



Using microfinance to mitigate destitution in a conceptual viewpoint

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ABSTRACT

The aim of this paper is to discuss about the conceptual explanation of microcredit and microfinance, destitution. This paper also described about the conceptual link of microcredit and destitution mitigation. Studying conceptual sources i.e. participatory microfinancing approaches, it has been determined as a better way of destitution mitigation. The study recommended that zakat based Islamic mode of financing and Qard-al-Hasan on the basis of spiritual values would be an alternative model for destitution mitigation and ensuring sustainable livelihood.

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1. Introduction

Destitution is the main problem for sustainable human development (Gilbert, 2004). Since the begging of civilization it is destroying human basic rights and depriving them through involving of multiple dimensions from limited income, vulnerability, lack of essential assets and opportunities in the face of shocks too few possibilities to participate in collective decision making for every human is entitled (David and Jonathan, 2009). The economist and the policy makers have invented multiple numbers of destitution mitigation strategies and theories as well as clear relevant the conceptual issues over the time. But still there is no concert and perfect solution in the area (Mirghani et al., 2011).

In such situation, the existing conceptual frameworks are more important to know the rationality and the strength of any study. The participatory approaches of financing were coming in the front while the failure of the past macro-economic development strategies in eradicating destitution in a sustainable manner. In the last three decades participatory approach has been launched as one of the prime strategies in the overall movement to end the destitution (Hossain, 1988b). Participatory approach realized that poor as well as the lower income group are facing major problems is access to credit (Bhuiyan et al., 2012a). Their lack of assets for collateral, lack of financial records and limited credit history has made almost impossible for them to obtain credit from the formal financial

institutions. Due to lack of capital, the poor are tied to low productivity, usually self-employed economic activities. Thus, providing the poor with credit will generally help to solve the problem of the poor. In this regards, microfinance program is generally perceived as one of the practical and attractive means for providing accessibility of the poor to credit, and hence reducing destitution and achieving development objectives.

In such situation, it is the time decision to do a rigorous study of the existing concepts of microfinancing and destitution mitigation as well as draw linkages between them. Therefore, this study aims is to draw out the linkages with microfinancing and destitution mitigation in the way of sustainable livelihood from the existing relevant concepts.

2. Conceptual framework

2.1 Microcredit and microfinance

The word 'credit' comes from the Latin word 'credo' meaning 'to believe' or 'To trust'. Hence 'credit' entails someone, the lender, to believe or to trust someone, the borrower, with funds to be used by the borrower for his or her purposes (i.e. Business, Consumption, etc.) to be repaid to the lender with interest at a later stage on agreed terms and conditions. The terms microfinance and microcredit are generally used interchangeably since microfinance embraces microcredit and means as the provision of micro-loans with savings, Insurance etc. Service whereas microcredit offer only small tiny loan.

Microcredit is a program designed to extend small loans to very poor people for self-employment projects that generate income, allowing them to care

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for themselves and their families (Daley-Harris, 2005). On the other hand, Microcredit refers to micro loans, whereas microfinance offer too small loans with other financial service as well as savings, Insurance etc. and it is appropriate where NGO's and other MFI's are involved to supplement the loans with other financial services as well as savings, Insurance etc. (Sinha, 1998).

In the same way, Microcredit is a component of microfinance which is used to provide a small credit to the poor people but microfinance also involves additional noncredit financial service such as savings, insurance, pensions and payment service (Buckley, 1997). Furthermore Microfinance as the practice of offering small, collateral free loans to members of cooperatives who otherwise would not have access to the capital necessary to begin a small business or other income generating activities.

Another definition has drawn that Microfinance as the provision of a wide range of financial services like saving accounts, loans, payment services and insurances for people with no regular access to financial services through traditional financial institutions. On the other hand Microcredit institutions will often make loans to clients rejected by commercial bank and therefore there is normally little competition between microcredits. The principal advantage of financing through microcredit programs is that these programs are willing to those lacking collateral. Subsidiary advantages include creating a credit history of the borrower and instilling a sense of responsibility through the need for repayment (Pretes, 2002).

Moreover, Microfinance as the appropriate attempt to improve access to very small loans for poor household neglected by banks (Schreiner and Colombet, 2001). Microcredit is the method of loaning of a small amount of money (\$5 to \$100) to the needy but capable people without any collateral security for Income Generating Activities (IGAs) as well as enabling them self- reliant.

From the above discussion this study defines about microfinance as The provision of access of a small amount of credit to the poor those not having assets for collateral, no financial records, and credit history as well for income generating activities (IGAs) to alleviate destitution and ensure livelihood development through improving of good health, access of children's education, achieved skill, acquiring assets, take part social activities.

2.2 Destitution

Destitution is a state of deprivation involving multiple dimensions from limited income, vulnerability in the face of shocks too few possibilities to participate in collective decision making. On the other way we can say destitution is a human construct. The way economic resources are distributed isn't a function of unchangeable economic laws, but of political i.e. human choices. In

the same way Muhammad Yunus has given the definition of destitution which is a denial of all human rights. it is not the creation of the poor. It is the creation of the systems' which is made up of concepts, theoretical frameworks, policies and institutions (Yunus, 1999).

In the same way, Destitution is a social condition of chronic insecurity resulting from the breakdown of economic demographic, ecological, cultural and social systems, and causing groups of people to lose the capacity to adapt and survive (U.N.E.P, 1995). Furthermore, destitution is a manifestation of humanity's spiritual destitution - our hunger for power, our unbridled self-interest above the common good, and our fear that if we share then we will not have enough.

On the other hand, if human development is about enlarging choices, destitution means that opportunities and choices most basic to human development are denied - to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-respect and respect of others (U.N.D.P, 1997). Moreover, Destitution encompasses not only low income and consumption but also low achievement in education, health, nutrition, and other areas of human development such as social relations, low self-confidence and powerlessness (World Bank, 2001).

The present study defines destitution as the situation where most of the basic needs of human development are denied because of low achievement in productivity in the income generating activities (IGAs), education, health, nutrition, social relations, low self-confidence and powerlessness.

2.3 Linkages of households' income and destitution

Income is the consumption and savings opportunity gained by an entity within a specified time frame, which is generally expressed in monetary form of the sum of all the wages, salaries, profits, interest payments, rents and other forms of earnings received by household in a given period of time. It is the most important indicator of destitution that affects the household's level of economic condition and also indicates the level of destitution status of the household (Bhuiyan et al., 2011b). The available sources of household's income denoted that they have enough monetary support to continue their life by meeting up basic needs smoothly. Such as they can buy enough consumption products, take care of their family members health, take care of their children's education as well as able to provide necessary cloths, shelter and finally they can contribute to the society by participating social welfare activities actively.

On the other hand, if there are insufficient sources of income of households that means they do not have enough monetary support to fulfill their daily basic needs. They are living under the destitution line and they are still struggling within

their life and facing many folds of a challenge to continue their life in minimum standard. Especially they are unable to provide enough consumption items, cloths, shelter, unable to care of their family members' health properly, they send their children in the earning instead of access of light education, furthermore they have lived with the mental hazard never been enjoy in social welfare activities actively.

2.4 Destitution measurement indicators

Destitution is the ability to attain a minimal standard of living livelihood asset including human, natural, physical, and social assets are considered as a main tools or destitution reduction factors that can be used to attack destitution and to achieve sustainable livelihood objectives (World Bank, 2011). In Bangladesh destitution has many faces, changing from place to place and across time, and has been described in many ways. Most often, destitution is a situation, people want to escape. So destitution is a call to action for the poor and the wealthy alike a call to change the world so that many more may have enough to eat, adequate shelter, access to education and health, protection from violence, and a voice in what happens in their communities. On the other hand, Destitution calculation simply is not so easy to comprehend the notion of extreme destitution, the conceptualization of destitution for the purposes of production and analysis of needed quantitative information may not be also straight forward. The systematic prevention and mitigation of destitution require reliable and timely data not only to estimate the number of poor people, but also to identify target groups, construct profiles of the poor, understand the causes and consequences of destitution, design policies and programs and monitor the progress made. The tasks of data collection and analysis are the more challenging when one is dealing with the entire spectrum of destitution rather than just extreme destitution.

3. Conceptual linkages of microcredit and destitution mitigation

The microfinance has been recognized as a powerful and an effective tool for combating destitution, the poor access to credit has been rapidly expanding over the past few decades in the area of hopeless and helpless hunger society over the world (Bhuiyan et al., 2012a; Mirghani et al., 2011). An early study of Grameen Bank noted its support for the poor, to alleviate destitution especially women, through empowerment and income generation and empowerment in social indicator microfinance has been recognized as a powerful and effective tool for combating destitution, the poor access to credit has been rapidly expanding over the past few decades in the area of hopeless and helpless hunger society over the world (Basher, 2010; Hossain, 1988a; Hassan and Tufte, 2001; Morduch, 1999; Schreiner, 1999).

Bangladesh is the one of the most growing up developing countries as well as most density of population in terms of the number of the population living and land area in the world (Bhuiyan et al., 2012b). Last three decades the Bangladesh economy could not able to achieve a rapid macro-economic development and strong track record of tackling destitution due to Natural disasters as like as floods, cyclone, river bank erosion and as well as the political unrest and misused or unused of national resources the economic development of Bangladesh is not most remarkable but impressive (Bhuiyan et al., 2012a; Bhuiyan et al., 2011a; Bhuiyan et al., 2012b). In the above circumstances the microcredit came with the revolutionary approach by providing the poor accessibility for the credit to increase their total family through different approaches of Income Generating Activities (IGAs) and thus, sufficient income provides a hope to the poor to ensure livelihood development by improving good health, access of children's education, achieved skill, acquiring assets, take part social activities. After those achievements they acknowledge themselves as important parts of family members that means other family members honor about their opinion at the time of decision making. Furthermore, at the end above successive factors microcredit borrowers able to ensure the opportunity of sustainable livelihood if all other livelihood assets remain constant.

4. Conclusions

From the existing conceptual frameworks it has been given enough motivation to say participatory approaches of microfinancing has been used as one of the prime strategies in the overall movement to end the destitution and ensure sustainable livelihood. Because it realized that poor as well as the lower income group are facing major problems is access to credit. Their lack of assets for collateral, lack of financial records and limited credit history has made almost impossible for them to obtain credit from the formal financial institutions. Due to lack of capital, the poor are tied to low productivity, usually self-employed economic activities. Thus, providing the poor with credit will generally help to solve the problem of the poor. In this regards, microfinance program is generally perceived as one of the practical and attractive means for providing accessibility of the poor to credit, to increase their total family through different livelihood strategies of Income Generating Activities (IGAs) and thus, sufficient income provides a hope to the poor to ensure achievement of sustainable livelihood by improving good health, access of children's education, achieved skill, acquiring assets, take part social activities. After those achievements they acknowledge themselves as important parts of family members that means other family members honor about their opinion at the time of decision making.

Furthermore, at the end above successive factors microcredit borrowers able to hence reducing destitution and ensure the opportunity of sustainable livelihood.

At the end the study concluded from the throughput of discussion of the conceptual and theoretical sources i.e. participatory approaches have determined as a better way of destitution mitigation and sustainable livelihood especially zakat based Islamic mode of financing and Qard-al-Hasan on the basis of spiritual values as an alternative model for destitution mitigation and ensuring sustainable livelihoods.

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