Chapter 40
Reducing Poverty and Sustaining Growth:
A Microfinance Approach

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ABSTRACT

Microfinance institutions have been effective rural banking channels that extended financial services to low-income individuals, particularly women in developing country settings. Since its inception, microfinance has evolved as an economic development approach and has grown to enormous scale in Bangladesh, with a reported approximate 23 million borrowers in a country of roughly 150 million people. These numbers reveal the highest population saturation of microfinance in any country. However, with the maturity of the microfinance market in recent years, competition has subsequently increased among various financial and non-financial institutions. Against this backdrop of intense competition, this chapter aims to focus on the current institutions of Bangladesh that has made the microfinance service almost a sole option for the downtrodden segment of the low-income society. In particular, various approaches of microfinance and its operational structure by these institutions including the challenges and attributions of a dynamic micro credit concept will be highlighted.

INTRODUCTION

The concept of microfinance has evolved as an economic development approach targeted as a potential weapon in uprooting poverty and assisting the poor effectively to improve their living status and livelihoods significantly. The popularity of microfinance has made it the core activities of hundreds of microfinance institutions (MFIs) across the world, particularly in developing countries like Bangladesh. In fact, it was Bangladesh which pioneered and fostered the institutional development of microfinance

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and today it has reached an enormous scale with approximately 23 million borrowers in a country of roughly 150 million people.

Microfinance institutions have extended financial services mostly to rural areas where otherwise it would be more expensive and unprofitable to open branches of traditional banking institutions. Moreover, since the rural population living under the poverty line and the poor with lower income is still out of any formal credit services in Bangladesh, microfinance institutions have made it a point to provide credit to the poor through small savings under the dynamic microcredit concept. Microfinance has thus become the main form of rural finance in Bangladesh. The effectiveness of the microfinance concept is such in Bangladesh that its systematic, group-based and institutionalized operations have been replicated all over the world with local modifications and adaptations.

In the context of Bangladesh, microfinance institutions have gained credence as the providers of an effective poverty alleviation tool from both practitioners' donors and policy makers of the country. However, the case of microfinance in Bangladesh and its success as the largest and most efficient sector has only been achieved through the support of both government and non-governmental organizations, subsequently increasing competition among various institutions of the microfinance market. This chapter therefore aims to shed some light into the present status of the microfinance institutions currently operating in Bangladesh. To pursue this purpose, four prominent institutions involved in the provision of microfinance in the country have been highlighted. Findings of this chapter will provide further insights into understanding the microfinance models followed by these institutions, their operational structures and the generalized challenges they face. In addition, this study can assist various financial and non-financial institutions to understand the importance of microfinance and develop and implement microfinance concepts in a more profound way in Bangladesh.

BACKGROUND

Microfinance is generally known as a sustainable means of poverty alleviation leading to lasting, holistic development, particularly in the settings of developing countries. It has evolved from the time of its inception as an economic development approach that benefits the financially disadvantaged people, like those with low and unstable incomes, little or no land/assets and low social status in rural and urban areas (Maanen, 2004). The main idea behind microfinance is to provide these people with credit and other financial services of very small amounts so that they can raise their income levels and improve their living standards (Khalily, 2004). The concept of microfinance is a trial and tested one which believes that the involvement of lending-repayment process with different socio-cultural activities can result in the empowerment and social development of the overall community, especially the women (Yunus, 1998). Microfinance has also been viewed as a sustainable finance option and an effective rural banking channel for the unbanked population of developing countries.

Microfinance first evolved in the 1970s with the name "microcredit" and eventually became a tremendous movement of implementation by receiving the widest coverage compared to other poverty alleviation programs across the world (Ahmed, 2001). As such, around 160 million people in various developing countries are today served by microfinance. Historical context evidences that it was during the 1980s that non-governmental organizations (NGOs) came into existence and initiated the service offerings of small loans to women, so that they can invest in business, accumulate assets and increase their income

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