees, upholding flexible standards without compromise. It is crucial for them to establish a robust department overseeing microfinance institutions, led by experts and supported by professionals with practical regulatory experience in the MFI domain. Furthermore, implementing comprehensive training and development programs is essential to align with industry dynamics. Nigeria has initiated a microfinance certification program, while other countries employ varied training programs, serving as a model for central banks to enhance industry capabilities.

Reviewing licensing and de-licensing conditions for banks periodically is necessary to adapt to sectoral realities. Moreover, regulation and oversight should extend beyond external reporting, incorporating thorough on-site reporting adhering to established standards. This approach will undoubtedly keep MFIs vigilant and accountable. [6]

Consequently, central banks are obligated to guarantee effective compliance, with stringent penalties for noncompliance, and prudential guidelines should be robust to underpin the activities of Microfinance Institutions (MFIs). Overall, the regulatory, supervisory, and control functions carried out by central banks are anticipated to foster and propel the industry's rapid growth, characterized by unparalleled transparency that stands up to global scrutiny without any room for skepticism or ridicule.

2. Contemporary state of Africa’s microfinance

The eradication of poverty is a fundamental aspect of the global mission of the United Nations, and microfinance is increasingly acknowledged as an effective strategy in realizing this objective. Poverty is inherently complex, with diverse solutions and causes varying across individuals and locations. Therefore, microfinance is not presented as a universal remedy for poverty in this context. However, a crucial connection exists between microfinance and poverty alleviation, as the latter hinges on impoverished individuals' access to and control over economically productive resources, including financial ones. [6] When appropriately harnessed and supported, microfinance has the potential to transcend the micro level, becoming an integral component of the economic development process. This empowerment, in turn, enables the impoverished to elevate themselves out of poverty.

Microfinance holds significant promise in Africa, considering institutions that offer diverse products and services to the broader public. In the event of these institutions facing challenges, traditional and informal providers like tontines in Cameroon, SUSUS in Ghana, and itinerant bankers in Benin persist in serving the impoverished. Nonetheless, their informal characteristics constrain their ability to broaden their operations, and they frequently impose elevated fees. [9]

The lack of financial institutions in many rural areas in Nigeria has rendered the Central Bank of Nigeria's initiatives to enhance the saving culture among the rural population less impactful. Rural communities, particularly those with lower income, have their established traditional mechanisms for mobilizing savings. Leveraging and building upon these traditional practices could prove advantageous when implementing such schemes.

3. Recommendations to further development of microfinance in Africa

African microfinance exhibits a broad spectrum of approaches, mirroring the diversity of the continent. Various methods have been employed, ranging from traditional kinship networks to Rotary Savings and Credit International Associations (ROSCA), NGOs, and development projects. Funding sources include both the informal and formal financial sectors, along with support from national and international donors. Lessons from African microfinance shed light on effective and ineffective strategies. This section outlines essential principles for Microfinance Institutions (MFIs) to achieve ideological and institutional sustainability, enhancing their ability to serve the poorest while attaining financial viability and self-sufficiency. Notably, there is no one-size-fits-all model for microfinance initiatives; each must be adapted to the specific cultural, political, and economic context in which it operates. Emphasizing diversity, the following general principles are highlighted:

- Facilitate resource pooling through group organization.
- Leverage and build upon people's existing knowledge and traditions.
- Empower the African private sector by reinforcing microfinance.
- Pursue efficiency in microfinance operations.

Microfinance options that acknowledge and build upon local knowledge and customs are not only socially effective but also more sustainable within the community. People tend to feel more at ease and familiar with concepts derived from their own traditions, enhancing the acceptance and impact of Microfinance Institutions (MFIs). Microfinance strategies rooted in local culture are more participatory, as clients are more likely to identify with and actively engage in the financial decisions and activities that shape their lives. Consequently, individuals become more invested and committed to the sustainability of microfinance initiatives, fostering a sense of ownership in their development and promoting independence. [1]

As previously mentioned, the community approach is a significant indigenous institution. Traditional and informal African savings and loan practices, such as Ekub in Ethiopia, Tontines in Cameroon and Niger, ESUSU in Nigeria, SUSU in Ghana, Gameya in Egypt, and Sanduk in Tunisia, draw on traditional knowledge and values. Microfinance initiatives based on these practices can benefit from legitimacy, accountability, and self-enforcement. [9]

While traditional methods should be adapted to the modern context for increased efficiency and the integration of modern innovation, they should not be entirely replaced. Trust is built on traditional knowledge and values, making it easier for individuals to progress and learn more, as their knowledge foundation is securely rooted in their own identity and society.

Although donor funding is crucial for initiating a microfinance initiative, for long-term effectiveness, Microfinance Institutions (MFIs) should not continue to depend on donor funding. It is imperative for MFIs to achieve self-sufficiency. Those that are self-sufficient can more effectively preserve their identity, autonomy, and mission.

Conclusion

In conclusion, microfinance plays a crucial role in enhancing lives. While the primary objective of microfinance is recognized, there is a varied perspective on this goal among different stakeholders. Microfinance can be a powerful tool in the fight against poverty, but its effectiveness relies heavily on the presence of proper infrastructure. To realize the desired development goals of microfinance, the entire framework must be well-established. The current situation of impoverished individuals could have been significantly worse without the intervention of microfinance. Therefore, microfinance appears to be a highly valuable means of lifting people out of poverty.

Institutionalists highlight a gap between the funding requirements and the financial resources mobilized by microfinance institutions. Currently, these institutions rely primarily on funding from private donors, including large corporate foundations, as well as government subsidies. However, institutions argue that these financing sources are both scarce and unstable. Consequently, microfinance institutions turn to private capital to fulfill their financial needs. This underscores the necessity for institutions to be financially profitable and align with the performance standards of commercial banks.

The profitability of microfinance institutions is pivotal for their self-sufficiency, influencing their survival and, consequently, their contribution to poverty reduction. Ensuring financial viability is crucial as it enables these institutions to attract additional funds from financial markets, thereby expanding and intensifying their operations. The lack of financial viability for MFIs could lead to the failure of microfinance programs in the medium to long term, jeopardizing a valuable approach to combating poverty.

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