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Family Based Microcredit Model: A New Dimension

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Abstract

Microcredit is a big dialogue of the last century which achieved a high priority in the entire globe. Over the years it has been extensively focused and got attention of the local, regional and international communities. Most existing models have been discussed in the selective areas with mode of operations for a target group. Over the passage of time, these existing models have faced severe criticism due to limitation of executing the real outcome on focused individual level. All the existing models provide very small loans to the poor, often with group liability, which is used as a common tool intended to fight against poverty and to promote economic growth. This article identifies the weaknesses of the existing microcredit models, and suggests a new model entitled "Family Based Microcredit Model: A New Dimension" with an intensive diagnosis. Proposed model is compared to present models. This paper also deals with the differentiation of focusing the key objectives of the existing microcredit models. Finally, it recommends that if Family Based Microcredit (FBMC) Model introduce, it is expected that poverty can be eliminated from the family of the world.

Key Words: Group, Credit for all, Product credit, FBMC Model, Self-reliance, Training.

1. Introduction: Microcredit is a program to eradicate poverty. It has been used as a strong tool against poverty in the rural area by various NGOs and microcredit institutions. But at the outset the poverty could not be removed as much as it was expected. Amongst so many reasons the key point limitation is not involvement of family as a whole. Group formation is a key focus in traditional models. Over the years, the microcredit and financial institutions are tremendously increased in numbers and in activities. On the other hand, the real outcome has not been rightly assessed by the concern bodies and at the same time regulatory authorities have created newer regulations instead of follow up and monitoring properly. It needs to think an alternative model to get the right and more authentic outcome from the microcredit models.

2. Objectives of the study:

There are some objectives of the study. These are as below:

(a) To review the existing model of microcredit.

(b) To find out the problems and limitations of the traditional microcredit system.

(c) To create a new model of the microcredit.

3. **Data collection method:**
Secondary data: Secondary data have been collected from journals, books, annual reports of microcredit organization, microcredit related research works etc.

4. **Detail of existing microcredit models:** The work process and weakness of the existing models running and operating among the countries are described as follows:

Sl. No.	Model's name	Founder's name, country and year	Model method	Weakness/criticism
1.	Grameen Bank Model	Professor Dr. Muhammad Yunus, Bangladesh, 1976	Grameen Bank Model is group based lending method. It is collateral free intermediation cooperative association. In this model first stage formation of a groups with five prospective borrowers. Second stage is only two of them are eligible for and receive a loan. If the first two borrowers repay the principal loan and interest over a period of fifty weeks, other members of the group become eligible themselves for a loan. Group members jointly accountable for the repayment of each other's loans. Members meet weekly to collect repayments.	1. Group based lending system 2. High interest rate. 3. Ninety five percent members are women. 4. Joint Liability. 5. Must save in advance. 6. Compulsory weekly saving. 7. Target groups are poor rural women. 8. First loan size is maximum \$50. 9. Five percent of any amount granted to set aside at savings (Leonard 2011).
2.	MC^2	Dr. Paul K. Fokam Cameroon	MC^2 is a community based micro banking approach whereby people and mostly the under privileged endeavor will be self-reliant by creating wealth	1. Group based lending system. 2. Maximum members are women. 3. No training. 4. Loan size is maximum \$150.

			with a view to improving their living conditions in a sustainable manner. The principal promoter of this model Dr. Paul K. Fokam drew inspiration from the Einstein's famous formula; Victory over poverty (VP) is possible if the means (M) and the competences C of the community, C are combined. Hence the formula VP = M x C x C = MC^2 (Leonard, 2011).	
3.	Village Banking Model	John Hatch, Bolivia, 1980	Village banks are community based credit and savings associations. A group is consisted of 30 to 60 members. In this model the loan repays the entire loan plus interest to the implementing agency. If the village bank repays in full, it is eligible for a second loan.	1. All members are women. 2. It is a group based lending system. 3. The models require compulsory 20% cash guarantee of loan amount. 4. The payment system of 16 to 24 weeks. 5. Loan size are maximum amount granted to an individual being limited to below \$50. 6. The institution is dependent on external funding. 7. High interest rate above 46%. 8. No Training.
4.	SKS Model	India	In this model, firstly, field officer makes a group. Then credits are disbursed to them.	1. Very high interest rate above 35%. 2. Loan size is maximum \$160. 3. No Training.

				4. Loan terms are 50 weeks. 5. The model is heavily dependent on investors.
5.	Community Based Organization (CBO)		CBO full meaning is Community Based Organization. CBO model is a group lending system.	1. High interest rate. 2. Loan term is 12-14 weeks. 3. CBO model is dependent on external fund.
6.	Latin American Solidarity Group Model, 1980		In this model, loan officers make a solidarity group with four to ten members. Then loan are disbursement for small-scale business activities.	1. Most borrowers are market vendors. 2. Seventy seven percent of clients are women. 3. Group members are jointly liable for each other’s debt.
7.	Individual Lending Model		In this model, loans are given to individual.	1. No training. 2. Must guarantee. 3. Individual lending system. 4. High risk.
8.	Credit Unions Model		A credit union is a unique member driven, self-help financial institution. It is organized by and comprised of members of a particular group or organization, who agree to save their money together and to make loans to each other at reasonable of interest (Hari Srinivas 2015).	1. No training. 2. Individual lending system.

9.	Rotating Savings and Credit Association (ROSCA)		ROSCA full meaning is Rotating Savings and Credit Association. ROSCA credit model system is a group of individual who come together and make regular cyclical contribution to a common fund, which is then given as a lump sum to one member in each cycle (Hari Srinivas 2015).	1. No training. 2. Individual lending system.
10.	Rural Development Scheme (RDS)	Islami Bank Bangladesh Limited, Bangladesh. 1995	Economic development of rural area by sharia based, interest free, small scale employment aim in reduction of poverty is called RDS model.	1. Less group in a village. 2. No training. 3. Individual lending system.

5. Discussion on overall weaknesses of existing microcredit models:

Overall weakness of existing microcredit model discussed below-

A. Individual and group based lending system: Existing microcredit model divided into two types. Such as:

i. Individual Model

ii. Group Model (5 to 30 individuals in a group)

In this system, if a member fails, it makes negative effect to the family. But, if a member is successful, it is not sufficient for a family. So, individual and group based lending systems are main weakness of the existing microcredit models.

B. Female illiterate member: Existing microcredit model's target borrower is rural woman. Maximum borrowers are woman (95% to 100%). But illiterate, untrained rural women do not know how to proper loan conduct and control a business. As a result, maximum women borrower failed.

C. High interest rate: There is a serious objection regarding interest rate of NGOs. Main weakness of existing microcredit model is very high interest rate (25%- 45%). Illiterate rural women cannot be benefitted by microcredit because of high interest rate. So, borrower women take the loan from other NGOs for payment installment of other NGO. As a result, women are suffering from "bad cycle of credit".

D. Compulsory savings: Existing microcredit institution requires compulsory savings in advance and compulsory weekly savings. Some model requires compulsory 20% savings of the loan amount granted. When a borrower pays weekly installment, he/she pays principal amount, interest and savings. It's explain by equation, weekly installment = principal amount + interest+ savings. So, compulsory savings is a burden for a borrower

E. Money loan: Existing microcredit institution gives to the borrower money loan. Its amount is $ 75 to $ 300. Maximum illiterate women borrower cannot properly use the money.

F. Lack of training: Existing microcredit model does not provide any training on use of the loan.

Some microcredit institutions give to the borrower training on basic book-keeping development and empowerment techniques. These institutions do not give the training about loan. As a result, borrowers cannot properly use the loan because lack of training.

G. Period of repayment of loan: Period of repayment is 16 to 50 weeks of existing microcredit model. This period of repayment is not sufficient for the borrowers.

H. Business approach: Now a day's microcredit is a popular business. Microcredit has been created to help for poor people, but it is a trap in debt for poor people. Now microcredit means money sale. Microcredit institutions sell the credit to borrower on 45% interest rate. These are the overall weakness of the existing microcredit models. There are researches implying that microcredit has little impact on poverty (Armendoriz de Aghion & Morduch, 2010). It may have said that existing microcredit model may not be effective and alleviating poverty.

6. Key issues of existing microcredit models

Existing microcredit models are divided into two types. These are:

A. Individual microcredit model: This is a straight forward credit lending model where micro loans are given directly to the borrower. It does not include the formation of groups, or generating peer pressures to ensure repayment (Hari Srinivas, 2015).

B. Group microcredit model: Group model is joint liability. When a group takes out a loan, they are jointly liable to repay the loan when one of the group's members defaults on the repayments (Hari Srinivas, 2015).

7. The New Model:

Family Based Microcredit Model: A New Dimension:

The author proposed new microcredit model is "Family Based Microcredit (FBMC) Model". FBMC Model is to eradicate poverty by creating employment opportunity, following effective training and giving work oriented products among the family members. Main features of the new proposed model are family group, product loan, saving free, training on the borrowed product, low simple interest rate etc. FBMC Model is not only for women but men, young, adolescent, even children of rural or urban population of very poor or medium level. The main theme of proposed model is "credit for all".

7.1 Objectives of the new Model:

The main objectives of the FBMC Model are below**:**

i. To make self-reliance each of a family.
ii. To increase income of a family.
iii. To create employment opportunity.

iv. To increase revenue for the nation.

7.2 Principle of FBMC Model: FBMC Model has some special principles. These are discussed as follows:

A. Product credit: "No money, but work". Nobody will be provided with cash money. A member is permitted to purchase those commodities such as sewing machine, van, cow etc. that he wants to get.

B. Group: A family is a credit group. All family members will be included in a credit group.

C. Loan size: Loans are medium in size. Minimum amount will $ 625 for a family.

D. Credit for all: This credit will not for only women. Credit will be available for male, female, adolescent, children of rural and urban citizen of low and medium households also.

E. Duration: The duration will be 2 years or 100 weeks.

F. Interest: Simple interest rate will be 10%.

G.Training: A person must receive training about the loan product who are interested to increase earnings of the family.

H. Installment: Borrower must repay the installment per week.

I. Savings free: No savings before take the loan by borrower.

These principles will be followed in the FBMC Model.

7.3 Components of FBMC Model:

There are six components of products credit model as follows:

A. Selection of family: Firstly, the family will be selected. Interested and hard working family will be given priority.

B. Training: The second step of the model is training to the credit holders, who do not have the knowledge, experience and efficiency in proper use of the credit. The proper use of the credit is possible through training. For this, the credit holder must be given the training for proper use of product money, besides the training of tailoring, rearing cows, handicraft etc. The product loan will be distributed among only the trained holders.

C. Credit allocation: Nobody will be provided with cash. Credit will be creating a significant productive base. So a credit holder such as sewing machine, van, rickshaw, cow and any income base products will be provided to borrowers depending on his willing.

D. Evaluation and monitoring: Proper evaluation and monitoring is to be ensured so that the borrowers can properly use the loan product. The next step of the model is to evaluate and monitor the credit holders. If the credit holders don't use the loan product properly, they will help perfectly by supervising.

E. Recovery of the credit: In this stage the installment will be taken after two months of distributing money. Those who will failure to pay the installment must be taken under law on legal process. Who use the loan product effectively will be given more new products-loan.

F. Outcomes of the model: It hopes that after successful implementation the model, the credit holders can increase their self-employment, socio–economic development, increase revenue then country will be economically developed.

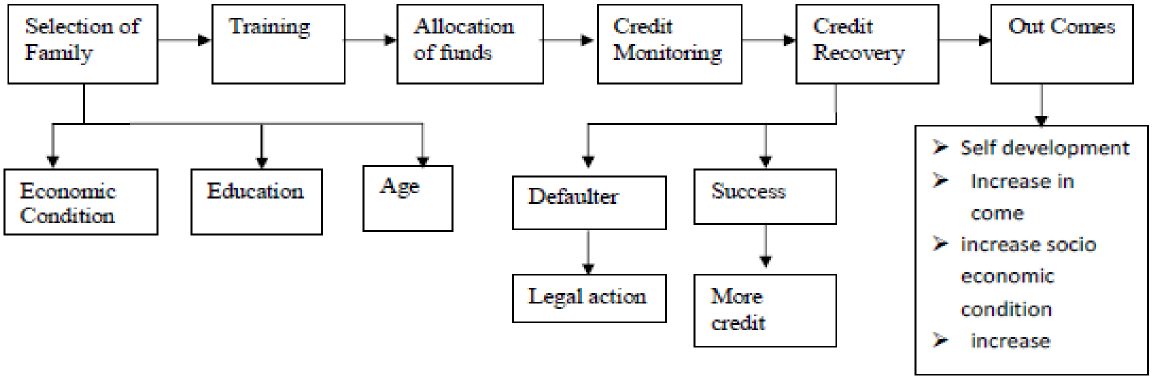

Figure: Component of Family Based Micro Credit Model (Developed by the author)

7.4. Structure of FBMC Model:

Family is a group of parents and their children living together in a household. Now a day's maximum family member is six (6) persons. Generally, father /husband are main income earner of family in the world. Every member will income earner through FBMC Model. FMBC Model is presented below:

Family member	Main job	Present income	Product credit	Credit amount	Probable monthly income	Total income
Father	Service/ Business/ Agriculture	$125	Hatchery /Rickshaw	$ 125	$ 25	$150
Mother	Housewife	-	Apiculture /Mushroom	$ 100	$ 37.5	$37.5
Elder son	Student/Job less	-	Poultry /Dairy firm	$ 100	$ 25	$25
Younger son	Student	-	Handicrafts/Van /Nursery	$ 100	$ 37.5	$37.5
Elder Daughter	Student/Job less	-	Sewing Machine/pigeon firm	$ 100	$ 25	$25
Younger Daughter/Baby	Student	-	Fruit garden	$ 100	$ 25	$25
Expected total Taka		$125		$ 625	$ 175	$ 300

The main aim of this project is to provide extra income source besides its member's main job which help to increase earnings. Indeed, each member of a family will be self-reliance.

7.5 Methods of payment of credit: In order to implement the FBMC Model every family needs minimum $ 625. This credit will be given at the rate of 10% interest with a service charge for two years, and will be paid every week as an installment. Such as income generating activities of $ 625 of a family 10% service charge in $ 62.5 i.e. gross collection will be $ 687.5 two years ‟period (100 weeks) i.e. weekly installment is $ 687.50/100 = $ 6.875 and in every month $ 6.87 x 4 = $ 27.5. Monthly earnings will tk. $ 175. It will become a result of first two years income which will be $. 175-$27.5=$ 147.5. After two years the credit will be paid and for the augmentation of each income generating activities. As a result, family will be free from poverty.

8. How the new Model is ahead to traditional microcredit systems?

Area	**Traditional Microcredit system**	**FBMC Model**
Group formulation	5 to 10 women from separate family will constitute a group.	Full family is a group.
Credit things	Money is mainly credit things.	Products (van, rickshaw, sewing machine, cow) etc. will be mainly credit things.
Training	Training is not compulsory before taking the loan.	Training will be compulsory before taking the loan.
Loan size	First loan size is maximum $50	First loan size will be minimum $ 625 for a family.
Collection of installment	Installment collection is after next week.	Installment collection will be after next 8 weeks (two months).
Interest	Interest rate is 15% to 45%	Service charge will be 10%
Type	It is business.	It is social work.
Goal	To generate income.	To create self-employment.
Employment	To create employment indirectly.	To create employment directly.
Development	To develop only a person of a family.	To develop a whole family.
Expectation	The loaners are exploited.	The loaners will never exploit.

So, FBMC Model will be better than traditional microcredit systems.

Concluding thoughts: Family is the youngest organ of the state. Society is consisted of many families and union is of many societies. Few unions together form Upazila, where few Upazilas form a district; districts form division and divisions form state. So, if a family is self- reliant, ultimately a country will be self-reliant. If a member of a family fails, the whole family is under threatening. The existing microcredit systems' efforts have extended to make only women self- reliant and that's why the existing microcredit systems did not see the light of success. In the new Model it is proposed the way of attaining self-reliant for all the members of a family. Indeed, the new FBMC Model has explained the way of achieving self-reliant procedure in the society, state and country as a whole. The author strongly believes that the proposed "Family Based Microcredit (FBMC) Model" will be a strong tool to make closer the borrower family to get the best output through ensuring their living status by developing socioeconomic conditions of the world.

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