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Micro Finance for Poverty Alleviation in Bangladesh: An Analysis of Outreach, Impact and Sustainability

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Abstract

Microfinance has emerged as an effective tool in fighting poverty in Bangladesh. Yet outreach of microfinance remains well below its potential; only half of the poor households have been under microfinance programs. The article thoroughly examines outreach of microfinance programs, its impacts and sustainability and opines that it is imperative to substantially expand outreach with sustainability for bringing the remaining poor households under microfinance network. It also suggests some policy measures to ensure continued supply of funds, the main bottlenecks in extending outreach, and combating poverty.

1. Introduction

Bangladesh has been able to draw the attention of the world community heralding new approaches to poverty alleviation through micro finance operations among poor households. A large number of NGOs have emerged to provide collateral free low cost credit to the poor inspired by the apparent success of Grameen Bank in reaching the poor. The model of Grameen Bank in poverty alleviation is being widely imitated in many developing countries. Even some poor regions of the developed countries such as USA and Canada are following the path of Grameen Bank in fighting poverty. The massive growth of Micro Finance Institutions (MFIs) has made national governments, development partners and NGOs across

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the globe think micro finance program as a way of helping credit-starved poor people. This has also created much fervor among researchers, development economists in particular, to research on the emergence, role, objectives and methods of micro finance program as well as its outreach, impact and sustainability.

In Bangladesh, like many other LDCs, local moneylenders dominate the informal credit market. Although the indigenous moneylenders are easily accessible for loans, they often charge annual interest rate of more than 100 percent, leading potentially profitable projects into ruins. On the other hand, formal banks have left the poor unbanked because they do not have suitable physical collaterals to offer. The lion share of Government-sponsored rural credit has gone to the rural elite rather than to the poor. The operators of micro finance argue that micro finance can be widely used as an effective tool in poverty alleviation. The Grameen Bank and other successful NGOs have led the way in developing appropriate methodologies in serving the poor. The existing theoretical literature attributes this success to peer group micro lending, monitoring, peer pressure, mutual insurance, information transfer etc. MFIs address the problems of targeting, screening, monitoring and enforcement innovatively. The problem of screening i.e. distinguishing the good (creditworthy) from the bad (not creditworthy) borrowers is solved by MFIs through formation of groups. Since all borrowers of a group are jointly liable for each other's loan and they know each other in almost all respects, a bad borrower has little chance to enter into a group. The problem of monitoring is also resolved through joint liability of all members of a group as well as close supervision of MFI's staff. Borrowers under joint liability lose the right to future credit in case of default by a member implying that group members monitor each other and compel debt repayments by threatening to impose social sanctions upon peers who default strategically. Though the poor have no useful physical collateral, peer pressure works as social collateral that makes group members to repay loans regularly.

MFIs have emerged over the last three decades in Bangladesh with the objectives of delivering micro financial services among the poor people for poverty alleviation. Many NGOs starting as relief and social awareness creating organizations have turned into micro finance institutions (MFIs). Micro finance has become the sole program for many NGOs though some NGOs are implementing micro credit program along with several social development programs like education, health, skill training and environmental issues. There are more than one thousand NGOs operating micro credit programs in Bangladesh

(Micro Credit Regulatory Authority, 2009). But Grameen Bank and 10 large NGOs dominate the micro finance industry covering 81 percent of total outstanding loans (around BDT 157.82 billion) and 87% of total savings (around BDT 93 billion). A sector-wise distribution of loans reveals that MFIs mainly finance the informal sector of the economy such as small business, cottage industries, mini transportation, livestock, fisheries, nurseries etc (Ahmed, Salehuddin 2004). Now micro finance accounts for more than half of the rural financial transactions and serves about 35 percent of rural households in Bangladesh. Now financial services of around BDT 160 billion are being rendered to 30 million poor people (Micro Credit Regulatory Authority, 2009). It is claimed that micro finance has been able to break the vicious cycle of poverty of millions of poor people.

Although micro finance has a positive impact on the living standard of the poor as many studies show, a large portion of the poor people, hardcore poor in particular, are yet out of the micro finance network (Hashemi 1997, Zaman 1997 and Ahmed, 2004). Besides, MFIs are largely dependent on subsidized or donor funds but with higher operational costs. In the backdrop of the declining trend of foreign fund, donor's insistence on financial sustainability and huge unmet demand of micro finance, it is imperative to assess the ability of micro finance programs to attract both subsidized and commercial fund to cater to the growing demand for micro financial services of thousands of the poor. The paper attempts to analyse the outreach of microfinance programs, their impacts on recipients and sustainability in Bangladesh. The objectives of the paper are two fold: first, to review outreach, impact and sustainability of micro finance programs in Bangladesh, and second, to put forward policy options to build a strong micro finance market capable of channeling the funds gathered both from donor agency and private sector to the poor people for alleviation of poverty through self-employment.

The rest of the paper is organized as follows. Review of literature is made in Section II. Section III reviews the outreach of micro finance programs in Bangladesh. Section-IV analyses the impact of micro finance programs on borrowers, which is followed by a discussion on sustainability in Section-V. Finally, Section VI contains findings, policy implications and conclusions.

2. Review of Literature

There has been a mushroom growth of studies on different issues of micro finance. There are some studies relating to target/outreach of micro finance programs such as Grosh and Baker (1995), Zaman (1998), and Meyer, Nagaranjan and Dunn (2000).The major impact studies on micro finance are Nigar Nargis (2008), BIDS (1990,1999 & 2001), Khandhker (2003), and Zaman (1997,1999,2004). Though there is a dearth of quality impact studies that reveal the actual impact on the beneficiaries, most studies show positive impacts on income, saving and employment of the poor, women in particular. Sustainability is vital for survival of micro finance institutions but to our knowledge only a few studies have been undertaken to address the issue (Khandaker, Khalily and Khan,1995; Conning,1999; and Khalily, Imam and Khan, 2000).

3. Outreach

The term 'outreach' is typically used to refer to the efforts by MFIs to extend loans and financial services to ever-wider poor borrowers (breath of outreach), especially toward the poorest of the poor (depth of outreach). MFIs established on the principle of serving the poor people measure their outreach in terms of scale or the number of clients they reach, and depth or the level of poverty of their clients. Characteristics of the clients take into accounts some key features like gender (male/female), poverty level (poor/ultra poor), and geographical focus (rural/urban). In addition to financial performance indicators, the level of outreach serves as a key indicator to assess the performance of MFIs.

Usually MFIs use land-based targeting of the poor, often in combination with additional criteria like the extent of labour selling, ownership of non-land asset etc. Large MFIs use land-based targeting of the poor, which is simple to implement because MFIs can easily select their potential clients with this criteria and they can also verify the information of the exact nature of ownership of land of the poor from their neighbors. The two large MFIs of Bangladesh have designed techniques of targeting the poor people based on ownership of land. The Grameen Bank brings such people under its micro finance program, who possess less than 50 decimals (0.5 acres) of land. Another large NGO, BRAC, selects poor households having less than 50 decimals (0.5 acres) of land and at least one family member of that household engaged in manual labor.

MFIs like GB and BRAC have reported success in reaching their targeted people. According to Micro Credit Regulatory Authority, Grameen bank and 10 large MFIs have brought 28.4 million people under micro finance programs up to June 2008 (Annexure-2). A study by Khandhker (1998) reveals that members in GB, BRAC and BRDB include only 11, 18 and 15 percent non-poor household. One of the striking features of microfinance is that more than 90% participants are women. Though male members dominate in microfinance programs during the initial stage, women now outperform men overwhelmingly in microfinance activities.

Notwithstanding the success of MFI in targeting and reaching among millions of poor, women in particular, its failure has been noticed not to cover millions of poor, hardcore poor in particular. Currently, microfinance covers approximately half of the poor in Bangladesh.

4. Impacts

The term “impact” refers to both economic (i.e. increase in income, consumption and assets level) and social (i.e. skill development, empowerment etc.) benefits the poor households receive after joining the microfinance programs. The key success of microfinance hangs on how far it can address the constraints faced by the poor in poverty alleviation. The constraints include lack of ownership of productive assets and adequate employment opportunities. It is evident that microfinance provides an alternative form of productive resources for the poor households, which eases the constraints in the credit market and thereby creates self-employment, and increases productivity and earnings. It is observed that the amount of microfinance disbursed by MFIs has been increasing very fast in Bangladesh with high recovery rate (Bangladesh Bank, various issues). The assessment of key impact studies also shows a positive impact of micro finance on the lives of the poor people (Ahmed, 2004).

The overall impacts of microfinance in Bangladesh can be analyzed under the following headings.

(1) Impact on Poverty via Promotion of Employment, Income and Expenditure

The key success of microfinance is the generation of self-employment for near 30 million poor households in different economic activities, off-farm activities in particular. MFIs have made good strides in creating self-employment for the poor, women in particular. Microfinance has contributed to labor productivity of the poor through addition to the existing capital. Following the rapid expansion of microfinance, a large number of hard working poor women have been engaged in different income generating activities and thereby alleviating poverty. Some studies show that the generation of self-employment is the main mechanism through which microfinance has been effective in accelerating the growth of income/expenditure and reducing poverty. This is reflected in the higher labour force participation ratio among participants in microfinance programs as compared to non-participants. It is also revealed that poverty situation has improved among recipients of microfinance (Hossain, 1984, 1988; Rahman 1996; BIDS 1990, 1999 & 2001; Morduch 1998; Khandhker S.R 1998, 2003; and Zaman H 1999 & 2004).

Impact studies by Hussain (1984,88) reveal that microcredit encourages the participating households to involve in non-agriculture occupation. The study by Hussain (1988) also reveals that the average household income of the Grameen Bank members was about 43 percent higher than the income of the target group in the control village and about 28 percent higher than that of the target group non-participants in the project villages. Poverty situation has been less serious among Grameen Bank members: only 61 percent among Grameen Bank members were moderate poor compared to 80 percent for the target group in the control villages.

The study by Rahman (1996) also confirms higher labor force participation ratio between both male and female borrowers. Rahman (1996) showed that about 97 percent borrowers achieved an increase in income and only one percent reported a decline. Households expenditures who borrowed more than once was found to be 17 percent higher than those who did not borrow. Findings of the BIDS studies (1999, 2000, 2001) reveal that micro credit has a positive and significant effect on poverty status of the program households. It is revealed from these studies that wage earning of the participating households was 8% higher than that of the non-participating households due to higher wage earning from transport and other non-farm activities run on micro credit.

Khandker (1998) estimates that for every 100 taka lent to a woman, household consumption increases by 18 taka; the figure is 11 taka if the same amount was lent to a man. Moderate poverty falls around by 15 % and ultra-poverty by 25% for households who have been BRAC members for upto three years. Micro credit also smoothes consumption of the poor households. Morduch (1998) shows that consumption variability is 47% lower for eligible Grameen households, 54% lower for eligible BRAC households, and 51% lower for eligible BRDB households, compared to control group. The consumption smoothing is driven by income smoothing as evidenced by the significantly lower labor supply variability experienced by micro credit members.

A recent study (Khandker 2003) based on panel data reveals that micro credit has significantly contributed to reducing poverty. It also reports surprisingly that the extreme poor benefits more using micro credit compared to the moderate poor.

One of the key strengths of microfinance is reflected in its capacity of reducing vulnerability of poor households affected by natural disasters (Zaman 1999 & 2004; BIDS 2001). Many MFIs provide emergency as well as rehabilitation assistance to micro credit members to cope with crises arising from natural disasters and thereby reduce vulnerability of the poor.

(2) Impact on Savings and Investment

MFI influences the rural informal credit market through its impact on poor household's savings and investment. MFIs help to reduce the dependency of poor on the informal money market directly through the provision of microfinance and also indirectly through the scope for increased savings by poor households. Loans from MFIs supplement their own investment and bridge the consumption need in slack reason. In addition to cash savings, poor household's savings take various forms of direct investment. The value of such investment may be substantial and it may even be higher than cash savings. MFIs are expected to contribute to accumulation of both working and fixed capital of the poor. *(Hossain, 1984; Mustafa et al, 1996; Khandker and Chowdhury 1996; Rahman 1996;* Zaman 2004).

Micro credit reduces the dependency of poor households on the informal credit market, and thus stops the mechanism through which poverty is perpetuated. The study by Hussein (1988) shows that the dependency of Grameen Bank participants on non-institutional sources was lower in comparison to similar groups of non-member households in the project and control villages. Only 6 percent of GB members received loans from non-institutional sources compared to about 18 percent of the bank's target group in the villages and 20 percent among non-members within the project villages. The share of institutional loans to total loans was 78 percent after the GB entered into rural financial market. The study also reports that 80 percent of households reported accumulation of non-agricultural capital after joining Grameen Bank and the average amount of investment was higher for the two term borrowers than for one time borrower. His findings also showed that the share of equity in total investment increased from 11 percent to 28 percent for members borrowing four times or more.

A study by Rahman (1996) shows that micro finance has positive impact on savings and assets accumulation. It is observed in Rahman's study that the first time borrowers did not spend much on capital assets; but those who borrowed more than once, spent a much higher amount on capital assets.

An Impact assessment of ASA borrowers shows that the average value of physical assets increased by 127% in rural areas and about 150% in urban areas over a five year period. Moreover, the average increase in cash savings was 133% and 111 % in rural areas and urban areas, respectively, over the same five-year period. BRAC, Grameen and PKSF partner organizations have the similar experiences (Zaman 2004).

(3) Impact on Empowerment of Women

The most important impacts of microfinance is reflected in the empowerment of women. Empowerment of women includes both material and non-material benefits achieved through participation in micro credit programs. Material benefits means increase in income, nutrition, food security, health care facilities etc. Non-material benefit includes increase in the power of decision-making, self-sense of honor, respect and recognition from family members and others of the society, and higher mobility.

In Bangladesh, above 90% of the recipients of microfinance are women who have been able to raise their status in decision-making process in the family through involvement in income generating activities. Microfinance can help women to break the vicious circle of poverty and deprivation. Though Goetz and Gupta (1996) reveal a minimal impact of microfinance on empowerment of woman, many studies like Rahman (1996), Hashemi, Schular and Riley (1996), and Zaman (1998), Mahmud S (2000, 2004) show positive correlation between participation in microfinance and empowerment of woman.

The study of Goetz et al (1996) gave a sceptical view on impact of micro credit on women. Women's control over loans as the indicator of empowerment is used in the study. The study concluded that credit reinforces gender roles and inequalities, which they believe, will do little to alter the social status quo. However, this study fails to recognize that credit becomes part of the overall household income and that household members jointly participate in the loan investment. Even if the woman is not controlling the credit, she is still the bearer of the money, which gives her a stronger bargaining power within the household.

(4) Impacts on Human Capital Formation

MFIs help human capital formation of the poor through enhancing productivity. Some MFIs have adopted non-formal primary education programs, which contribute to increase in school enrollment and education of children of poor households. Most MFIs require that the members learn to sign their names. Besides, some NGOs have training schemes. Thus MFIs have been effective in generating relevant skills and social awareness which leads to human capital formation badly needed for socio economic upliftment of the poor. (Rahman 1996; Hossain, 1998, Khandker 1998, BIDS 2001).

The studies of Rahman (1996) and Hossain (1998) reveal that the households who participate in MFIs have a higher school enrolment rate of children compared to the control group. The study of Khandker (1998) also confirms the same view. Halder (1998) shows that the awareness and school training programs have been useful in the daily life of BRAC members. The BIDS 2001 study shows that in addition to reduction in poverty, improvements in other social indicators (child immunization, use of sanitary latrines, contraceptive prevalence) are also noticeable for micro credit program members compared to non-members (Zaman 2004).

(5) Impact on Non-participants

Microfinance programs have impacts on non-participant members as well, which are routed through many channels. The social impacts in the form of knowledge, awareness and better practices of health, sanitation and family planning are spread to the non-participant members. Such spillover effects are expected to be positive. MFI may affect the rural labor and capital market in such a way that non-participants are also benefited. Since supply of institutional credit increases due to the expansion of microfinance, the total available credit will also increase, leading to a decline in the rate of interest. In the labor market, an increase in self-employment among the microfinance recipients has been demonstrated. This has been associated with a decline in the wage employment among participants. As a result, the non-participant poor will obtain more wage employment (Hossain 1988).

The study by Khandhker (2003) reports that micro finance not only affects the welfare of participants but also the welfare of non-participants. The study demonstrates that male borrowing from micro finance programs increases welfare of non-participants by promoting food and non-food consumption and reducing extreme poverty. Female borrowing has no significant effect on consumption of non-participants but it reduces extreme poverty and increases household's non-land assets of non-participants. The study cites that non-participants benefit due to the externality of borrowing by participants and thus raise the overall welfare of the society.

Though micro finance has positive impacts, it is also revealed in few studies that MFIs have been able to reach only half of the poor of the country. MFIs have failed to reach the very poor in particular. The very poor or hardcore poor accounts for 24% of rural populations, who are often severely undernourished, marginalized and often become ill or unable to work. They are excluded from microfinance for a range of causes relating to their low capacity, low self-esteem and vulnerability. It is also observed with surprise that MFIs/NGOs could not be able to alleviate poverty in economically backward monga-prone (semi-famine situation) regions such as greater Rangpur district and some other parts of the country. It implies that the success of NGO operations depends largely on the better performance of key sectors (agriculture or industry) of national economy and that without Government's direct support, NGOs' approach is ineffective to produce pro-poor growth in economically backward regions.

Another provocative question is whether MFIs are in a position to help those who graduated using microfinance and need large loan to develop SMEs. Critics of micro-finance refute the claim that micro finance can help the poor, saying that micro-finance, instead of helping the poor, has created debt cycles to pay the installments of loan by making fresh loan from moneylenders. A World Bank Report reveals that some NGOs are illegally involved in political activities in Bangladesh (The Financial Express May 18, 2006). The report also cites that some NGOs are making brisk business without paying taxes and duties to the national treasury. The debate over impact should be further researched with appropriate tools and methods under independent research organizations without the influence of donor agency and MFIs.

5. Sustainability

Sustainability is taken to mean full cost recovery or profit making and is associated with the aim of building microfinance institutions that can last into future without continued reliance on government subsidies or donor's funds. Sustainability is generally attained at two levels: operational sustainability and financial sustainability (Morduch 1999). The operational sustainability refers to the ability to generate sufficient revenue to cover operating costs, financing costs, and provision for loan losses but not necessarily the full costs of capital. The financial sustainability means covering all operating costs including costs of funds. An ideal MFI first attains operational sustainability and then financial sustainability. Both levels of sustainability are required for an MFI for survival in the long run. The issue of sustainability has drawn much attention of all stakeholders of microfinance, researchers in particular, due to (a) a greater dependence of microfinance on subsidies/donor fund, (b) high interest rate and operational cost, and (c) the desire for transforming microfinance programs into financially viable ones to attract commercial funds for extending outreach among millions of poor remaining outside the microfinance network.

There are two different views on sustainability: (i) poverty lending approach and (ii) financial system approach (Robinson M 2001). Advocates of poverty lending approach do not recognize the importance of sustainability arguing for a focus on targeted outreach rather than sustainability. They are of the opinion that access to credit is a universal fundamental right of the poor and they contend that a narrow insistence on cost recovery and the elimination of subsidies would force MFIs to shed the poor from their portfolios of borrowers because they are precisely the most difficult and costly to attend. They also argue that society should be willing to consider subsidizing MFIs for they can efficiently target and positively affect the livelihood of the poor. The proponents of financial system approach stress on sustainability through raising interest rate and lowering cost. They argue that subsidized institutions tend to be inefficient and unsustainable. Besides, they support profit motive to attract massive commercial funds from the private sector to extend outreach of microfinance among thousands of poor because mere dependence on donor funds or subsidized funds are not sufficient to cater to the growing demand for microfinance. It is also observed that donor-funded institutions have high expenses preference than do the less donor-funded programs implying that cheap funds drive overhead costs up.

There are also intense debates regarding tradeoffs between poverty alleviation and sustainability A large body of critics suggest that sustainable microfinance programs are effective only for the moderate poor (consumption under 2112 kcals/head/day), not for the hardcore poor (consumption under 1805 kcals/head/day). The moderate poor can use commercial micro credit efficiently and can make regular repayments. The hardcore poor needs subsidized funds plus other assistance like food, shelter and medicare so that they can qualify for commercial micro finance in the future.

Though in Bangladesh, some MFIs have attained near sustainability, a large number of MFIs are still dependent on subsidized funds like Palli Karma Sahayak Foudation (PKSF) fund and donor's fund. Micro credit programs may be subsidized in their early years of operation and these programs may attain self-sustainability over time. Following this approach, Grameen Bank is close to sustainability after 15 years of operation and similarly quasi-formal MFI ASA has attained a higher degree of sustainability within seven years. In fact, if we want to extend outreach of microfinance among millions of the poor, we need innovative microfinance programs capable to invite commercial funds for poverty alleviation since subsidized and donor's funds are not sufficient to finance poverty alleviation activities. But there is no legal framework and supervisory agency for MFIs to gather funds from the public and other commercial sources. Recently formed Micro Credit Regulatory Authority (MRA) is a bold step to bring MFIs under a proper legal structure. Most MFIs have governance problems to handle commercial funds cost-effectively.

6. Findings, Policy implications and Conclusions

Briefly, the main findings of the study are that (a) MFIs have been able to reach half of the poor in Bangladesh; the other half of the poor, hardcore poor in particular, are yet out of the microfinance network; (b) microfinance has positive impacts on the poor's employment, savings and health care and empowerment of women; (c) though some large NGOs have attained near sustainability, a large number of NGOs are still dependent on donor funds or subsidized funds; (d) MFIs have failed miserably to reduce poverty in economically poor areas.

Based on the above findings, some key policy implications can be derived.

i) To reach the poor, the hardcore poor in particular, MFIs should re-examine the targeting tools. Steps should be taken to upgrade innovatively targeting tools so that NGOs can choose the genuinely poor people to bring them under the microfinance programs.

ii) To assess the proper impact of microfinance programs on participants and non-participants, a comprehensive and in-depth study should be undertaken. MRA, PKSF and BIDS can conduct the study jointly.

iii) To attain sustainability, following measures may be adopted:

  (a) **Adequate supply of Funds:** In order to reduce dependency on donor funds, enhanced supply of funds can be made possible by (i) raising voluntary and involuntary savings of NGOs/MFIs; (ii) attracting commercial funds; (iii) increasing the size of wholesale funds;(iv) introducing loan guarantee services; (v) raising funds from capital markets (vi) securitization of income receivables of MFIs.

  (b) **Building Sound Legal Framework**: It is surprising that MFIs operate in a loose regulatory environment. Microfinance is provided to the poor without following the rules, practices of formal banking system since objectives and operational mode of formal banks and MFIs are different, and they are not taking deposits with checking facilities. But MFIs need a sound legal framework for smooth and wide scale operation based on commercial funds**.** It is expected that the newly formed ‘Microcredit Regulatory Authority’ under Microcredit Regulatory Authority Act, 2006 would give MFIs necessary legal coverage to function properly.

(c) **Diversification of Financial Products**: MFIs must diversify financial products and innovate suitable products for extending horizontal and vertical outreach of microfinance with a view to addressing the financial needs of the poor. Such diversification will ensure the viability of MFIs as well as its programs designed for poverty alleviation. All groups of the poor are likely to need financial services relating to savings, credit and insurance.

(d) **Rational Service Charges**: A crucial factor to attain sustainability is the application of rational interest rate. It is argued that MFIs set high interest rate in the name of poverty alleviation and the poor people would not be able to break the vicious circle of poverty if interest rate is not lowered. This is not justified. MFIs in Bangladesh charge between 11-15 percent flat interest which is much lower than that of money lender (more than 100%) and BRI (27%) - a successful commercial MFI in Indonesia. The interest rate of MFIs is high as compared to that of commercial bank since transaction costs are higher in dealing with small loans and taking financial intermediary directly to the poor’s doorstep. Surplus generated from this operation is ploughed back through the revolving fund in order to be able to serve more clients and enhance loan size. MFIs should charge such interest rate to cover operational cost with a view to achieving sustainability and attracting huge commercial funds into microfinance industry.

(e) **Measures for Hardcore Poor**: Microfinance programs based on commercial motive can not solve problems of the hardcore poor; they need support beyond subsidized funds, which includes food relief, training and health facilities. Target oriented programs like BRAC’s successful program ‘Income Generation for Vulnerable Group Development’ (IGVGD) may be undertaken to address the problems of the hardcore poor. Government support must also be continued for the hardcore poor through different ministries/departments.

(f) **Operation of other poverty-reduction Tools viz-a-viz Microfinance**: A study by Nigar Nargis (2008) showed that microcredit intervention in its present form appears to be inadequate in helping the poor to sustain accumulation of income. The study also revealed that if it takes the poverty head count ratio six years to decrease by five points, that is approximately one point each year, it may take another 70 years to eradicate poverty from its current level of 68%. Obviously, besides micro credit tool, poverty reduction strategy should include adoption of coherent measures for sustained growth in agriculture and SMEs with macroeconomic stability, manpower export, agrarian reform, formation of national climate fund, and inclusive democratic process from below.

There is no denying that micro finance has emerged as an effective poverty-alleviating tool in Bangladesh but it covers only half of the poor households due mainly to want of sufficient capital. Donor's funds and subsidized government funds are not enough to meet the growing demand of micro finance. Both horizontal and vertical expansion of micro finance is necessary in Bangladesh to combat the growing unemployment and acute poverty. To this end, a strong micro finance market run on market force having a proper legal base needs to play an effective role of financial intermediary to attract both commercial and subsidized funds for self-employment and smooth advancement of micro-enterprises. Commercial funds are also required to support graduation of microfinance recipients to SME entrepreneurs. The hardcore poor needs subsidized funds plus other social supports because the invisible hands of the market economy cannot remove their hardships. We should also remember that poverty is a multidimensional complex problem; microfinance is not the sole panacea in fighting poverty. The overall improvement in the living conditions of the poor requires, among other things, agrarian reform, democratic decentralization, public actions towards better physical and social infrastructures, sustainable measures for mitigation of sufferings of people affected by recurring natural disasters and adoption of pro-poor growth policies.

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