

Microcredit in Bangladesh and Haiti: Helping Poor Families to Overcome Poverty

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Abstract

Despite many critical assessments about the impact of microcredit on economic growth and poverty reduction, the overwhelming literature of Bangladeshi's microcredit literature comes to the conclusion that if correctly applied, microcredit stimulates economic growth and reduces poverty by empowering women creating self-sustaining businesses. This article compares the microcredit sectors of Bangladesh and Haiti. It compares some key characteristics of the two countries' microcredit sectors as well as the impact of disasters, government regulations, and corruption on each country's microcredit sector. Despite serious governance issues, Bangladesh continues to be a model of microfinance and overall economic and social development, from which other countries, specifically Haiti, can learn from.

I. Introduction

According to the former World Bank President Robert McNamara, extreme poverty is a condition of life so limited by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency.¹ Many people facing extreme poverty are unable to overcome poverty as they are excluded from taking loans from formal banks because they lack collateral and literacy. However, microcredit institutions provide access to credit for those ignored by the formal banking sector. When microfinance is done correctly, it is a major contributor to economic growth in developing countries as it provides income-generating self-employment for the poor, and hence, helps the poor to break the cycle of poverty.

This article reviews microcredit sectors in Bangladesh and Haiti, focusing specifically on the dominating microfinance institutions (MFIs) of each country. Bangladesh's Grameen Bank is the world's first MFI, founded in 1976 by the Noble Peace Prize winner, Dr. Muhammad Yunus. Eighteen years later in 1994, Fonkoze Financial Services, or otherwise known as Fonkoze was created in Port Au Prince, Haiti. Dr. Yunus is the pioneer of microfinance and Grameen Bank

¹ See <http://www.womenaid.org/press/info/poverty/bpp031.htm>.

continues to be the model in reducing poverty in many developing countries and even in some industrialized countries. There are currently over 10,000 MFIs all around the world.

This article is structured into six sections. Following this introduction, the second section provides a brief literature review. The third section provides some empirical background on the evolution of economic and human development in Bangladesh and Haiti before the fourth section compares the microcredit sectors of Bangladesh and Haiti. The fifth section looks briefly into the impact of disasters, government regulations, and corruption, before the sixth section provides some conclusions.

II. Literature Review

There is a huge discrepancy in the availability of literature on microcredit in Bangladesh and Haiti. In the case of Bangladesh, there are currently more than 20 new publications per year, while there are barely a handful of peer-reviewed publications focusing specifically on microcredit in Haiti. Given this imbalance, this literature review is divided into two sub-sections. The first one summarizes six recent contributions to the Bangladeshi microcredit literature examining the impact of microcredit on savings, food security and women's empowerment. The second sub-section summarizes the major formal publications focusing on microcredit in Haiti within the last ten years.

II.1. Recent Contributions to the Bangladeshi Microcredit Literature

Aktaruzzaman and Farooq (2017) and Nasrin, Baskaran and Rasiah (2016) are the two most recent publications examining the impact of microcredit on savings in Bangladesh. Aktaruzzaman and Farooq (2017) use a unique dataset collected from 69 villages in Bangladesh to estimate the effect of participation in microcredit programs on household savings. They use a fuzzy regression discontinuity design approach, which shows that access to credit increases savings of the borrowers.

Though using a different approach, Nasrin, Baskaran and Rasiah (2016) use the data from Microcredit Regulatory Authority database, which comprises 719 microfinance institutions (MFIs) from 2007 to 2012 to examine the impact of MFIs on the savings of the poor in Bangladesh. Their results show that MFI numbers and number of branches are positively associated with saving in the sector, which supports the institutional savings theory that posits that the availability of financial institutions shapes saving behavior of people.

There also are two recent publications that examine the impact of microcredit on food security in Bangladesh. Islam, Maitra, Pakrashi and Smyth (2016) examine how microcredit affects a variety of different measures of food security, including among others the household calorie availability and dietary diversity indicators. They find that participation in microcredit programs increases the calorie availability both at the intensive and extensive margins, but does not improve dietary diversity, and only has mixed effects on the anthropometric measures. They also find that the effect of microcredit participation on food security may be non-linear. Initially, the participation in microcredit programs has either no effect or a negative effect on food security. However, in the longer-run, participation in microcredit programs does improve food security.

Khandker and Koolwal (2016) use a recently augmented Bangladesh household panel data spanning over 20 years to examine the effects of rural credit expansion (both microcredit and

formal bank channels) on outcomes for agricultural households. They find that microcredit has benefited households with lower land-ownings, raising agricultural income from activities such as livestock rearing that require less land, as well as nonfarm income diversification for all households, but with the strongest effect for landless or near-landless households. While they do not find effects of microcredit on crop income, they do find that reported supply-side credit constraints significantly lower crop income. Furthermore, they find that while borrowing by both men and women has contributed to nonfarm income growth for marginal farmers, only men's borrowing has contributed to nonfarm income growth among higher land-owning groups.

While there are a variety of contributions analyzing specific consequences of providing microcredit to women, like for example, the impact of women's participation in microfinance on intimate partner violence in Bangladesh,² Lipi (2016) and Porter (2016) examine the broader impact of microcredit on women's empowerment. Based on in-depth interviews, Lipi (2016) found that women's participation in microcredit programs provided by Grameen Bank increased the women's feelings of dignity as they had defined it, while women participating in non-Grameen Bank microcredit experienced feelings of risk, stress, shame, marginalization, vulnerability, and other challenges.

Porter (2016) reviews the effectiveness of microcredit in empowering women borrowers in rural Bangladesh by examining how gender-specific borrowing activities influence household expenditures and by examining the effects of all loans rather than only those provided by microcredit organizations. She uses a quasi-experimental design to identify the effects of borrowing by men and women by using an original combination of panel data and instrumental variables on subsamples of the surveyed population and finds that the borrower's gender affects how households allocate their resources to different expenditure items and assets that are valued differently by men and women. Overall, her findings suggest that providing greater credit access to women may improve their household bargaining positions.

II.2. Main Contributions to Haiti's Microcredit Literature

One of the earliest major contribution to the microcredit literature in Haiti is Huda and Simanowitz (2009). They examine the lessons learnt from an innovative project undertaken by Fonkoze that combines the strength of cash and asset transfer-based social protection with the livelihood support and empowerment of microfinance. The project provided extremely poor households with a series of protective and promotional inputs for 18 months to help them build sustainable livelihoods strong enough to allow them to participate in a tiny microcredit program. The tiny microcredit program then seeks to further develop their assets and savings, which with significant hand-holding, ultimately allows them to graduate into mainstream microfinance. Huda and Simanowitz (2009) also explore the effectiveness of the intervention and its implications for the lives of Haiti's poorest, as well as reflect upon our understanding of the pathways out of extreme poverty.

Castillo (2010) is a news article of the *New York Times*, written about eleven months after Haiti's devastating earthquake of January 2010, which killed as many as 316,000 people. Castillo examines the questions if microcredit is able to save Haiti. He acknowledges that Haitian microcredit banks provide a crucial lifeline to the poor, but he also points out that their financial situations are sometimes nearly as precarious as those of their clients, and that actually was the

² For example, see Murshid (2016) and Karim and Law (2016).

situation before the earthquake. Castillo reports that Finca Haiti, which is one Haiti's largest microcredit groups had to write off almost a third of its portfolio after many clients died in the earthquake or lost their homes and businesses. A staggering 53 percent of its borrowers were late on their payments. Yet, despite all that, several Haitian MFIs are expanding, saying their loans are one of the only paths to self-sufficiency for the growing number of poor people in Haiti.

Rosenberg et al. (2011) examine the HIV risk behavior among 192 female clients of the Haitian microfinance organization Fonkoze. They find that clients with longer microfinance experience have typically lower indicators of HIV risk behavior and higher indicators of power within a relationship compared to those with shorter experience. In particular, those with longer memberships were 72 percent less likely to report partner infidelity, were nearly four times more likely to use condoms with an unfaithful partner, and had higher average general power index scores compared to those with shorter experience. Though Rosenberg et al. (2011) provide evidence that long-term exposure to microfinance is associated with reduced HIV risk behavior in Haitian women, they also suggest that further research is needed to explore the use of microfinance as a tool to prevent the spread of HIV.

Barth, Birkenmaier and Berg-Weger (2014) examine factors that affect repayment of loans to one microfinance institution in rural Haiti. Using an inductive method to develop themes, they found that borrowers understand the repayment policy and are motivated to repay their loans because of their interest in having good credit. They recommend that the loan program structure could be further developed and provide further program recommendations.

Hossein (2014) documents how poor Haitians have created their own informal groups, cooperatives and credit unions, sometimes with the support of foreign non-governmental organizations. These microcredit organizations have reached hundreds of thousands of people in Haiti, based on having a socially conscious philosophy of using microfinance as a vehicle to ensure economic democracy for the masses. They understand how to make microfinance assist the marginalized poor in a society segregated by class and race.

Building partly on Hossain (2014), Hossein (2016) explores the politics, histories and social prejudices that have shaped the legacy of microcredit in Grenada, Guyana, Haiti, Jamaica and Trinidad. Examining original qualitative data and using a feminist perspective, she offers multiple solutions that prioritize the needs of marginalized and historically oppressed people of African descent. Overall, Hossain (2016) concludes that microfinance has been politicized to the degree that it has lost much of its potential in Haiti and other Caribbean countries.

Last but not least, Werlin with Farmer (2016) have provided a detailed insight into the effectiveness of Haiti's largest microfinance institution by documenting the successes and failures of several women who tried to change their families' lives by using Fonkoze's signature program.³ While the experiences documented by Werlin shows that program participants have benefited in many ways from this remarkable program, they also make clear that there is no single pathway to overcome extreme poverty in rural Haiti.

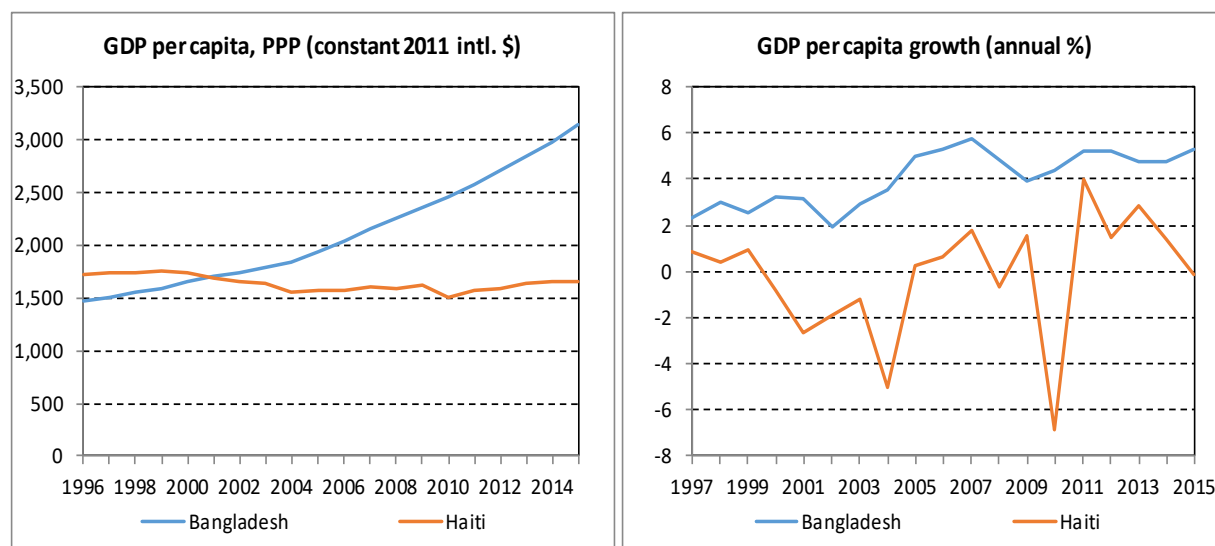
³ Fonkoze's signature program, which is designed to uplift Haiti's rural ultra-poor, is called Chemen Lavi Miyò (CLM), which translates to the pathway to a better life.

III. Empirical Background

The left-hand panel of Figure 1 shows the evolution of GDP per capita in purchasing power parity (PPP)-adjusted constant 2011 dollars from 1996 to 2015.⁴ It shows that until year 2000, an average person in Bangladesh was poorer than an average person in Haiti. However, as Bangladesh has made continuous progress in increasing its GDP per capita while that of Haiti has stagnated, Bangladesh overtook Haiti in 2001. Bangladesh's PPP-adjusted GDP per capita has more than doubled from international \$1,474 in 1996 to \$3,137 in 2015, while that of Haiti has remained almost constant at around international \$1,600 during 1996-2015. Haiti's GDP per capita (in constant 2011 international \$) is actually slightly lower in 2015 than it has been in 1996.

The right-hand panel of Figure 1 shows the growth rate of real GDP per capita from 1997 to 2015, which largely mirrors the left hand panel. It shows Bangladesh's relative steady GDP per capita growth, while Haiti's GDP per capita growth fluctuates tremendously. Due to Haiti's devastating earthquake in 2010, Haiti's GDP per capita growth plummeted to minus 6.9 percent in that year. It then increased in the following year, partly as over US\$10 billion was donated in international aid. However, Haiti's GDP per capita growth rate shows a declining trend since 2011.

Figure 1: GDP per capita and Real GDP per capita Growth in Bangladesh and Haiti



Source: Created by author based on World Bank (2017).

Anyway, Bangladesh is one of the fastest growing economies, while Haiti is one of the least growing economies. After Bangladesh gained its independence in 1971, it introduced many economic reforms, especially in the early 1980s. "In the industrial sector, important policy changes have been introduced with a view to developing a broader and more diversified industrial base led by the private sector. These included measures: (i) to encourage private sector investment by liberalising sanctions and controls of investment, improving the import regime, and introducing investment and export incentives, and (ii) to improve the efficiency of public sector industrial

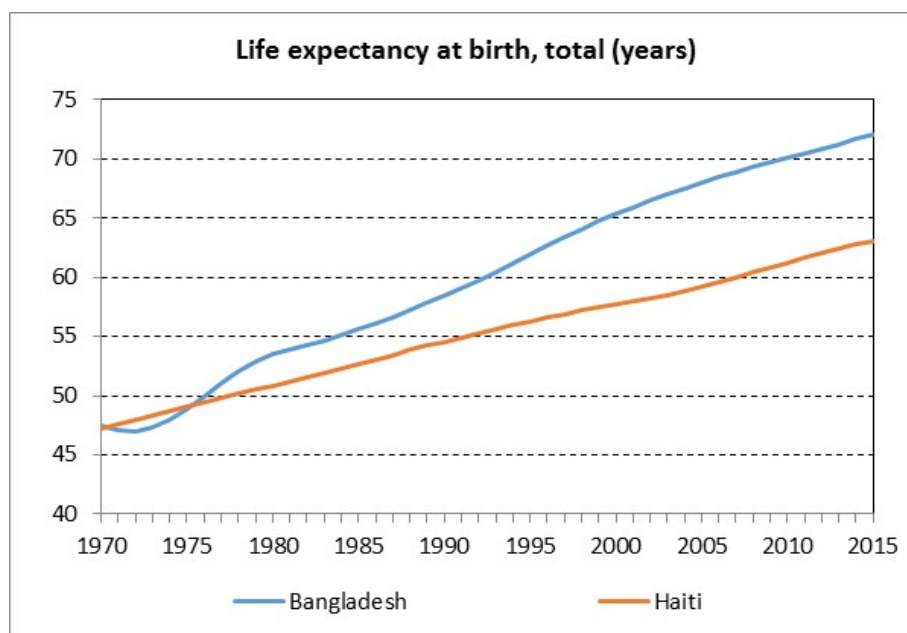
⁴ The chart begins with 1996 as that is the first year such data is available for Haiti.

enterprises through denationalisation, financial restructuring and improvements in pricing policies.”⁵

On the other hand, Haiti has been negatively impacted by political instability and various natural disasters, including a 7.0 strong earthquake in 2010. The decline in Haiti’s GDP per capita during the early 2000s can be attributed to the U.S. trade embargo enacted because of political dissatisfaction. When the embargo was lifted in 2003, Haiti’s GDP sharply increased, with most of the increase in GDP due to foreign aid assistance, which also dramatically increased after the 2010 earthquake. However, due to its high vulnerability and political instability, Haiti’s future prospects do not look well.

Looking at Figure 2, which shows the evolution of life expectancy from 1970-2015, both Bangladesh and Haiti have overall made nearly continuous progress, though Bangladesh has made far more progress than Haiti. Both countries started out with a life expectancy of about 47 years in 1970. Bangladesh’s life expectancy reached 72 years in 2015, while that of Haiti reached 63 years in 2015. Given that the catastrophic impact of Haiti’s earthquake of 2010 is not reflected in the data, there is some doubt about the accuracy of the Haitian data.⁶

Figure 2: Life Expectancy of Bangladesh and Haiti, 1970-2015



Source: Created by author based on World Bank (2016).

Poverty and life expectancy are strongly correlated with each other as those with lower income levels suffer from higher rates of mortality and disease. Furthermore, “impaired health exacerbates

⁵ Palit (2006), p. 69.

⁶ Though not shown here, we also examined the data for Haiti’s population growth, which shows zero impact of the devastating earthquake of 2010, which cannot be correct as about two percent of Haiti’s population died due to the earthquake.

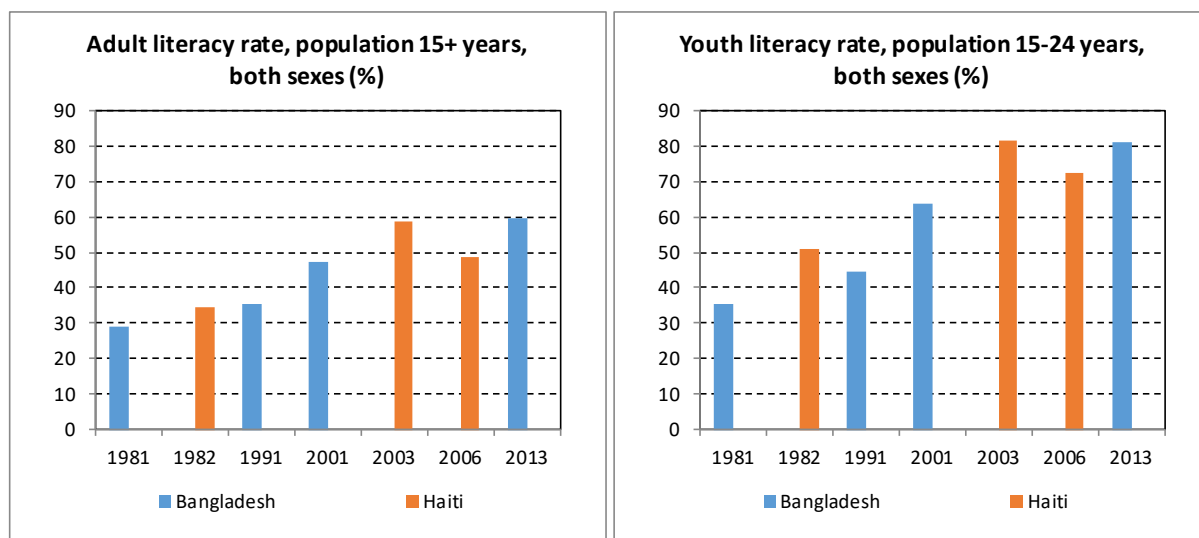
poverty and undermines development, whether directly or indirectly via lowering growth.”⁷ Microcredit is important in lifting people out of poverty for a healthier, sustainable way of life.

Bangladesh’s health care system continues to improve, with healthcare provided in both the public and private sectors in collaboration with various international organizations. This approach is called the sector wide approach, in which the government and developmental agencies collaborate with each other on the formation of health policy. Grameen Healthcare, a sister organization of Grameen Bank, created clinics in both the rural and urban areas of Bangladesh, a micro-health insurance scheme for the poor, Grameen Eye Hospitals, and Grameen Caledonian College of Nursing. These contributions by Grameen Foundation, add to people’s life expectancy in Bangladesh.

In Haiti, while community clinics are being built in rural areas and the government provides free healthcare to its citizens, many of the established hospitals are inaccessible or lack resources. Many hospitals are located in the capital, Port-au-Prince and the rural areas are being neglected. Fortunately, Haiti’s healthcare continues to improve due to support by Partners in Health, Doctors without Borders, and other developmental agencies providing resources and services to many Haitian citizens.

The left and right panels of Figure 3 show, respectively, the adult and youth literacy rates for the two countries. Although there is a considerable lack of data for both countries, the available data seems to indicate that—similar to the evolution of the previous indicators—Bangladesh has made continuous progress in increasing adult and youth literacy rates, while Haiti shows a significant deterioration in adult and youth literacy rates from 2003 to 2006, which unfortunately is the last year such data is available for Haiti. Assuming that Haiti has made some progress since 2006, both countries can be assumed to have similar levels of adult and youth literacy rates.

Figure 3: Adult and Youth Literacy Rates in Bangladesh and Haiti, all available data



Source: Created by author based on World Bank (2016).

⁷ See Fosu (2007), p. 734, referring to Hamoudi and Sachs (1999).

However, the education systems and complications are very different across the two countries. Bangladesh provides free primary school education, while most of Haiti's schools are private, managed by communities, religious organizations, and non-governmental organizations (NGOs). Though there are some dialects, nearly everybody in Bangladesh speaks Bengali, which is also Bangladesh's national language. Haiti's official national language is French, but only about ten percent of Haiti's population speak the national language, the rest speak Creole.

IV. Key Characteristics of Microcredit in Bangladesh and Haiti

Table 1 provides some key characteristics of the microfinance industries in Bangladesh and Haiti. It shows that the number of active borrowers is with nearly 24 million people in Bangladesh more than 110 times the number of active borrowers (207,000) in Haiti. Taking the differences in population size into account, about 14.7 percent of the Bangladeshi population were active borrowers, while about 1.9 percent of Haiti's population were active borrowers. Hence, as a percent of population, Bangladesh has about seven times the number of active borrowers than Haiti.

Table 1: Key Characteristics of Microfinance Industries in Bangladesh and Haiti

	Active Borrowers		Gross Loan Portfolio		Average Loan Amount
	(Number)	(Percent of Population)	(USD, millions)	(Percent of GDP)	(US\$)
Bangladesh	23,707,000	14.7	5,564	3.22	235
Grameen Bank (2014)	7,030,000	4.4	1,176	0.68	167
ASA (2015)	6,207,690	3.9	1,534	0.89	247
BRAC (2015)	4,923,940	3.1	1,437	0.83	292
Haiti	207,000	1.9	87	1.00	420
Fonkoze Financial Services, S.A. (SFF) (2015)	61,400	0.6	12.2	0.14	198
FINCA Haiti (2016)	39,259	0.4	8.3	0.10	211
SogeSol (2015)	34,240	0.3	19.0	0.22	555

Source: Created by author based on World Bank (2016) and data available at: <https://www.themix.org/> and <http://www.finca.org/where-we-work/latin-america/haiti/>.

Table 1 also shows that the gross loan portfolio of the Bangladeshi microcredit institutions is currently about US\$5.6 billion, while it is about US\$87 million in Haiti. Expressed in percent of GDP, Bangladesh's gross loan portfolio is about 3.2 percent, while it is about 1.0 percent in Haiti. The only indicator where Haiti beats Bangladesh is the average loan amount, which was about US\$235 in Bangladesh and about US\$420 in Haiti. This is a significant difference, especially if taking into account that GDP per capita is now considerably higher in Bangladesh (see Figure 1).

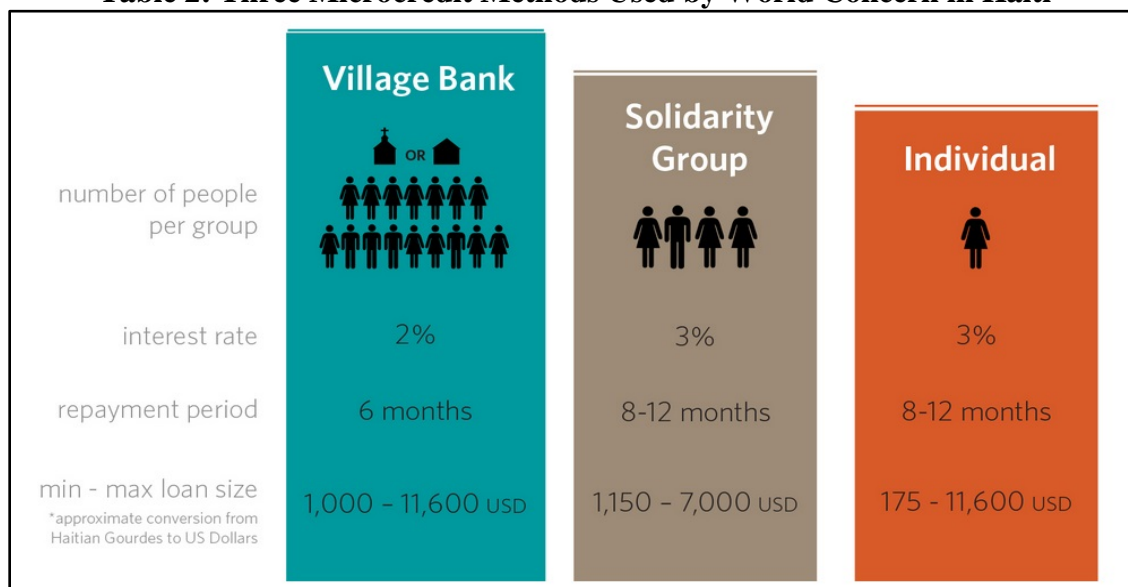
Excluding Haiti's higher average loan amount, most of these differences between Bangladesh and Haiti can be explained by the fact that Bangladesh is the country where microcredit has been established first, with the creation of Grameen Bank in 1976 (legally established in 1983) by Dr.

Muhammad Yunus. The first microcredit organization of Haiti (Fonkoze) was legally established in 1995, by a group of grassroots leaders under the leadership of Father Joseph Philippe.⁸ In terms of the number of active borrowers, Grameen Bank and Fonkoze remain the largest microcredit institution, respectively in Bangladesh and Haiti; though other microcredit institutions have overtaken rank 1 in each country if looking for example at the gross loan portfolio.

Both countries have many institutions providing some kind of microcredit, though the microfinance industry remains relatively concentrated. In terms of active borrowers, the share of Bangladesh’s three largest microcredit institutions (Grameen Bank, ASA, and BRAC) amounts to 76.6 percent of all Bangladeshi microcredit institutions, while Haiti’s three largest microcredit institutions (Fonkoze Financial Services, S.A. (SFF), FINCA Haiti, and SogSol) account for 65.2 percent of all borrowers in Haiti. Based on an analysis by Whiteside and Wardle (2009), there were 21 microfinance institutions operating in Haiti, of which only 10 had five or more branches. Of all branches, about one third were located in metropolitan Port-au-Prince, another third were located in other urban areas, and another third were located in rural areas. This actually is another difference to Bangladesh, as both Grameen Bank and BRAC focus mostly on rural poverty and have thousands of branches all over the country.

The average loan amounts vary widely across different microcredit institutions as well as within one microcredit institution. Though the large majority of Grameen Bank’s loans are relatively small loans to women for income generating purposes, Grameen Bank also provides some housing loans, student loans, and microloans for struggling members (beggars). According to Whiteside and Wardle (2009), Fonkoze provides three different microcredit loans: a) Business Development Loans (with loan amounts between \$1,300 and \$25,000), Solidarity Loans (with loan amounts between \$75 and \$1,300), and Ti Kredi Loans (with loan amounts between \$25 and \$75). Table 2 illustrates the different methods and loan amounts of World Concern, which is a relatively small the Haitian microcredit institution.

Table 2: Three Microcredit Methods Used by World Concern in Haiti

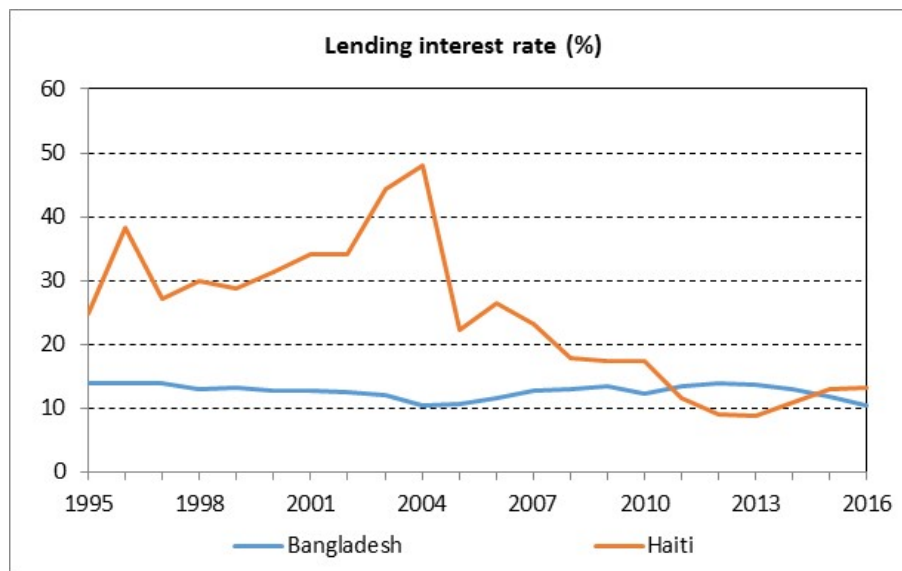


Source: Snowbarger (2013), Infographic No. 2.

⁸ See http://fonkoze.org/wp-content/uploads/2013/09/fonkoze_history.pdf.

Figure 4 shows the lending interest rates in Bangladesh and Haiti of the formal banking sector. Lending interest rates are defined by the World Bank (2017) as “the bank rate that meets the short and medium-term financing needs of the private sector.” Lower lending interest rates encourage aggregate demand and make it easier for consumers and firms to borrow money. The graph shows that Bangladesh’s average lending interest rate fluctuated moderately between 10-14 percent, while that of Haiti fluctuated from as high as 48 percent and as low as 8.7 percent. Haiti’s high fluctuations in interest rates makes it difficult for individuals and businesses to use credit.

Figure 4: Average Lending Interest Rates (percent), 1995-2016



Source: Created by author based on World Bank (2017).

A key difference between Grameen Bank and Fonkoze is that Grameen Bank is self-sufficient, while Fonkoze remains dependent on donor support, especially as the 2010 earthquake damaged Fonkoze’s headquarters in Port-Au-Prince and killed or financially ruined many of its members. However, according to the Fonkoze website,⁹ 96 percent of the members of Fonkoze’s Chemen Lavi Miyò (CLM) program successfully complete the program and transform their lives. The Fonkoze website attributes this high success rate to using specially trained case managers to work with CLM members throughout an intensive 18-month process to help them build the confidence and skills necessary to create a better life for themselves and their families. While Fonkoze has gained international recognition for its work on poverty reduction in Haiti, it was Dr. Yunus, who (jointly with Grameen Bank) won the Noble Peace Prize for “their efforts to create economic and social development from below.”¹⁰

Grameen Bank and Fonkoze have similar approaches in the sense of their holistic process in lending money to mostly poor women. Both target credit to women and have similar processes in solidarity lending. In the case of Grameen Bank, each borrower has to be part of a group of five women and the other four women have to approve the borrower’s business plan. In the case of

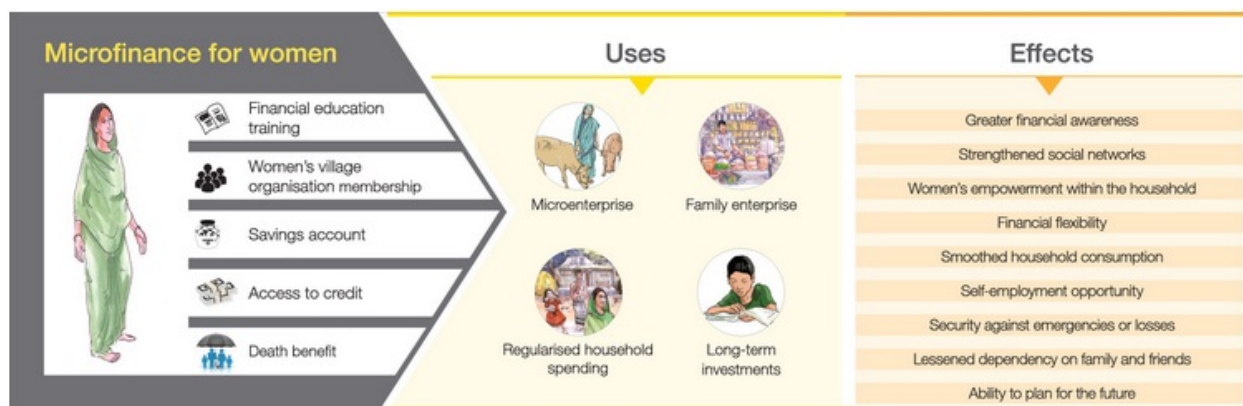
⁹ See <http://www.fonkoze.org/what-we-do/clm/>.

¹⁰ See https://www.nobelprize.org/nobel_prizes/peace/laureates/2006/.

Fonkoze, before these women are given loans they have to complete a six-month-training period in which they learn business management skills, life skills training, and empower these women with self-confidence. Once they complete this training, they are given a certificate of achievement and join a group of five other women, who also are part of the loan program. It is stated that when one person in the group drops out of their repayment in loans, the entire group is unable to receive any more loans; but Fonkoze is lax in terms of group responsibility because of their relatively high retention rate in repayments.

Grameen Bank has also adopted, what they call, Sixteen Decisions, which are a kind of broad guidelines to achieve a higher standard of living for the lenders and their families.¹¹ Figure 5 is a nice illustration of the various services, uses and effects of microcredit, as they are typically the case for most microcredit institutions, in both, Bangladesh and Haiti.

Figure 5: Services, Uses and Effects of Microcredit



Source: <http://brac.net/microfinance-programme/item/856-microfinance-for-women>.

While there is no detailed economic analysis of the country-wide impact of microcredit in Haiti, a recent book by Shahidur Khandker, Baqui Khalily and Hussain Samad (2016) finds that Bangladesh's microfinance institutions have had a sustained benefit over the last 20 years in reducing poverty and increasing incomes. According to Khandker et al. (2016), microcredit accounted for a 10 percent reduction in rural poverty in Bangladesh, meaning that MFIs lifted some 2.5 million Bangladeshis from the ranks of the poor. Microcredit has also helped to diversify borrowers' economic activities. Despite their traditional focus on non-farm activities, Khandker et al. (2016) also come to the conclusion that microcredit institutions have raised farm income and reduced reliance on wage income, producing significant positive effects for women and marginal farmers. A 10 percent increase in women's credit use was found to increase crop income by 3.5 percent, non-crop income by 2.8 percent, and total farm income by 0.7 percent. Khandker et al. (2016) also compared the operational efficiency of Bangladesh's leading microcredit institutions with those of India, Indonesia, Mexico, Thailand, and Vietnam, and come to the conclusion that Grameen Bank and BRAC are among the world's most efficient microfinance institutions.

¹¹ See <http://www.grameen.com/16-decisions/>.

V. Disasters, Regulations, and Corruption

V.1. Microcredit and Disasters

Bangladesh is a developing country that is highly vulnerable to natural disasters of floods, droughts, tornados, etc. In 1974, a famine spread throughout the country and was estimated to have starved around 27,000 people. As documented by Loro (2013), it was the great famine of 1974, which inspired Dr. Yunus to start lending money to poor people.

Given that Bangladesh has dealt with many natural disasters, the natural disaster response has been improving. For example, after the 1991 cyclone, the Bangladeshi government created a warning and evacuation system, notifying citizens of impending disasters. Also in response to the cyclone, more shelters were built, totaling to about 4,000 shelters. These shelters provide latrines, storage, and can hold thousands of people. Though negatively affected by such natural disasters, many microcredit institutions provided a kind of emergency loans to poor people to get their life back on track. As summarized in Vatsa (2005, p. 1), “while the jury is still divided on the impact of microfinance on poverty alleviation, its role in risk management and vulnerability reduction has been acknowledged more conclusively.”

Though Haiti is less prone to natural disasters than Bangladesh, it had to deal with various natural disasters, including a 7.0 magnitude earthquake in 2010, which had a disastrous effect on Haiti, striking in the center and capital of the country, Port-au-Prince. It affected over 3.5 million people, and caused the death of as many as 316,000 people.¹² The Haitian government did not have any immediate response to this disaster and mainly relied on foreign aid. However, this international aid was mostly uncoordinated and not supporting Haiti’s long-term growth.

In addition, many organizations were doing similar projects for Haiti in providing food for the country, while few organizations were working on modes of transportation, clean and accessible water, or long-term placements outside of refugee camps. These organizations did not have long-term sustainable projects in helping Haiti grow and recover from the earthquake. Providing aid via microcredit loans would have been more efficient and sustainable, but given the negative impact the earthquake had on Haiti’s microcredit institutions, most of them were unable to help.¹³

V.2. Microcredit and Government Regulations

Micro finance institutions have been in Bangladesh over thirty years and overtime government interventions and regulations have been put into effect. In 2006, the Bangladeshi government created an oversight branch called Microcredit Regulatory Authority (MRA). The MRA monitors and supervises the financial services of microfinance institutions in Bangladesh. It also licenses microfinance institutions and requires microfinance institutions to operate as a non-governmental organization. These regulations are important to reduce detrimental effects resulting from profit-minded institutions, which may offer risky loans, absurdly high interest rates, or threaten borrowers who cannot repay loans. With the help of government interventions, more funding and tax cuts can be offered for micro-finance institutions. On the other hand, government regulations should not be overbearing and hinder microfinance institutions, rather regulate and monitor these institutions towards the right direction.

¹² See Castillo (2010).

¹³ See Furtick (2010).

Unfortunately, there are some cases where government overstepped its regulatory role, like when the Bangladeshi government forced Dr. Yunus to resign from Grameen Bank, which was largely interpreted as a political move by the ruling party against Dr. Yunus. Similarly, though there are relatively few government regulations for microfinance institutions in Haiti, even the few existing regulations have hampered some microcredit institutions. As documented by Tucker and Tellis (2005), though many microfinance institutions collect savings deposits, they are often barred from using them for loans by their countries' laws. In Haiti, Fonkoze has sought regulated status, which would allow them to access their deposits. It would also enable Fonkoze to better compete with other MFIs, some of which are regulated subsidiaries of commercial banks. However, in the midst of political and economic turmoil, Haiti's Central Bank had delayed Fonkoze's transformation.

V.3. Microcredit and Political Corruption

"Microfinance institutions' ability to attract capital is in part dependent on the stability of the country's political climate."¹⁴ This applies to MFIs in Bangladesh and Haiti as Bangladesh and Haiti are both countries that face high levels of political corruption and low economic freedom.

In 2014, Bangladesh suffered from political instability due to political and religious discontentment with the current political party. While some citizens want an Islamist state, others want a secular state. This discontentment turned into violent protests on the streets. According to Gowen (2014), the problem is that the instability continues as the two principal parties cannot get their acts together. This could open the door for Islamic fundamentalism and radicalism to get a foothold and have more influence and more power in the future.¹⁵ With continuous political unrest, economic growth is expected to moderately decline, due to a decrease in foreign investment and productivity. As stressed by Khatun (2014), all the effects of political unrest on the economy are in fact intertwined as they all lead to lower economic growth that leads to high unemployment, high income erosion and high poverty.

Haiti also went through periods of unstable political governance via a series of ineffective, short-term, and corrupt leaders. From 2000-2008, three Presidents were dismissed or jailed; at one point in 2008, Haiti had no government. The main concerns in Haiti are non-transparent elections, ineffective leaders, and bribery. The concern with elections is that the political party with the most money and resources usually wins an election through monetary bribes. This creates not only distrust between the Haitian citizens and the Haitian government, it also dissuades foreign investment. Bribery is rampant in Haiti, especially within the economic sector, as local officials have to be bribed in order to create business entities within the country.

Although, microcredit is one step towards empowering the economic and social development of citizens, it is on a much smaller scale than could be achieved via an efficient and effective government. In order to encourage more foreign investment into Bangladesh and Haiti, there needs to be a supporting infrastructure and effective government regulations. Industrialization can spur employment rates, GDP per capita, and overall economic growth in Bangladesh and Haiti beyond of what microcredit can achieve.

¹⁴ See Tucker and Tellis (2005, p. 108), referring to White and Campion (2002).

¹⁵ Gowen (2014).

VI. Conclusion

Bangladesh's Grameen Bank continues to be an efficient model of microfinance. Furthermore, branching out into other sectors and organizations (such as Grameen Communications, Grameenphone, Grameen Fisheries and Livestock Foundation, etc.), Grameen has helped its borrowers to become more efficient and hence, make microcredit more sustainable. Although there are inhibiting government regulations and political corruption, Grameen Bank continues to thrive.

The next step for Haiti is to create a stronger infrastructure. Government has a huge role in not only economic factors but also in social areas, like the education and health sectors. The quality of life depends on government policy implementations and different agencies under the government. As it is only a matter of time when Haiti will face the next natural disaster, Haiti's government also needs to set up disaster response agencies and strategies. The Haitian government also needs to collaborate better with international development agencies. Finally, the government needs to have regulatory guidelines and oversee the services of the MFIs in Haiti without unnecessarily burdening them. Through efficient microcredit loans, the poor will have an all-around higher standard of living, changing individual lives at a time.

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