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MICRO FANANCE INSTITUTIONS, OUR ONLY WEAPON AGAINST POVERTY IN AFRICA AND ASIA

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INTRODUCTION:

"Micro Finance stands as one of the most promising and cost-effective tools in the fight against global poverty".

After independence, many African countries (Uganda included) made a resolve to combat ignorance, poverty and diseases. It seemed easy and quickly realizable. Over the years though, the three issues still haunt even the current government. But some steps and systems have been formulated that promise to end this triple belligerence. This piece of article looks exclusively at poverty. One of the weapons devised to combat poverty is the establishment of commercial institutions, mainly banks. To be fair, banks have over rated, arguably, favorable conditions for business and financial inclusivity. However, they have not exactly produced the intended trick as a consequence. Microfinance institutions (here in referred to as MFIS) have introduced to promote financial inclusion and improve micro enterprises among others. One of the reasons for the rising poverty levels is the insistence on failing systems. For example according to Yumus, author of "Banker to the Poor" Says he believes "that we can create a poverty free world because poverty is not created by poor people, it has been created and sustained by the economic and social systems that we have designed for ourselves, the institutions and concepts that make up that system and the policies that we pursue"

His Observation suggests that for triumph against poverty to be registered, a change of system is imperative. MFIs are the best system to combat poverty in the country, not banks. KOFI Anan's Observation on MFI's Further suggests that banking on MFI's is the way to go. "where once the poor were seen as passive are remarkable reservoirs of energy and knowledge. And while the lack of financial services is a sign of poverty,

To day, it is also understood as an untapped opportunity to create markets, brings people in form of margins and give them the tools with which to help themselves" According to Microfinance Act, Microfinance bank business entails inter alia the employing of money held on deposit or on current account or any part of the money, by lending, investment or in any other manner for the account and at the risk of person so employing the money including the provision of short terms loans to small or micro enterprises or low income house-holds and characterized by the use of collateral substitutes. One unique aspect can be deduced from the above-mentioned-microfinance institutions narrow their scope to small or micro enterprises, microfinance institutions are thus designed to provide SMEs with an accurately structured system that is carved to suit-their needs. This should be the basic minimum requirement that a financial institution should meet before one considers where they will deposit their funds. Whereas banks may satisfy this requirement, The

Nature of microfinance institutions inspires confidence and offers comfort to target customer's micro – entrepreneurs.

The assertion that microfinance is a weapon that can combat poverty and destitution is opulently informed both in history and experience in various jurisdictions, History has it that microfinance existed in various forms for centuries in Asia characterized by informal lending and borrowing, however, the birth of modern microfinance is attributed to the development of MFIs in Bangladesh. He arguably spearheaded the movement. He lent money from his own pocket at zero interest, enabling Traders to sell their merchandise for a reasonable price and break out of the cycle of debt.

Through time, the Grameen Bank (Village bank) project was launched and today works over eighty thousand villages with more than six million borrowers in 2006, both yumus and Grameen were awarded the Nobel peace prize for their work with the poor. In the 1970s and 1980s, There was rapid growth in the number of new MFIs, many of them started as NGOs and funded by grants and subsidies from private and public sources, This emergence demonstrated that the poor could be relied on to repay their loans, even without collateral and hence microfinance was a potentially viable business and recent months have been characterized by capitulation of different banks in an unprecedented manner, which has subsequently resulted in loss of confidence in the banking sector by a significant number of the populace, contradicting these and antitheses have been propounded explaining the reason this has happened with divergent views on possible solutions surfacing as well. However, the indisputable fact remains that those who bore the brunt of the collapsed banks are the financially straitened Ugandan's with a bulk of them engaging in activities that fall within the ambit of small medium Enterprise popularly referred to as SMEs.

A small enterprise refers to a firm, Trade, service, industry or a business activity (A) whose annual turnover ranges between five hundred and five million shillings (B) which employs between ten and fifty people according to section 2 of the microfinance and small Enterprise Act. The Act does not offer insights in to what comprises a medium enterprise, but it is not far-fetched to conclude that a significant number of Ugandans fall in either category.

MONUMENTAL

According to the Uganda national bureau of statistics, the sector contribution to the gross domestic product increased from 15.50% in 1996 to about 39 % in 2013 and that it has definitely grown in recent years. The sector provides approximately 70 % of employment and contributes over 78 % of new jobs created annually especially among women workers in the informal sector. Thus, the monumental importance that SMEs have to the economy can neither be washed away nor eroded. SMEs stability should be of paramount importance even as restoration of confidence in the friable banking sector is being under taken, alternatively, par takers in the SMEs sector could reconsider reliance on banks in the advancement of their business interest and instead focus on taking their deposits to microfinance institutions.

Unlike banks, MFIs offer conducive lending and interest terms. Finance managers in Uganda have observed " Microfinance institutions typically are regulated with a much softer hand; they work with their clients not just as lenders but as coaches for their small business enterprises, people who have a store from their home, farm under an acre in land, or repair motors bikes in garage are typical clients of micro-finance institutions'

It is palpable that most Ugandans ought to invest in microfinance institutions, This is because banks regulations and models operandi does not embrace most customers. It is argued that the financial regime in low- income countries has failed to serve the poor. Banks often require significant collateral and have preference for high incase and high loan clients. As fractional response to this failure, MFIs suffice; it is the financial and lending succours for all small businessmen.

The golden thread in services offered by MFIs is Micro-Credit lending. There is no Universal definition for micro – Credit, but the logic behind it is of general manimity to serve micro-enterprises inexpensively. The rationale is to embolden economic growth in rural areas by providing reasonable small loans to micro-enterpreneurs, These micro- loans assist small businesses that generally would not get that succor in conventional banks, Recent discussions on the banking Bill have validated the assumption that banks financially smother their customers, Recently in Uganda an authority known as microfinance Authority to be controlled by the ministry of finance shall be established as the Bill of Act was passed in parliament hence this will give friendly rates. However, According to me, the Enactment of microfinance Act itself is not enough to fight poverty and promote social-economic development.

The Control and regulation of MFIs by the central Bank and other guidelines on how superlatively to squeeze efficacy out MFIs is not enough. “There must be concrete strategies and shape-up of policies and systems. There is no pixie dust, and no genie-in a bottle that will kick out poverty strict, elaborate and coherent structures and regulations need to be sculptured to promote financial inclusivity and fight poverty in the society”

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