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L'économie de la microfinance

[The economics of microfinance]

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ABSTRACT: In general, the history of microfinance is very diversified from one continent to another and from one country to another. It is therefore difficult to define precise phases or stages in the evolution or structuring of the new modern market of these solidarity microcredit. The history of the soft sector leads to the study of the informal economy, bartering, pawning ... which were once reliable and successful techniques enabling the poor to survive and simultaneously and to be able to participate in economic growth. In this paper we are interested in answering this question; Why measure the impacts of microfinance? This paper aims to test this assertion. Based on a literature review applied to a sample of developed and emerging countries, we highlight that the shift to this credit system and whether it coincides with improved growth rates and higher macroeconomic stability.

KEYWORDS: Microfinance, microcredit, microfinance institutions (MFIs), impacts, sustainability.

RESUME: En général, l'histoire de la microfinance est très diversifiée d'un continent à l'autre et d'un pays à l'autre. C'est pourquoi, il parait difficile de définir des phases précises ou aussi des étapes dans l'évolution ou la structuration du nouveau marché moderne de ces micros crédits solidaire. L'histoire du secteur mous mène à l'étude de l'économie informelle, le troc, le prêt sur gage... qui ont été autrefois des techniques fiable et réussies permettant aux personnes démunies de survivre et, simultanément, à des activités de se développer et enfin de pouvoir participer à la croissance économique. Dans ce papier on s'intéresse à répondre à la question ; Pourquoi mesurer les impacts de la microfinance ? Ce papier vise à tester cette assertion. A partir d'une étude de littérature appliqué à un échantillon de pays développés et émergents, nous mettons en évidence que le passage à ce système de crédit et voir s'il coïncide avec une amélioration des taux de croissance et une stabilité macroéconomique plus élevée.

MOTS-CLEFS: microfinance, microcrédit, institutions de microfinance (IMF), impacts, pérennité.

1 INTRODUCTION

According to The Overseas Development Administration (ODA), about three billion people live on less than two dollars a day. Poor people need employment, schooling and health but the most important is that the poorest require immediate income transfers or any relief to survive. Throughout the world, poor people are excluded from financial systems and all the means of development. Exclusion ranges from partial exclusion in developed countries to full or nearly full exclusion in less developed countries. Access to financial services fundamental basis on which many of the other essential interventions depend. Moreover, improving care, national advice and education can be sustained only when households have increased control over financial services. For these reasons, financial services reduce poverty, employment and its effects in many concrete ways. So, the solution is given by microfinance systems. Historically, microfinance has been successful in making the population excluded from the classical financial system richer. In the 90ies efforts were concentrated on financial and institutional sustainability of the microfinance institution. It presents a series of existing possibilities for extending markets, reducing poverty, and fostering social change. Microfinance grew out of experiments in Latin America, South Asia, Africa but the bestknown start was in Bangladesh in 1971 as an initiative from an economist. So, microfinance has a clear record of social impacts and has been shown to be a major tool for poverty reduction and gender empowerment. In developed countries, there is now an acceptance that microenterprise programs are likely to depend on subsidy from public and private sources for some time. Such public subsidy is considered as microlenders target for the unemployed or other socially excluded groups, and the support as a tool to assist these people to become self-employed is less than the cost of welfare payments and other job creation schemes that accumulate costs for these goals. The benefits of these microenterprises programs including increased business turnover, increased incomes and job creation, are also considered to weigh the cost. Microfinance also includes insurance, transactional services, and importantly, savings. So, microfinance institutions play a complementary role to banking system by extending credit to borrowers whom banks consider as too costly or too risky to deal with. Microfinance institutions attempt to compete with moneylenders by offering credit to a broader range of households on more favourable terms and all over the world.

Microfinance institutions have developed a strong track record over the last thirty years in alleviating poverty and advancing the economic needs of flow-income households. Microfinance programs have been found to increase and diversify household income, promote household savings in the face of volatility of income. Microfinance institutions also have demonstrated that it is possible in other part to save poor clients, operate in a financially sound manner and reach scale.

This program has influence on the population by touching all the parties. Peace and Hulme's study in1995 review materials from more than70 microenterprises projects supported by NGO's and official agencies and explores that the increased household income has a positive impact on child welfare by increasing infant and child survival rates, also by reducing the exploitation of children, improving nutrition, health and education.

So, these studies refer to a range of economic, social and political factors that affect the impact of credit programs. In addition, many of the studies show the importance of non-income changes, notably, increases in assets, household security, and improved consumption. They show mixed effects upon employment, children's schooling and women's empowerment. Finally, the studies often refer to the factors outside of program interventions which have profound influence on microentrepreneurs, their enterprises, their households and all social system.

With a stronger base of income and assets, individuals can smooth income and consumption and improve their resilience to shocks and downward pressure. So, both financial services and social intermediation role of microfinance programs build human assets by improving self-esteem, bargaining power, or autonomy of clients. Social assets include network group of trust, and access to other institutions of society.

The virtue of this example is to demonstrate a simple case in which microfinance has direct economic impact on an economy's overall productivity. So, if production yields increasing returns to scale and whose income elasticity is less than unity, then any progressive redistribution should increase the demand for the goods whose production has positive economics of scale and should increase the economy's productivity.

The second desk study analyses the long-term effects of small improvement scale lending, often provided by microfinance. This study is founded by Ingo. E. Tschach.

It demonstrates that the impact on income will accrue not to the microenterprises themselves, but rather to the consumers of their products. Then, microfinance will have a significant positive effect on the wage levels in the informal sector. Third, microfinance will cause high growth rate in the informal production sectors and in the national production.

In analysing the income related effects of small loan programmes on all market participants, first the situation prior to the introduction of small-scale lending is described, and then follows the situation assuming a law level of market penetration. Next, it is assumed that the cost and supply functions of borrowing enterprises are not significantly different from those of enterprises that do not receive credit. Indeed, depending on the price elasticities of supply and demand, the non-consumers might even suffer from income losses larger than income gains accruing to the customers of microfinance institutions.

The second group of beneficiaries is the employees of the informal sector. In the long run, microfinance programmes will through lower interest rate, increase the capital intensity of production, productivity labour and informal wages. By increasing the wage level of informal employee's microfinance has a strong although indirect impact on poverty alleviation and society needs. In other words, the output and hence the credit demand of production enterprises is characterized by interest rate which is more elastic than that one at trade enterprise. If interest rates are high, there will be only a few industrial enterprises in every national market and they will in their turn have a relatively low output.

The idea that microfinance gives rise to growth only in the non-trading sector, especially traders, is irrelevant in the long run. For the interest rate elasticity of demand for credit is much higher in the production sector.

The purpose of this paper, therefore, is to introduce these two points of view, which dominate the economic literature on income inequality, microfinance impact and to see if this is a good solution for the economy and for the world. According to the first idea, microfinance can play an important role in financial and economic development for non-banking individuals, and that by focusing on microfinance, which can strengthen the links between financial development, economic growth, and poverty alleviation. Rather than focusing exclusively on microfinance as an anti-poverty strategy, microfinance should be seen as an integral component of a developing country's broader financial development strategy.

So, economic theory suggests that financial development can contribute to economic growth, and growth contributes to poverty alleviation and ameliorates life condition.

Microfinance programs influence the local economy in at least two important ways: directly and through induced effects. The MFI's ultimately measure their success by the impact that they have on their clients, on clients' families, and on communities in which they live. This article looks at the relationship between the success of microfinance institutions and the degree of economic growth. So, most of the studies analysed in this paper have been supported by the World Bank, some international associations of microfinance and the FMI. The purpose of the studies and the issues they address largely reflect the socioeconomic objectives of these programs: employment generation, improved productivity and enterprise growth, increased incomes and enhanced living standards, poverty alleviation reduced fertility and better health and nutrition. The purpose and research questions are much more numerous and include impacts on household behaviour (Schtad and Walsh 1999), income technology and poverty (Hulme and Mosley 1996) economic growth (Tschach, 2003) and impact on household behaviour (Khandkar, 1995).

The second point of view has a strong influence on the course of thinking about development, integration of the non-banking households with growth and microfinance. This emphasis on poverty reduction and possibility of redistribution in development strategy may be justified in another way than by giving more weight to the poorest in a necessary trade-off between efficiency or growth and equity.

In the 1990-s, an important literature has been developed on this subject, since the return to growth has considerably renewed our way of thinking about the relationship between microfinance and growth. The purpose here is to clarify the limitation of microfinance. Despite a multitude of studies devoted to the topic impact of microfinance our approach, is mostly based on two important analyses in this field drown by Sbstad and Chen 1996, Chua 2000, for their good summaries of existing impact and Michael S Bair 2000.

Accordingly, the first clarifies a theoretical and empirical literature on the connection between microfinance, economic growth and poverty alleviation. Section 2 explains the other point of view with some examples. Section 3 clarifies some conditions to emphasise the positive effects of microfinance. Section 4 makes a conclusion.

2 MICROFINANCE AND ECONOMIC GROWTH

New methods and development in the economic literature has considerably renewed our way of thinking about the relationship between microfinance and t growth. This section briefly reviews the development insisting upon the various channels identified in the literature through which the MFI's may affect the rate of economic growth. The UK, as example of a country which adopted microfinance, has experienced a period of steady economic growth; the number of new business start-up is increasing and overall stock level is growing. Currently 11% of economically active people are self-employed. Thanks to these small credits the UK government has a strategy to improve growth and productivity through small business development, and one of its key themes is access to finance and promoting entrepreneurship.

The objective of the review was to capture the important findings from the studied impacts with special attention to impacts in the emphasized areas, household economic security, stability, growth and individual control over resources.

In this section, we concentrated on two studies which show little positive impact of microfinance. The first desk study reviews the findings from 32 research and evaluation reports on the impact of microenterprise services, primarily credit. The overview covers findings, especially concerning microfinance system, from survey research and case studies of 41 programs in 24 countries in Asia, Africa and Latin America. This work of Jennifer and Gregory Chen was based on the microenterprise impact project of USAID's office of microenterprise development.

Twenty six of these 32 studies regrouped in this paper include data on enterprise level impact and general positive effects for this type of loan. They examined the impact of credit on output asset accumulation, technology, employment, enterprise management markets and income.

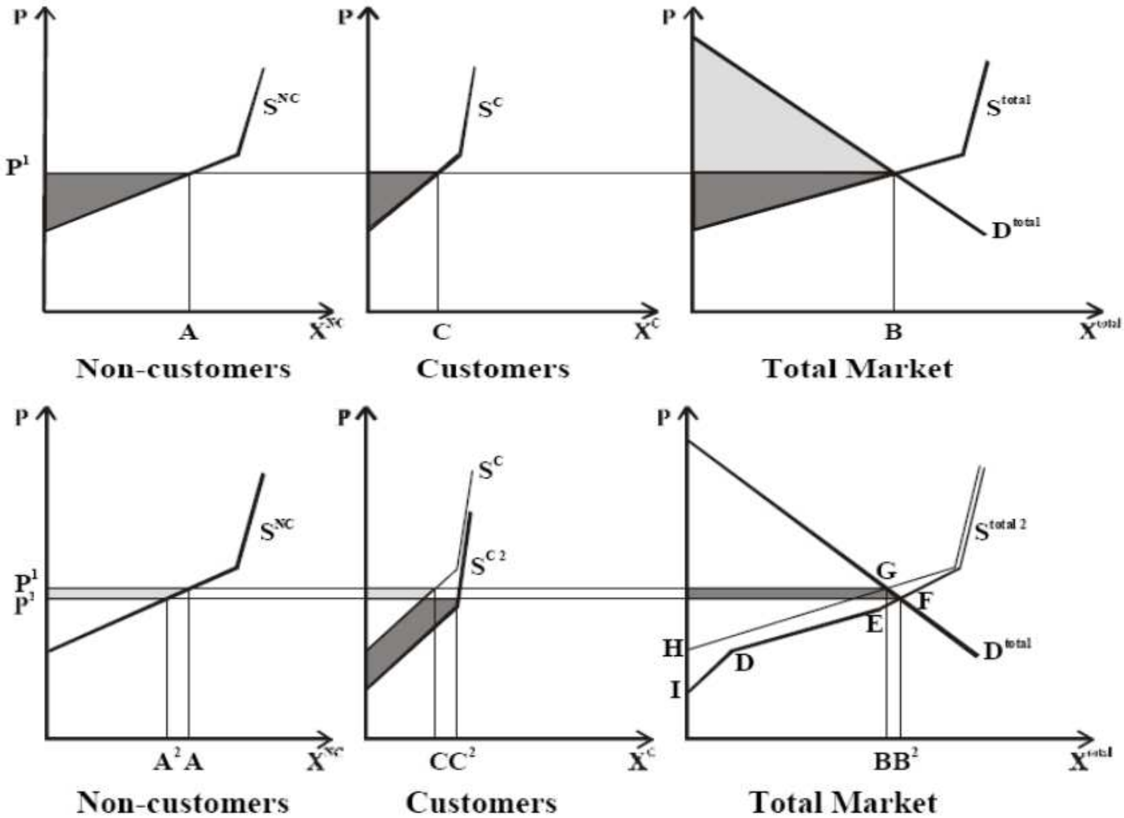
Effects on enterprise productivity were measured in some studies by combining data of changes in income related to changes in labour imputes and by analysing some indicators like income production.... So, these studies found positive changes in output, with excess increases in sales, diversification of goods or services produced, especially among women and this is in all the households. Several of more rigorous studies were focused explicitly on output, and found credit to have significant impact even when controlling other factors such as number of family workers, level of fixed assets, higher labour costs, or longer working hours.

Hulme and Mosley concluded in their cross regional study that impact of credit on production and income is higher when it is invested in new technology, although opportunities for such investment and some innovation for productivity vary between sectors and increase risk what poor borrowers are trying to avoid. The finding regarding the impacts of MF credit on enterprise employment found considerable impacts on the number of paid employees in enterprises and their increase was generally concentrated among a small proportion of borrowers.

Then, these institutions relate to the impact of MF enterprise income, measured as either gross profits or not profits which were generally positive, with overage increases attributed to the loans ranging from 25 to 40%.

Early on, the beneficiaries of MF’s loans have recognised the fungibles of resources within households, and the use of credit and profits generated by microfinance program across a range of household production and consumption activities. It is also clear that benefits of credit extend beyond the enterprise to household and individual levels. A growing number of evidence shows generally positive effects on household production and income, asset accumulation and consumption. Many works and papers demonstrate the indirect impact of this reform.

In analysing the first figure Tschach affirm that” the income-related effects of small loan programmes for all market participants, first, the situation prior to the introduction of small scale lending is described, then the situation assuming a low level of market penetration, and finally the situation assuming more market penetration. He shows “the situation prior to the receipt of loans; here, a distinction has already been made between future customers and non-customers of small loan programmes, future borrowers and non-borrowers.” In the second diagram, the increase in surpluses that is induced by the introduction of small-scale lending corresponds to the dark-grey areas; the decrease in surpluses is represented by the areas shaded in light grey. Because there are fewer potential customers than non-customers, the supply function of the future customers is steeper than that of the non-customers, although the elasticity of supply is the same for all enterprises. Customers now receive loans that are cheaper than those previously available to them in the informal credit market; as a result, their supply function shifts downward. They will thus expand their output from C to C2 and operate at their capacity limit. In the market, this gives rise to a new supply function, Stotal 2; consequently, the quantity sold increases to B2, while the price decreases to P2.”



Schuler and Hashem's study from Bangladesh shows improvement in women's physical mobility, economic security, ability to make their own purchases, freedom family domination and violence, political and legal awareness and public participation.

The UK experience proved that microcredit programs had tripled within the past five years and that nearly twenty-seven million people had become borrowers by 2001. More than $ 1 billion in microcredit loans are outs tending to day and repayment rates are more than ninety-five percent. Microfinance is the term that has come to refer generally to such informal and formal arrangements offering financial services to the poor. Today there is thousands of MFI's providing financial services to an estimated 100-200 million of the poor in the world. The rise of microfinance industry and its facilitation to the unbanking represents a remarkable accomplishment taken in historical context. Microfinance is unique among development interventions in financial systems: it can deliver these social benefits on basis and on a large scale. Microfinance thus offers potential for a self-propelling cycle sustainability and massive growth, while providing a powerful impact on the lives of the poor and excluded individuals.

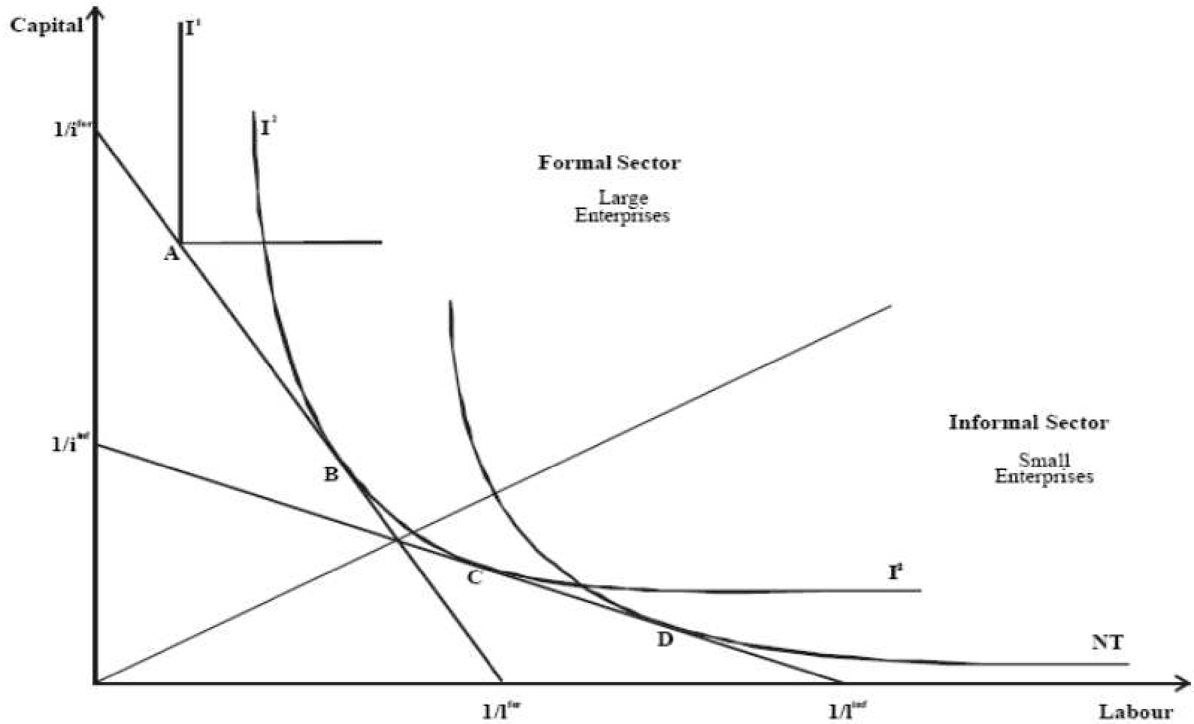


Fig 3.

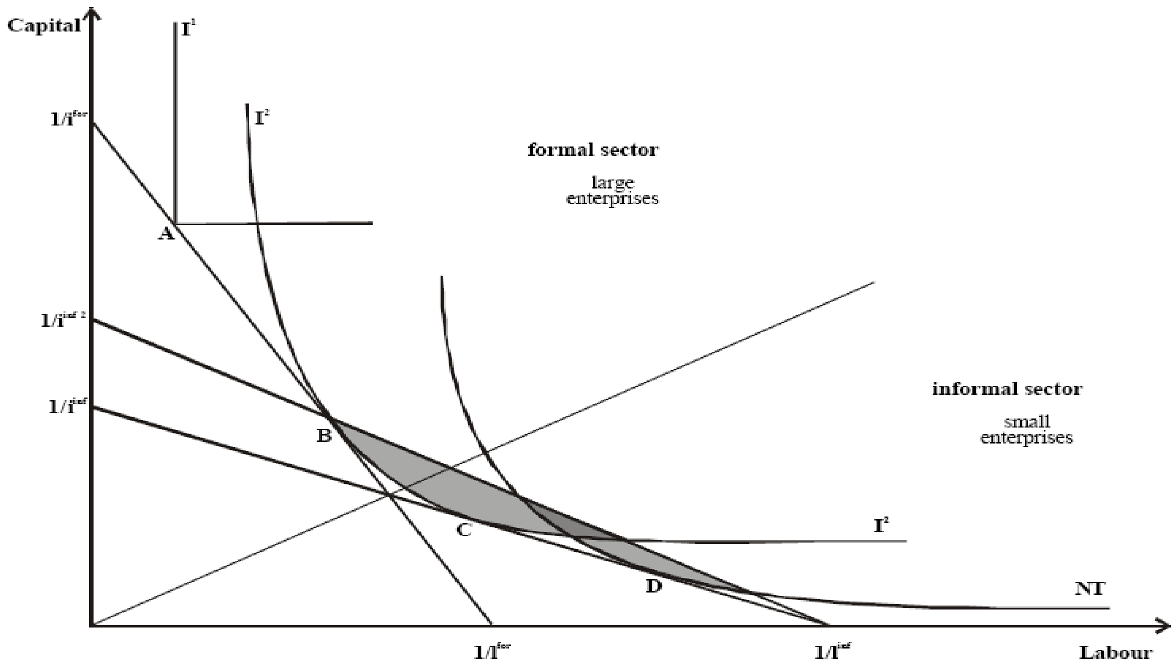


Fig 4.

The segmentation of the credit and labour markets is shown in Figure 3et 4. “Here, the line Running through points A and B represents factor prices for large enterprises, i.e. enterprises with high wage levels and low capital costs, while the line running through points C and D Represents factor prices for small enterprises. This explains, on the one hand, why they are the sole suppliers in the labour-intensive non-tradable goods sector and, on the other, why they produce industrial good 2, which is also manufactured by large enterprises, using a comparatively labour- intensive technology (point C).”

This figure shows” the short-term effects of cheaper financing options available to Informal enterprises. If we depict these effects based on the Heckscher-Ohlin model, the Factor price line for the informal sector rotates upward; i.e. the costs of producing one unit of Output (US$ 1) decrease, enabling the enterprise to earn additional profits. The profits of production enterprises will increase to a greater extent than those of trade Enterprises (areas shaded in grey).”

According to the Consultative Grouped to Assist the Poorest 1995 “to be self-sustaining if they are to achieve their outreach potential providing rapid growth in access to financial services by poor people.”

The reality is that a lot of microfinance movement continues to take advantage of subsidies; some from donors, some from governments and some from concerned individuals. Microfinance promises to improve in state banks by reducing costs and maintaining benefits and show with credit microcredit system can be for all. Even if we get microfinance performance, measuring benefits alone is clearly inadequate to test the full planned cost benefits studied in dependent assessments of subsidized program costs against measured benefits.

Economic theorists have been at the start of research, beginning with Stiglitz (1990), and their liability works. Throughout the 1990’s however, we have witnessed a growing diversity of approach that go well beyond group lending with joint liability.

Scholarly interest in microfinance has lagged behind industry development, econometric work and inflation problem but it is growing too rapidly, now, before 1997, academic journals didn’t publish many articles on microfinance, but since that time, academic journals have published hundreds of peer-reviewed articles on the topic. Nonetheless, microfinance still presents in economies. Interest in the social impact of microfinance has led to several impact studies published in scholarly journals because of social, human and economic role for this program.

Among the analysed for programs in Bangladesh and the Graeme Bank, some published studies have assessed the impact of microfinance programs in Bolivia(Mosley(2001)), China(Park and Ran (2001)), Ghana and South Africa(Afrane(2002)), Guatemala(Kevane and Wydick(2001)), Wydick(1999-2002) Honduras and Ecuador (Smith(2002), Indonesia (Bolinick and Nelson(19990), Uganda(Barnes (1999), Zambia(Copestake(2001) and in different countries (Mosley and Hulme(1998)) and Anderson (2002).

Despite a multitude of studies devoted to the topic, the impact of microfinance programs on the poor developing countries remains an intensely debated issue. The evidence is mixed: as the subject is very important, some studies find positive impacts, some studies find negative impacts, while other studies find benefits of these programs but in specified areas.

This sector will benefit most from microfinance programmes lowering the market interest rate.

The apparent importance of microfinance and financial development contributing to sustainable economic growth has been underlined. Second generation models have probed additional dimensions of both cause and effect. We have shown that microfinance growth is empirically associated with lower poverty ratio. So, microfinance contributes to economic increase.

Although group loans make up the bulk of micro loans worldwide individual lending is significant in some areas and is growing in popularity. Armendariz de Aghion and Morduch 2000 consider microfinance as a group lending in Eastern Europe, Russia and China.

We conclude with a couple of cautionary notes. Although these studies have focused on economic benefits of the microfinance programs, it must not be forgotten that the primary intended benefits of microfinance are not often social. Thus, while economic benefits are important in their own way, they are often subordinated with the MFI's social mission. Even when economic objectives guide microfinance programs, social objectives are often still considered important. But there are other studies which presents the limits of microfinance in some area.

3 MICROFINANCE LIMITS

The preponderance of evidence suggests the existence of a range of positive impacts, but also that the nature of these impacts and the causal impact chain are highly variable and less straight than often described in the promotional brochures of microfinance institutions. Some studies don't find any impacts or if they find, they are negative like the studies of Sebstad and Chen in 1996 and Chua's studies in 2000. In theory, calculating the community economic impact of microfinance programs is quite difficult.

Perhaps the fundamental question for motivation underpinning of microfinance is whether it is a viable strategy for growth and poverty alleviation relative to other poverty alleviation policies and if it can be the perfect solution for helping the non-banking.

Adams and Von Piscke (1992) try to answer this question by comparing some modern MFI's to the failed rural credit agencies established by LDC governments alleviation but also wasted millions of dollars of public funding and try to find the best solution.

After comparing the operational framework of modern MFI's to rural credit agencies, the authors conclude that the modern MFI industry is destined failure or also to be destructed because of the similarities between the two.

Schreiner 1999, Sanders 2002, and Bhatt 1999, provide support for the argument that microfinance may not be effective poverty alleviation in the US, in particular, as example of the developed countries and in all the other societies. Schreiner analyses and finds that although some programs can move some people from welfare to self-employment, it only works for 1% of the programs. He shows also that those who are successful in the transition have excessive assets, education, experiences and skills. Sanders test the impact of microenterprise programs which had a mixed result, some programs have worked while others have failed.

Other studies reach more ambiguous conclusions about the effectiveness of microfinance as a policy tool. Bhatta 2001 concludes that due to the topology and extreme poverty levels in Nepal, it will be difficult for MFI's to have any meaning full impact on poverty. Nonetheless, he goes on to suggest that MFI's should expand into the hill and mountainous areas and target women to increase the probability of success.

Snow and Bass 2001, study microfinance programs in Sub-Saharian Africa and conclude that better goal oriented assessment is needed to determine if microfinance is an effective policy for poverty alleviation or not.

Mosley 2001 in this study shows that assets and income increase commensurately with initial poverty levels, but also that MFI's services may increase vulnerability if borrowers are over –leveraged.

Banick and Nelson (1990) summarised that the MFI's participation had a positive impact on enterprise, that was typically small, labour intensive and growing, although the impact was far from uniform across sectors and target variables.

In other part, Copestake (2001) finds that borrower who never qualified for the second loan were actually worse due to the MFI collection mechanisms but those who could obtain two loans experienced high growth in profits and income compared to the control sample.

Other question is who is better woman borrower or man borrower. Kevane and Wydick 2001 in analysing the problem use a sample of 342 MFI participants in Guatemala to study the assertion that man borrowers produce more economic growth than women and those women facilitate more poverty alleviation.

Staying with the success of the program regarding women, Mallick 2002 criticizes the impact of microfinance on women in society and suggests that microfinance services can result in gender conflict in Bangladesh. Also, one theoretical cost of microfinance programs is that they introduce economic resources in the local economy. For example, microlending programs may lead to an artificial increase the production and supply of certain petty trade goods, diverting resources from more productive purposes, artificially suppressing prices for these goods and by hurting existing producers and traders. A full-scale impact assessment would need to consider these programs costs in local economy or in international market.

With respect to impact on productivity, the evidence is scant. The Bangladesh study carried out by Motgomery in 1996 shows that changes in income are lower than changes in enterprise assets suggesting no significant impact on productivity. In 1989, the Ecuador study by Buvinic finds that women reduce the amount of time in their enterprises showing higher labour productivity. They show that women use credit to increase efficiency and productivity, rather than growth.

Nelson and Balnick's Indonesia study concludes that enterprise level impacts may be limited when; credit is provided without technical support or marketing to facilitate the management of the enterprise, credit funds are diverted and not invested in the enterprise, the loan size is too small to raise production to an efficient level and finally credit is guaranteed to the enterprises which are already operating at an effective level of production, so they sometimes need a second loan.

Armendariz and Morduch 2004 conclude that MFI's cannot provide effective financial intermediation without a "well-functioning regulatory framework in the country".

Some other empirical works have shown institutional variables to be of minimal importance to the success of MFI. Christian (1995), found few institutional variables to be significant. In particular, direct unit cost related variables in an institution had not statistical significance in regression on return.

Maitreesh Ghatak (2000), Beatriz Armendariz de Aghion and Christian Gollier, for example, argue that allowing borrowers to quit voluntarily their own groups helps microlenders overcome an adverse selection. This reflexion is the important reason for exclusion of the poor. The problem is that a traditional bank has a difficulty in distinguishing between inherently "risk" and "safe" borrowers in its pool of loan applicants, if bank charges a high interest rate to risky borrowers and a lower one to safe borrower it will be considered as an economic discrimination. Another strand of argument highlights is the fact that the group lending methodology can potentially mitigate extant moral hazard problems as well. This problem emerges when having extended loans, financial institution cannot effectively function that enforces prudent behaviour.

Jonathan relies on microfinance. The problem here is that when there is a multiplicity of microlenders, there are also threats of not being refinanced lose because those borrowers who default on a loan can always turn to another microlender.

If certain mechanisms were developed to explain the trade-off between efficiency and microfinance which is sufficiently powerful and presents success, it may even have a contrary efficiency. In regard to development, microfinance is probably not sufficient for accelerating growth, unless it is carried out in a specific manner appropriate to conditions in the involved economy.

While the effects of microfinance are necessarily more limited, growing microfinance institutions might be able to play an important role in surviving as a counterpoint to those who oppose reform. Microfinance institutions focus on severing poor and near-poor borrowers in particular and all the excluded households in general and this focus seem largely, but not entirely, to be able with stand commercialization and larger scale. As microfinance becomes of larger scale, more deeply capitalized and more commercialized in some countries, this pressure can help bolster the constituencies which need to demand improvements in the whole financial market.

Therefore, problems with particular microfinance organizations such as default rates that in some instances are too higher for borrower who compare other bank's rate, and there is a general need for greater transparency regarding loan performance and other measures, which industry leaders are beginning to address.

Microfinance is not a panacea, but it is more promising approach than many we have had.

Unlike many commercial banks, the MFI presents headquarters which no marble floors and no rugs. First, its loans are so small that profits are typically hard to find, and second, lending seems risky since the borrowers are too poor to offer much in the way of collateral. For many observers, as Robinson 2001, microfinance is nothing but a short a revolution or a paradigm shift.

Now, we have two opposite idea for microfinance, so we need to know what conditions we should have to get positive programs of MFI.

4 WHAT ARE CONDITIONS FOR THE ONLY POSITIVE IMPACT OF MICROFINANCE?

Microfinance institutions play an important role in economic development in circumstances where other sectors of the economy are represented. Microfinance assets, increase of prices competition, driving down of interest rates and laying the grained work for the development of banking sector-it is where legal institutions should take root. In developed countries with weak governance, as the USA, UK ... the emphases on financial development may be more successful by focusing on a strategy of financial growth that relies on microfinance institutions.

To succeed only in experience and making microfinance must respect certain lessons and prepare a good environment for success... So, microfinance institutions attempt to compete with moneylenders by offering credit to broader range of households on more favourable terms and favourable circumstances. It has often serious limitations in terms of costs, risk, and convenience. For these reasons, micro credit institutions use a variety of strategies to reduce not only their own risks but also to make a good environment for positive impact like : all information about borrowers to reduce risks that can give low or non-existent collateral; peer lending circles to serve borrowers to enforce payment despite weak legal institutions; short-term loan contracts with regular repayments to substitute for information; loans ladders that permit successful borrowers to take out increasingly larger loans as incentives for repayment; social networks to increase repayment rates and a variety of other substitutes for information , and legal enforcement to extend credit to low borrower’s income without collateral assets. Microfinance programs have been found to increase and diversify household’s income, integrate the excluded people, help the poorest to find employment, promote household savings, and permit consumptions to smooth in the face of volatility of income.

Microfinance institutions themselves might increasingly reach financial sustainability and attract private capital fruit to their mission of poverty alleviation. They would help eventually grow domestic credit demand slowly despite weak legal and other formal institutional environments which present the first problem because they cannot rely on such formal institutions to operate. Many of the risk mitigation techniques were developed by microfinance institutions like the peer lending those functional substitutes legal institution intensive forms of creditor protection such as enforcement on collateral.

Microfinance institutions have an efficient role in the development where other sectors of the economy or financial and political systems are repressed. Microfinance institutions can also help improve the ability of the poor to build assets, take responsibilities, make and finish their own initiative, increase price competition and drive down sector development. It is where legal institutions should take root.

The regulation of financial institutions can and should be tailored to make it possible for both mainstream and specialized institutions to engage in microlending. For example, regulators should pay greater attention to evaluating of safety and soundness of bank lending.

In financially developed nations, where the banking systems are more developed, microfinance institutions can play an important role in banking sector. First, by helping increase the income and assets base of the poor, they will increase demand for bank loans. So, the MFI’s could help banks reach previously marginalized sectors; however non-depository microcredit institutions, as for them, are unlikely to be able to overcome market fragmentation, they will have not ability to mobilize savings at scale or attract large enough amount of capital.

Secondly these new institutions must make the difference between helping development and proving financial techniques for lowering costs and lower risks for the poor.

Additionally, giving high levels of concentration and volatility, microfinance institutions may wish to consider mechanisms to pool and diversify their risks. Different mechanisms could be developed on the base of the extent of information available in the market improved by symmetry of information, as well as an assessment of comparative institution.

Armendariz de Aghion concluded that several important mechanisms are employed in typical microfinance institutions, arguing that in practice group lending with joint liability is just one and this mechanism can drive to performance.

Rai and Sjostrom 2000 have shown that the circumstances under which joint liability is optimal are limited and unlikely to practice, it was dominated by contract according to which truthful information are elicited from borrower through cross reporting schemes.

For all of these reasons, the use of groups may be important especially in early stages and for poor clients, but for the same idea of joint liability. Further research is required to identify how these considerations and other mechanisms interact with each other to affect performance and produce demand.

Transition economies face a challenge in finding ways to raise incomes of low income households and broaden financial markets. Microfinance holds the promise of meeting both in giving goals by using to new methods and tools to lend to small-scale entrepreneurs most of whom would have difficulty in borrowing from the formal banking system. It has been tied closely to the idea of group lending with joint liability, as an attachment that remains evident both in popular accounts and academic writings.

Hulme and Mosley conclude that the limited impact on paid employment is a natural result of limited chronological change that would demand more labour, and the risks associated with bringing in additional paid workers. The impacts on paid employment are minimal among poorer borrowers and among borrowers who asked for a loan for the first time.

Nelson 1984 demonstrated that microenterprise credit tends to have more impact on job stability and efficiency by improving labour productivity than job creation.

Other studies show that microfinance institutions operate primarily in countries with a relatively low degree of overall economic freedom and that various economic policy factors are important to sustainability.

According to the Consultative Group to Assets the Poorest in 1995" Microfinance institutions can and indeed need to be self-sustaining if they are to achieve their potential providing rapid growth in access to financial services by poor people"

Woller and Woodworth (2001) cite many impact studies and conclude that governments must "create a macroeconomic environment characterized by stable growth, low inflation and fiscal discipline".

Hubka and Zaidi (2005) find that governments can help market-based microfinance by eliminating unfair competition of public institutions; undertaking overall regulatory reform and improving the whole business environment.

Zeller and Meyer 2000 also found that improvements in the policy environment of a country contribute directly to the overall performance of its institutions. They site China as an example where administrative interference and distortion of pricing systems resulted not imperatively in a low level of outreach and high fragility of many MFI's.

In all, the overall economic condition of a country is extremely important to the success of any MFI's. Data measuring country policy issues to assets their impact on the sustainability of microfinance institutions.

Sharma (2000) studies show the importance of broader national environment complicating the growth of institutions, comparing for example, success in India and not in Nepal.

Other empirical research of data suggests that a country's political, economic, and cultural environment plays a key role in the ability of microfinance institutions to meet their mission and make their goals. Sustainability is now a necessary long-term goal for almost all microfinance institutions.

If the overall economic level of freedom is improving over the sample period, it may be true that the MFI's are having success where trade has not been opened up extensively and the monetary authority does not control inflation. Many factors contribute to the ability of an MFI to meet these goals; one of them is the economic environment in which the MFI operates.

The predictors in this study are economic factors in a country leading to success of the MFI. It is possible to think that the MFI success helps a country improve its economic environment.

Further theories work on the development implications of MFI's, their role in the economic growth, importance of economic freedom and other microfinance programs that were supported by the organization managers and governmental officials.

So, for these reasons, in the next paper I will concentrate on the success of microfinance in developing countries like Tunisia and conclude this impact on some parameters like health education, transport, income,

I have chosen this country because of the helping given by the government to microfinance programs. So, this program can have only a positive impact but we must have some economic conditions regrouped for only goal which is the success of microfinance.

5 Conclusion

Microfinance is a renewed form of financial development that is primarily focused on poverty alleviation through providing financial services to the poor and accordingly more importance for the poorest. Most people think of microfinance as being a microcredit lending of small amounts of money to the poor. Microfinance is that, but it is also broader, including insurance, transactional services, and importantly savings.

Microfinance institutions have developed a strong track record over the last thirty years in alleviating poverty and advancing the economic needs of low income households. So, these programs have been found to increase and diversify household's savings. In addition, it can contribute more broadly to financial development and help to growth.

Or, this development could contribute to poverty alleviation directly by lowering credit constraints of the poor, and indirectly, by fostering economic growth that helps the poor. Cross-country comparisons suggest that financial development through the lens of microfinance might help for four reasons. First, financially self –sustainable microfinance programs can contribute directly to poverty alleviation, the growth of the number of responsibilities, management of self-project and promoting of market that in its turn advances financial development.

Second reason consists in the fact that microfinance may be a useful strategy to consider in countries with bad governance where other development strategies face significant barriers or where financial possibilities are limited. Third, microfinance can help financial markets in developing countries to mature, while playing more limited, but useful, roles in poverty alleviation in financially undeveloped countries. Fourth reason is that, microfinance can help break down opposition to informal sector and build support for domestic financial reforms.

So, the impact can theoretically occur at four levels; the enterprise, the individual, the household and the community

Therefore, some studies don't find any impacts of MF or if they find them, they are negative. So, the impact analysis of microfinance programs is an important in the economic literature. In theory, calculating the community and economic impact of microfinance program is straight forward.

Finally, the result of this focus is that other potentially important role of the government must be introduced. For economic freedom and a better economic environment and for a continual growth, the impact of MF must be only positive.

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