DISCUSSION ON WORK DONE BY MICROFINANCE
Diskusija obavljenog posla sa aspekta mikrofinansija

Baraka Leonard Nafari
Department of Economics and Econometrics, University of Johannesburg

Abstract

This paper conducts a discussion on what may come to pass as a result of a household’s participation in microfinance. Three obvious scenarios from participation in the microfinance are: (i) increase of household wealth, (ii) relief on wealth, and (iii) the worst situation in which household participation in microfinance leads to household wealth depletion. The discussion in this paper shades light on getting rid of naive expectation from participation in microfinance. But insisting on how household’s wealth changes due to its participation in microfinance.

Keywords: microfinance, participation, work done, wealth

1. Introduction

Microfinance programs have received both praise and criticism with regard to their impact on poverty reduction. On one extreme there are optimists who argue that micro-finance can reduce poverty Holcombe et al. (1995), Hossain (1988), Otero et al. (1994), and Remenyi et al. (1991); while on the other extreme there are pessimists who point to the negative impact of microfinance these include Adams and Von Pischke (1992), Buckley (1997), Montgomery (1996), Rogaly (1996), and Wood and Sharrif (1997). Nevertheless a group in the middle of Optimists and Pessimists are scholars such as Hulme and Mosley (1996), and Mosley and Hulme (1998) who embrace the benefits of microfinance but they argue that microfinance does not aid the poorest.
The discussion in this paper is not about taking position on whether microfinance is good or not, but rather what does microcredit do on the wealth possessed by the household. Keeping in mind household rationality that: more wealth is preferred to less.

2. The Discussion

2.1. Wealth of the household

In this paper household wealth is a composition of assets which are in three categories being: fixed tangible assets, current tangible assets and intangible assets, as shown in equation 1.

\[ a = c_x + d_y + e_z \] (1)

Thus diagrammatically:

![Figure – 1: Components of wealth, depicted from (equation 1)](image)

From equation 1: \( a \) is wealth, a resultant\(^2\) from summation of vectors \( c \) in the direction of \( x \), \( d \) in the direction of \( y \) and \( e \) in the direction of \( z \); \( c \) is a vector of all tangible fixed assets\(^3\), \( d \) is a vector of all tangible current assets\(^4\) and \( e \) is a vector of all intangible assets\(^5\). For all households \( a > 0 \) whether they participate in microfinance program or not, because every household possesses a minimum wealth on which it

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\(^2\) Resultant as from Parallelogram Law of Vector Addition which states that when two vectors are represented by two adjacent sides of a parallelogram by direction and magnitude then the resultant of these vectors is represented in magnitude and direction by the diagonal of the parallelogram starting from the same point.

\(^3\) Tangible fixed assets include things such as shelter, clothing, food etc.

\(^4\) Tangible current assets strictly including cash in hand.

\(^5\) Intangible assets include things such as education, health, information, trust etc.
depends for surviving.

2.2. Participation in Microfinance

Participation of a household in the microfinance program may make it better off. Such that; its poverty is reduced this setting is well elaborated in section 2.2.1; indeed, in another scenario a household may obtain a relief\(^6\) this is explained in section 2.2.2, moreover the household may become worse off that is, even poorer due to participation in microfinance this phenomenon is presented in section 2.2.3.

2.2.1 Impact of participation in microfinance in increasing household wealth

In evaluating impact of microfinance it is important to measure its work done, when microfinance effort\(^7\) is applied on vectors (bundles) of fixed assets, current assets and intangible assets. When microfinance effort manages to push wealth to even higher wealth, that is, microfinance beneficiary becomes even wealthier due to microfinance project; indeed when, specifically, the vectors (bundles) of fixed assets and intangible assets move to higher bundles we can conclude that the microfinance Project has impact in increasing household wealth.

\[
WoMF = (Ef \cdot \Delta dob)
\]  
(2)

Where, from equation (2): \(WoMF\) is Work done of microfinance, see in (Longair, 2003, pp.215 - 217) for the definition of work done. \(Ef\) is Effort, and \(\Delta dob\) is Change in distance of bundles. Moreover, \(b(f_x + g_y + h_z) > 0\) which is a bundle of microfinance, in this regard, the microfinance effort exerted at the distance between \(c_1 (l_1x + m_1y + n_1z) > 0\) and \(c_2 (l_2x + m_2y + n_2z) > 0\), being bundles (vectors) of fixed assets and intangible assets which have improved in the way that \(c_2 > c_1\). This therefore means that the microfinance effort has moved the bundle of fixed assets to even higher bundles.

Moreover, microfinance effort \(b(f_x + g_y + h_z) > 0\) exerted at the distance between \(d_1 (o_1x + p_1y + q_1z > 0)\) and \(d_2 (o_2x + p_2y + q_2z > 0)\), being bundle (vector) of intangible assets which have improved in the way that \(d_2 > d_1\). This therefore means that the microfinance effort has moved the bundle of intangible assets to even higher bundles. Therefore, in this scenario \(c_2 > c_1\) and \(d_2 > d_1\) indicate reduction of poverty.

2.2.2 Effect of participation in microfinance in provision of relief on wealth

Microfinance effort is extended to a beneficiary such that \(b(f_x + g_y + h_z) > 0\) applied at the distance between \(c_1 (l_1x + m_1y + n_1z) > 0\) and \(c_2 (l_2x + m_2y + n_2z) > 0\) and between \(d_1 (o_1x + p_1y + q_1z > 0)\) and \(d_2 (o_2x + p_2y + q_2z > 0)\) but when \(c_2 = c_1\) and \(d_2 = d_1\)

\(^6\) Relief means microfinance has not reduced poverty but has availed the household with some liquid assets.

\(^7\) Microfinance effort is observed in terms of amount of credit received.
which means that bundles of fixed and intangible assets respectively have remained the same after exerting microfinance effort, but at the same time microfinance effort \( b(f_x + g_y + h_z > 0) \) exerted at the distance between \( e_1 (r_{1x} + s_{1y} + t_{1z} > 0) \) and \( e_2 (r_{2x} + s_{2y} + t_{2z} > 0) \), which are bundles (vectors) of current assets and have consequently improved in such a way that \( e_2 > e_1 \), this signifies that microfinance has provided a relief to the beneficiary without actually increasing the bundles of fixed tangible and intangible assets. Therefore, we categorize this as the effect and not impact of microfinance to the participant’s wealth.

2.2.3 The worst situation, Microfinance depletes wealth

When microfinance effort is extended to a beneficiary in such a way that \( b(f_x + g_y + h_z > 0) \) applied at the distance between \( c_1 (l_{1x} + m_{1y} + n_{1z} > 0) \) and \( c_2 (l_{2x} + m_{2y} + n_{2z} > 0) \) and also between \( d_1 (o_{1x} + p_{1y} + q_{1z} > 0) \) and \( d_2 (o_{2x} + p_{2y} + q_{2z} > 0) \) afterwards when \( e_2 < e_1 \) and \( d_2 < d_1 \) even when \( e_2 > e_1 \) or \( e_2 = e_1 \) the implications are the same, that microfinance project has depleted wealth of the household, this happens when fixed assets are confiscated or given up and/or intangible assets have been deteriorated in the process of loan repayment; this scenario leaves a member of microfinance in worse situation than before they joined the microfinance project. In this case, therefore, we can conclude that there is work done (that is impact) of Microfinance which depletes wealth of the member of a microfinance project.

3. Conclusion

Three scenarios from participation in microfinance may come to pass, these are: the impact of participation in microfinance in reduction of poverty, the effect of participation in microfinance in provision of relief, and the worst situation, in which microfinance increases poverty to the household. The participants in microfinance should therefore, try their best to achieve the possibility of the two former scenarios and avoid the latter scenario.

References


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Apstrakt

Ovaj rad raspravlja o tome šta može da se dogodi kao rezultat učešća jednog domaćinstva u mikrofinansijama. Tri su očigledna scenarija učešća u mikrofinansijama: (i) povećanje bogatstva domaćinstva; (ii) olakšanje bogatstva i (iii) najgora situacija u kojoj domaćinstva koja participiraju u mikrofinansijama smanjuju svoje bogatstvo. Diskusija u ovom radu baca svetlo na oslobađanje od naivnog očekivanja od učešća u mikrofinansiranju ali ukazuje na to kako se bogatstvo domaćinstva menja tokom njegovog učešća u mikrofinansijama.

Ključne reči: mikrofinansije, učešće,