Chapter 1
INTRODUCTION

1.1 Background

The World Bank aims to end extreme poverty by 2030 (Reed et al., 2014). A project of Results Educational Fund—the Microcredit Summit Campaign—aims to reach 175 million poorest families with credit for self-employment and other financial and business services by 2015 (Daley-Harris, 2009). Poverty has been a negative force that has inhibited the growth and development of nations throughout history. As a solution, microfinance has been used as a bottom-up tool (Saidu et al., 2014) to eradicate extreme poverty around the world.

Sourcing funds for business purposes is not an easy task for the poor. Microfinance is a mechanism that is developed with the aim of helping the poor in financing their businesses. Microfinance is the extension of small loans to the very poor, in combination with other financial services, such as savings facilities, training, health services, networking, and peer support. This allows them to pursue entrepreneurial projects that generate extra income, thus helping them to better provide for themselves and their families (Microcredit Summit Campaign, 2014).

Usually most activities classified as financial in the developed world are not monetized in developing economies. This means that people in developing nations use creative and collaborative ways to bridge the gap between their needs and the means of satisfying these needs. There are many household needs for an average individual in a developing country. Microfinance products such as short to long-term loans, short to medium-term deposits, fund transfers, pension plans, and emergency loans are aimed at helping these individuals in fulfilling these needs.

However, in traditional banking such micro-financial needs are subject to verification of physical collateral-based creditworthiness of the respective individuals. This means that most of those who are in real need have a higher probability of being deprived of financing their needs. Sociologists term this phenomenon "financial exclusion"—the exclusion of individuals from access to finance due to social and institutional barriers. Social entrepreneurship models attempt to solve this problem by involving social indicators as a measurement of credit worthiness. These models have successfully bridged the gap between financial need and the means of achieving this need for the poor.