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Behind the Helping Hand of Microfinance: An Overview of Microfinance in Developing Countries

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Abstract: **The purpose of the paper is to find out whether microfinance helps to reduce poverty and has impact on economic development at all. Microfinance has been established targeting the poor people who are screened out from getting loans from formal financial institutions due to lack of collateral and low creditworthiness. There has undergone a tremendous transformation in all aspects of microfinance, including outreach and portfolio size, proliferation of microfinance through a large number of microfinance institutions, diversification of services, new regulatory regime, contribution in rural development, recognition of microfinance as a major contributor in poverty reduction and so on. Even then some challenges concerning institutional efficiency, diversity of services, fallout from political and macroeconomic factor and replication of agricultural credit are faced. Microfinance is not a panacea at all but has limited impact on freeing the people from poverty and especially empowering the women in the society.**

Keywords: **Microfinance, Rural Development, Collateral, Poverty reduction, Non-financial services, Empowering women.**

1. INTRODUCTION

Microfinance has been described as a root program and strategy for poverty reduction and local, economic and social development of third world countries since its inception. Microfinance institutions (MFIs) serve a large percentage of low-income pastoral families in many developing countries. There are a large number of microcredit projects that are in process around the world. International donors, lending agencies and general governments allot billions of dollars for microcredit programs. As the outreach of microfinance is increasing all over the world, the hopes created in the world that microfinance will lead to a poverty free world. Microfinance does not only cover financial services but also non-financial assistance such as training and business advice to poor people with a view to upgrading living standard of the bottom slab of the society.

Bangladesh has emerged as the birth land of microfinance and The Bangladesh micro-finance sector is regarded as the largest and most efficient in the world. There are more than one thousand microfinance institutions in Bangladesh and those have advanced from being development partner-supported entities towards self-sufficient institutions supported by commercial financing. For the time being microfinance institutions are rapidly thriving and this outreach is eminent. So this is expected that microfinance has a large contribution in the poverty reduction in Bangladesh. “Based on the international poverty line of $1.90 per person per day, Bangladesh reduced poverty from 44.2 percent in 1991 to 18.5 percent in 2010, and is projected to decrease to 12.9 percent in 2016” (WorldBank2016).

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The microfinance movement began in Bangladesh with the work of Nobel Laureate Dr. Muhammad Yunus, the founder of Grameen Bank, in the late 1970s, spreading rapidly to other developing countries. Almost all microfinance institutions (MFIs) along with Grameen Bank are trying to reduce poverty as they claimed and nevertheless they count on government's fund and international donors. The model of the Grameen Bank of Bangladesh is the most well-known and discussed model. Microfinance is accepted worldwide as one of the potent tools of poverty reduction.

2. METHODOLOGY

The methodology shows up how the data should be collected, analyzed and used for the purpose of this paper. The review is primarily based on secondary and published information. The major sources of information are published research reports and papers, unpublished reports from reputable organizations, data from major institutions such as Institute of Microfinance (InM), Microcredit Regulatory Authority (MRA), Palli Karma-Sahayak Foundation (PKSF), Credit and Development Forum (CDF), Grameen Bank, BRAC, The Association of Social Advancement (ASA), some smaller but growing microfinance institutions, several international non-governmental organizations (NGOs) operating in the country, commercial banks, Bangladesh Bank (Central Bank) etc.

Objectives and Questions:

The major objective of the study is to find out whether microfinance has impact on poverty reduction and economic development in developing and underdeveloped countries or whether it is opportunistically benefitting itself in the name of poverty alleviation.

Primary or Focused Questions:

1. What factual role does microfinance play to reduce poverty?
2. What is the role and importance of microfinance in social development?
3. What is the concentrating factor of microfinance?

Related Questions:

1. In reality does microfinance reach the poorest?
2. Does microfinance contribute to enterprise growth and income?
3. Does microfinance make tremendous progress toward achieving the Millennium Development Goals (MDG)?
4. Does microfinance promote economic growth and development?
5. Why has microfinance not worked as hoped?
6. Is microfinance sustainable?
7. Is there any veritable cohesion between microfinance institutions and poverty reduction?

3. LITERATURE REVIEW

Microfinance has been referred as an antipoverty, inclusive financial program because it targets and reaches the poor, especially women, who often have limited access to formal financial institutions. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be bankable i.e. they have to reimburse the principal amount with interest on time. They can also make savings and attain non-financial services as their needs.

It is very difficult for the poor to get financial facilities from formal banking system for various reasons. A collateral free financial facility is the requirement at the door steps of the poor at the right time to help them facilitate. Adam Smith reviewed this by saying that

"Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little" [2]

It is with this background that, microfinance is seen as one of the significant way to poverty reduction. Microfinance as a discipline has created financial products and services that together have enabled low-income people to become clients of a banking intermediary.

[2] Adam Smith, "The Wealth of Nations" 1937, p. 93

Microfinance can stimulate household well-being in five primary sectors i.e. income, expenditure and savings; household employment; household assets; human resource and other financial transactions. The review is organized around these areas. Since microfinance in general and the project being evaluated in particular, focuses on the impact on poor households, the review also covers the outreach of microfinance on poor households.

A couple of reviews of studies dealing with the impact of microfinance have been conducted recently. These reviews highlight the disagreement in the results. Much of the disagreement emanates from the different degrees with which earlier studies have controlled for problems and greatly affected the impact assessments i.e. non-random program participation, non-random program placement and non-random dropout. (Armendariz de Aghion and Morduch 2005).

Without institutional microcredit there is only one way for the poor people in rural areas in developing countries to borrow money, and that is from moneylenders at an interest rate of 200% to 300% per annum. Yunus stated;

"Microcredit offers a poor person an opportunity to convert his/her energy and creativity into income-generating activities. Credit plays such an important role in creating self-employment for the poor. I have been arguing that microcredit should be recognized as a basic human right."[3] *"A little bit of money helps them to develop their capacity and to do actual things for themselves rather than wait for other people to do things for them. But our financial institutions have refused to open their doors to the poor people around the world."*[4]

Wesis, Montgomery and Kurmanalieva (2005) provides an update studies regarding microfinance using Latin American data as they (2003) reviewed the impact of microfinance on poverty reduction in Asia. They reviewed only more "rigorous studies" and have not covered studies using qualitative or participatory approaches. Weiss and Montgomery (2005) summarized their review by saying that

"The conclusion from the early literature, that whilst microfinance clearly may have had positive impacts on poverty it is unlikely to be a simple panacea for reaching the core poor, remains broadly valid. Reaching the core poor is difficult and some of the reasons that made them difficult to reach with conventional financial instruments mean that they may also be high risk and therefore unattractive microfinance clients."

A similar conclusion was also arrived at by an earlier review in Meyer (2002). Surveying available evidence for Asian countries, he concluded that while there seems to be overall positive effects on income and education, results differ substantially across countries and programs both in magnitude as well as statistical significance and robustness. In many studies we have seen different concept and controversy on the contribution of microfinance institution. Aneel Karnani an associate professor of strategy at the University of Michigan's Ross School of Business points out:

"Microloans are more beneficial to borrowers living above the poverty line than to borrowers living below the poverty line. This is because clients with more income are willing to take the risks, such as investing in new technologies that will most likely increase income flows. Poor borrowers, on the other hand, tend to take out conservative loans that protect their subsistence, and rarely invest in new technology, fixed capital, or the hiring of labor."

Microloans sometimes even reduce cash flow to the poorest of the poor, observes Vijay Mahajan, the chief executive of Basix, an Indian rural finance institution. He concludes that

"Microcredit seems to do more harm than good to the poorest."

Charging high interest rate could be a harmful reason for poor. Acleda, a Cambodian commercial bank specializing in microcredit, charges interest rates of about 2 percent to 4.5 percent each month whereas micro lenders charge higher interest rate about 30 percent to 60 percent. Microcredit proponents argue that these rates, although high, are still well below those charged by informal money lenders. Microfinance will be mighty if the poor clients can pay the principal amount with interest otherwise it will be feeble. The fact is, most microcredit clients are not micro entrepreneurs by choice. They would gladly take a factory job at reasonable wages if it were available. We should not romanticize the idea of the "*poor as entrepreneurs*." It has been said that all economic growth has its origin in saving. Someone has to save, in order to give someone else the opportunity to loan. The economist Milton Friedman has said that

"The poor are left in poverty, not because they are lazy, but because they lack access to capital".

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[3] Muhammad Yunus, 'New Development Options Towards The 21st Century, Grameen Bank' Dhaka, 1995, p. 6
[4] Muhammad Yunus, 'In Credit for Self Employment of the Poor' Grameen Bank' Dhaka, 1988, p. 2

One of the critical factors that prevent development in almost all poor countries is that the poor are excluded from financial services. Access to financial, such as savings, credit, insurance and money transfer, contributes to expanding the individual's choices and ability to respond to opportunities. Their vulnerability is reduced when means that smooth consumption and bridges crises are provided. These kinds of services are rarely accessible through the formal financial sector. Banks generally assume that it is unprofitable to provide small loans and deposits, and therefore avoid the poor as clients. It is believed that the cost and risk of delivering small-scale financial services at the local level is too high for non-subsidized institutions and that the informal financial market meets the demand. The poor can borrow from informal and commercial money lenders but at very high interest rate. Informal commercial lenders often charge a nominal effective interest rate of 10% to 100% a month. [5]

The International Labor Organization (ILO) signifies these informal and commercial money lenders as "own-account workers". Creating employment opportunity is the best weapon to dissolve poverty. The ILO states:

"Nothing is more fundamental to poverty reduction than employment."

MFIs in Bangladesh:

From the work of the Grameen Bank, Microfinance has attained remarkable popularity in Bangladesh over the more three decades. Bangladesh, with a population of more than 160 million [6], is one of the most densely populated countries (1106 persons per square kilometer) [7] in the world. Poverty is pervasive here. 12.9% of the total population is still living below the poverty line – earning less than USD 1.90/day. [8] The various dimensions of the country's poverty are manifested in terms of inequality in income distribution (in favor of urban areas), wage differentials between the formal and informal sectors, dramatic increases in the cost of living, less than adequate calorie intake by the vast majority of the population, unemployment and internal migration. The government of Bangladesh faces an enormous challenge in reducing poverty. However, the government cannot act alone as it cannot command all the resources, personnel, administrative outreach or expertise necessary to maintain progress in poverty alleviation. The MFIs have taken a key role in poverty alleviation efforts and they have been providing credit to these poor people who lack savings and capital but want jobs in the farm and non-farm sectors. There are more than one thousand MFIs in Bangladesh now. The major MFIs are Grameen Bank, Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA), Palli Karma-Sahayak Foundation (PKSF), Padakhep Manobik Unnayan Kendra (PMUK), Proshika etc. Bangladesh could be a good example in the case of microfinance as there microfinance sector is becoming developed with the help of government's support.

Goals of Microfinance: Potential Contributions and Negative Impacts:

There seem to be two main approaches within microfinance to achieve goals. Both approaches have the same purpose – to fight poverty through providing financial services to the poor and excluded groups. The goals and their potential contributions and impacts are summarized below:

Goals	Potential Contributions	Potential Negative Impacts
Halving Poverty	i. loans for enterprise which increase incomes ii. loans for asset acquisition e.g. housing ii. consumption loans, savings, insurance and pensions which decrease vulnerability and increase access to education and health	i. increasing debt in marginal enterprises ii. encouraging debt for high expenditure on social obligations ***ii.*** diverting resources from investment and consumption to interest repayments and savings
	v. access to microfinance services is in itself the human right v. loans for education and health vi. group-based savings and credit programs which provide a focus for local and	v. microfinance services do not necessarily address rights issues ***v.*** increasing economic and social exclusion of the very poor through financial exclusion in badly targeted programs

[5] Marguerite S. Robinson. *The Microfinance Revolution- Sustainable Finance for the poor.* (Washington, USA: International Bank for Reconstruction and Development/ the World Bank, 2001), 15-17.

[6] https://en.wikipedia.org/wiki/Bangladesh ("World Population Prospects: The 2017 Revision". *ESA.UN.org*. United Nations Department of Economic and Social Affairs, *Population Division*. Retrieved 10 September 2017)

[7] https://en.wikipedia.org/wiki/Bangladesh ("Population density – Persons per sq km 2012 Country Ranks". Retrieved 16 January 2013.)

[8] http://www.brac.net/images/index/tup/brac_TUP-briefNote-Jun17.pdf

Human Rights	national-level organization for lobbying and development of participatory processes ii. regulatory frameworks which increase the accountability of microfinance providers	
Women's Empowerment	ii. loans for enterprise which increase women's incomes x. savings services which increase women's control over their income x. pension provision which decreases women's long-term dependence on their families ki. group-based programs	/i. increasing women's debt ii. increased pressure on women to take up low-profit activities and increased work burden ii. women used by men as a conduit for loans or loan officers *x.* increased pressure on women's existing networks for loan repayment
Urban Development	ii. loans for urban enterprise ii. group based programs provide a focus for organization on informal sector workers	**x.** increased saturation of markets through too many borrowers
Environment	v. loans for environmental enterprises e.g. waste recycling	***ki.*** use of loans for purchase of pesticides and chemicals
Government	v. group-based programs which provide a focus for increasing political awareness, development of participatory structures and/or organizational basis for leadership training of grassroots representatives	***ii.*** savings and credit programs may detract energies from other forms of local-level organization, particularly for women
Education	/i. loans for education ii. group-based programs combined with literacy (Action Aid-Uganda and Bangladesh)	ii. loans for enterprise where both parents work may increase pressure on children to help with household work or production ***iv.*** diversion of NGO energies from training and education to more donor-fashionable and potentially profitable minimalist micro-finance
Health	ii. loans, insurance and accessible savings for health care x. loans for health care practitioners x. group-based programs combined with health awareness, including HIV/AIDS	v. loan repayment and savings may take funds from necessary consumption */i.* loan groups and insurance provision may discriminate against AIDS sufferers and other ill people, thus driving certain illnesses further underground
Water	ki. loans for purchase of water technology and sanitation facilities ii. loans to providers of water and sanitation facilities	ii. increased enterprise or agricultural activity may put more pressure on water resources and/or increase pollution

MFIs Products and Product Diversification:

In developing countries offering financial services to poor people is risky business. The microcredit program rightly began by targeting the rural poor especially women as a development intervention strategy. Microcredit serves not only to meet financial needs but also contributes to other social and institutional development issues such as women's empowerment, bringing the rural poor into an institutional service network and reducing the dependency on informal money lenders.

Microcredit products look like this:

Product	**Purpose**
Income Generation Loan (IGL)	Income generation, asset development
Mid-Term Loan (MTL)	Same as IGL, available at middle of IGL
Emergency Loan (EL)	All emergencies such as health, funerals, hospitalization
Individual Loan (IL)	Income generation, asset development

The management system of micro-finance programs has evolved over time but commonly has the following features:

- Women are the main recipients of microfinance services though many MFIs now have male members or clients.
- Group-based lending methodology is the main system of delivery of microfinance services, although commercial banks and a number of MFIs offer loans to individual clients.
- The microfinance sector in Bangladesh is now dominated by NGOs offering microfinance services, collectively known as NGO-MFIs which offer financial services as ‘private not-for-profit businesses’ but strive to achieve institutional and financial viability as soon as possible
- MFIs are diversifying into other target segments, including near-poor groups, by developing new financial products along with the traditional management system.
- Loans are collateral free but to ensure repayment poor women are organized into groups to take responsibility of repayment.
- Loans are small that is manageable by the poor and repayment are also small collected in weekly installments.
- Instead of coming to the bank the approach takes financial service at the door of the poor, Bank’s staff members collect supervise and take care of all management tasks similar to any commercial bank.
- Procedures for loan applications and other administrative steps have been simplified to suit the poor.
- All financial transactions are made in public to eliminate any possibility of corruption or political intervention.
- Experience shows that loan money is normally invested in commonly available activities such as livestock rearing, trading, agriculture production and small processing operations.

In addition to mainstream microcredit, other products include savings product, services for the poor, microenterprise credit, seasonal loan, micro-insurance, extreme poor products, conditional cash transfer, education loan, health & housing loan, training & skill development programs etc.

Interest Rate Structure of MFI Products:

Microfinance refers to not only a range of financial services such as savings, credit and insurance but also non-financial services such as training and business advice for the poor. The only ones equipped are Microfinance institutions to reach the unbanked people and make financial services accessible to them. To meet up the organizations operational and financial costs, MFIs are expected to charge interest rate and service charges.

The effective interest rate becomes about 20 to 28% at the borrowers’ level. The MFIs in Bangladesh usually charge flat rate of 12 to 15% per annum from the microcredit borrowers. There has debate whether this rate is too high or not. There are several other factors like risks associated with collateral free loan, provisioning for doubtful and bad loans, compulsion to build up MFI’s equity and attaining financial sustainability are determinants of service charge of MFIs, Bangladesh microcredit sector has relatively lower rate of service charge compared to many other countries. However, social obligations, political realities and credit at a competitive rate may require consideration of reducing the rate by MFIs.

The interest rate charged on credit products as well as that provided to savings products by major MFIs of Bangladesh are as follows:

Organizations	Interest Rate on Credit (Primary Loan)	Interest Rate on Credit (Special Loan)	Interest Rate on Savings
ASA	25%	25%	6%
BRAC	15%	30%	6%
Grameen Bank	20%	27%	4 to 8.5%
PKSF Funded MFIs	12.5%	25%	6%
Other MFIs	13%	20%	8%

Challenges for the MFIs:

Microfinance sector now has passed beyond doubt the era where studies were conducted to prove its effectiveness but now faces new challenges of other emerging issues in order to make the microcredit program effective for poverty reduction, the government emphasized small entrepreneurship.

It also identified the following challenges:

i. Prevalence of high interest rates which are being reduced, but further reduction of interest rate is necessary;

ii. Vicious cycle of microcredit following, where the poor are borrowing from one microcredit organization to repay another;

iii. Microcredit program have not been very successful in including the hardcore poor;

iv. Rate of graduation to above the poverty line among the microcredit borrowers is low, indicating persistent dependency on microcredit;

v. Most of the microcredit recipients being women, they bear the increased burden of repayment;

vi. Microcredit organizations compete with each other and often put pressure on the potential clients to borrow;

vii. The profitability of micro enterprises is small and often is not sustainable on a long-term basis because of enterprise recapitalization, saturation of markets for products where money lenders, flimsy relation between NGOs and MFIs and weak financial system are liable for this.

viii. Valuation of investments in Microfinance sector

ix. It will be more risky for MFIs providing any kind of services to the poor who have no official identification.

x. Though the volume of transactions is very small, the fixed cost of those transactions is very high. Servicing small loan amounts and reaching the unbanked people of the world can be challenges without high rates of process automation.

The Cohesion between Microfinance and Poverty Alleviation:

Microfinance has become a way of economic development for the poor since its inception. Poverty alleviation or reduction is an ultimate goal of most MFIs, with either direct or indirect links to immediate objectives. Muhammad Yunus reviewed this by saying that

"If you go out into the real world, you cannot miss seeing that the poor are poor not because they are untrained or illiterate but because they cannot retain the returns of their labor. They have no control over capital, and it is the ability to control capital that gives people the power to rise out of poverty."[9]

Since mid-eighties, a large number of studies have been conducted on the impact of microfinance program on poverty. The studies find that microfinance program has benefited the poor in more than one way. The program has improved their living standard through diversification and strengthening of their survival strategies, improving their security, providing access to assets and rights and increasing their self-respect, giving them choices and independence. The access to micro financial services has enabled the poor to undertake diversified economic activities, which generate flow of income year round and thus strengthen the survival strategy of the poor. Without micro financial services, security for the poor rural households would come from patron-client and mutual sharing and borrowing arrangements, which have weakened over the years.

The poor now can make savings and encash their assets to face with any kind of contingencies with the help of microfinance. Microcredit borrowers, for example, were able to face the devastating floods of 1998 using their assets and savings. Microcredit borrowers can now depend substantially on their own assets and reserves to meet contingencies and do not have to depend on borrowings from patrons or moneylenders with conditions that had included usurious rates of interests, meeting obligations like free labor, supporting patrons in unjust local feuds and elections, etc. There is self-respect among the borrowers, which had previously been absent. Microfinance program has also empowered its beneficiaries, raised their social and political consciousness which is reflected, among others, in their increased participation in local government, national elections and social mobilization, activities like building community roads, running health programs and community schools.

[9] Muhammad Yunus, Banker to the Poor: Micro-Lending and the Battle Against World Poverty

However, the fact that all the microfinance institutions are working for the poor is not always true. In most cases, it has been seen that the microfinance institutions are doing their businesses with the poor, and poverty alleviation is their nominal policy to expand their businesses. In some cases, it has been also observed that the poor have become poorer with microcredit due to high interest charge as well as high pressure of early loan payment. Again it has been noticed that some microfinance institutions did not give loans to the rootless on their belief, rather they would give loans only to who had the capability to repay the loans. That is, they would provide loans to those who had collaterals indirectly, not to those who would have been made able to repay the loans by utilizing their skills.

So, side by side with beneficial activities, there are some negative aspects of microfinance that cause the rootless poor not only to lose their present conditions but also to lose their ability to work in an effective and efficient manner.

The Cohesion between Microfinance and Social Impact:

Although MFIs' initial objective was not primarily in the social realm, if at all, most MFIs do now identify one or more social goals: women's empowerment, children's school attendance, awareness of and demand for health services, etc. Evidence of the social impact of microfinance in Bangladesh has also been mixed, but again, on balance, suggests that microfinance and the associated activities of MFIs have had positive social effects. Indeed, it often seems as if this fundamentally economic approach has performed best in the social domain. Khandker (2005:266) notes that the earlier WB/BIDS study supports the claim that microfinance programs promote investment in human capital (such as schooling) and raise awareness of reproductive health issues e.g. the use of contraceptives among poor families and help women to practice the power in decision-making.

Microcredit for poor, especially for women, can often signified as social, psychological and even political empowerment. It helps to turn over their systematic resistance from access to public or private funds and thus deflecting the systems of hierarchy and power. (Todd 1996). Access to alternative means of finance can reduce dependency on moneylenders and those who lend money; at the same time, to secure the informal loans by accessing institutional credit could be concerned and the poor can be allowed to participate in the social, economic and political workings of their community.

However, it should be noted that finance alone did not lead to such changes but other developmental and macro-factors have definitely contributed positively or negatively. On the whole the researches have proved the positive impacts of financial services for the poor. Bangladesh microfinance sector now has passed beyond doubt the era where studies were conducted to prove its effectiveness but now faces new challenges of other emerging issues such as continued vulnerability of poor due to external factors, overlapping of microcredit services, impact on microfinance in an era of slow or no growth of economy, and lack of new and more demand-driven products etc.

Focus of the MFIs:

Apparently, the main focus of the MFIs is on how to alleviate poverty. Most of the MFIs are working with the slogan of poverty alleviation. However, a deeper look into the operation of most MFIs shows us that in the name of poverty alleviation, some MFIs are conducting their profitable businesses. Their clients are the rural, rootless poor who cannot but go to them for microfinance because these people have no access to traditional banking institutions without collaterals. In a sense, they are compelled to apply for the microcredit to the MFIs. And with this opportunity, the MFIs try their best to utilize their resources to the best available sources. In brief, we can say that these MFIs are doing their businesses but fortunately they are helping the rootless people. That is, some MFIs are not based on the objectives to alleviate poverty, but poverty is being alleviated through their activities. So, the behavior of these MFIs is opportunistic, rather than beneficial.

Overall Analysis of the Role of Microfinance:

Today the role of microfinance institutions (MFIs) is controversial for many reasons. Despite the slogan of 'credit for the poorest of the poor', the poorest have not fully benefited from the microfinance revolution of late 90s. We now examine the overall impacts of microfinance in the following aspects:

In reality does microfinance reach the poorest?

The growth of microfinance in Bangladesh is phenomenal in over the past two decades. Today, Bangladesh has more than 702 registered MFIs with a network of over 17,000 branches. Microfinance growth could create micro debt dependencies, whereby participants could become over indebted or trapped in poverty. Too much credit or too many MFIs are not good for the poor or the economy. High interest rate is also not helping to reduce poverty. Abhijit Banerjee, Esther Duflo, Erica Field, Raghu Rajan, Dean Karlan, Pranab Bardhan, Rohini Pande, Asim Khwaja, and Dilip Mookherjee, all leading development economists with a strong interest in microfinance, they reviewed this by saying that

"When it works well, microfinance can be a win-win situation, as the poor can borrow money at rates that may look high, but are much lower than those offered by moneylenders; and banks can make a sustainable business in lending to the poor. All this rests as much on a social contract as on a legal contract. MFIs need to be more diligent in their lending and screen borrowers better — if too many borrowers can't repay their loans, the social obligation will start to fall apart"[10]

Currently micro finance institutions can provide a small percentage of poor people. We have seen many people are not well known of their services. So, a small percentage of people are able to generate their income. A large percentage of people excluded from their services.

Rank	Country Name	Total Borrowers to Total Population (%)	Percent of Female borrowers (%)	Average Amount Borrowed per borrower ($)	Penetration Ratio[11]
1	Bangladesh	14.1	93.6	134	32.5%
2	India	2.2	95.9	163	6.7%
3	China	0.04	77.1	23.254	0.4%
4	Pakistan	1.1	61.2	0.46	5.2%
5	Indonesia	0.2	86.8	289	1.2%

In case of Bangladesh, we have seen a little hope regarding in this issue. Grameen Bank and BRAC make a positive impact in case of this issue.

Does microfinance contribute to enterprise growth and income?

Storey (1994) states that the risk associated with the very high failure rates for microenterprises, in chief new start-ups have to be considered. For example, in Tamil Nadu state in India, one program study found less than 2% of microenterprises still operating three years after their establishment (George, 2005). In Bosnia and Herzegovina, World Bank researchers found that up to 50% of microenterprises failed within one year of their establishment (Demirgüç-Kunt et al., 2007). As Davis (2007) notes from his work on Bangladesh, such failure can lead to irretrievable poverty.

Generally, the reason behind this failure is: at a primary stage the growth and income of a enterprise is very low, which does not cover their own need as well as the high interest rate of microfinance institution.

But it is true that microcredit is very effective for an established enterprise. An established enterprise can successfully utilize this microcredit to generate their growth and income.

Does microfinance make tremendous progress toward achieving the Millennium Development Goals (MDG)?

No single intervention can defeat poverty. Microfinance is not a panacea for poverty and related development challenges, but rather an important tool in the mission of poverty eradication. In many ways MFIs are helping to reach the MDG. MDGs generally focused on the health care, nutrition, education, environmental improvement, unexpected mortality of children and mother etc. All of these factors can be established successfully when households have increased earnings and greater control over financial services. And the earnings of household can be increased through the effective mechanism of micro finance institutions.

Does microfinance promote economic growth and development?

Lack of access to credit markets is a major reason why many economies cannot develop. In Latin America, over 360 million people lack access to basic financial institutions. To manage risk, financial activities i.e. credit, investment, savings accounts and insurance are evidential. Investment plays a key role in development. In the Solow Growth Model, high levels of saving (investment per worker) lead to faster output growth in the short-run. Changes in the amount of capital per worker change how productive workers are an in economy. For example, Singapore had a 40% saving rate and 5-6% GDP growth from 1960 – 1996 whereas Kenya had a 15% savings rate and GDP growth of about 1%.

Usually, the lesser-developed economies do not have access to financial technologies because perspective borrowers lack collateral; institutions do not want to pay high monitoring, screening, and enforcement costs; and because risks are very high in populations that suffer from severe illness, malnutrition, and low levels of education.

[10] The Economist (2010), "Big trouble for microfinance: The woes for small-scale lending continue", Free Exchange
[11] Sustainable Microfinance in Asia, Landscapes, Challenges and Strategies, Milken Institute, January 2014.

So, we can say that MFIs give the access opportunity to financial technologies to the poor. But the question is that, how much this opportunity is available for the poor? If MFIs can ensure this availability at reasonable condition then it will promote the economic growth and development.

Why has microfinance not worked as hoped?

We find some reasons for underperformance of MFIs which are as follows:

i. Growing dependency of upon micro-credit, coupled with high interest rates, means that a growing proportion of the unstable income of the poor is obstacle to cover interest charges.

ii. Unsustainable micro credit indebtedness is common place across developing countries.

iii. Interest rates have not fallen as much as predicted that means it was predicted that after covering high operational cost, interest rate of MFIs will be lower.

iv. Generating high financial rewards as salaries, bonuses, dividends and capital gains which are emphasis on the commercial model with the help of MFIs.

v. Market saturation and displacement of developing countries tends clients of microfinance in short term micro enterprises neglecting the long term micro enterprises.

Is microfinance sustainable?

Sustainability refers the long term continuation of microfinance program after the project activities have been discontinued (Ahlin and Lin 2006). The long term continuation of the microfinance program enables the clients to attain the financial services which are available on a continuous basis and get benefited from these in a routine manner. This program would fulfill the needs of the clients through the diversified services. The clear picture is that a large number of borrowers are getting small loans from MFIs as this sector is large and growing.

By their current position as well as future prospective, most MFIs are sustainable in the long run. Especially in case of Bangladesh, MFIs are more sustainable. However, this kind of sustainability is sometimes questioned in the open place.

4. RECOMMENDATIONS

We recommend some important issues to resolve the problems and challenges of microfinance institutions for better access to finance from the point of view of both institutions and the government.

For the MFIs:

i. The major factor of MFIs which hinders the poverty reduction approach is high interest rate. To reduce this rate, MFIs can try to reduce its default risk.

ii. Lower rate of interest should be provided.

iii. Savings should be made withdraw able frequently.

iv. Periodical survey is necessary to assess the overall activity and progress.

v. Identify the area where it works best.

vi. Long term entrepreneurial attitude should be grown by training program.

vii. For the benefit of the poor, credit delivery at the doo-step should continue at a reasonable cost to clients.

viii. Rationalizing the cost of fund by accessing various sources of funds, increasing operational efficiency and involving local small NGOs should be considered.

For the Government:

i. We know subsidy is not a good solution for the economic development but government should subsidize those area's MFIs which interest rate is relatively high due to high operation cost.

ii. Government should take some initiative to bring existing bank and insurance company forward to provide these services and to make a competitive market.

iii. Need both private and public partnership to strengthen the microfinance institutions.

iv. Every attempt for reducing poverty will be failed if the purchasing power of the poor reduces due to unreasonable and intolerable price hike. So, government should always try to control this fundamental issue.

5. CONCLUSION

Today the role of microfinance institutions (MFIs) is controversial for many reasons. Microfinance institutions in Bangladesh expanded without any structured plan and definite policy from the government since its beginning. It is observed throughout the article that in the name of poverty alleviation, the many MFIs are operating their microfinance business with irrational profits i.e. they are acting opportunistically rather than beneficially. These MFIs are not working to change the luck of the poor people; rather they are utilizing the poor people's money for their own interest and benefits. Overall, the evidence for microfinance shows a limited impact on poverty alleviation. Comparatively lower interest charged on loan, deposit mobilization through voluntary savings, high interest rate paid on deposit, free skill development training facility, less bias on female member, mandatory insurance program, freedom from political intervention, rationalization of the cost of funds through multidimensional sources, increase in operational efficiency and involvement of local small NGOs should be the major attributes of the policy of the MFIs for poverty alleviation.

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