Does Microfinance Play the Role of Ethical Finance? Evidence from Bangladesh

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Abstract

The universal appeal to make the world poverty free is manifested in constitutions of all countries, writings of humanitarian intellectuals and teachings of all religions. The present world is a strange manifestation of plenty of resources with abject level of poverty which is contrary to the spirit of inclusive sustainable development. In combating poverty, microfinance has emerged as one of the effective tools across the globe. Microfinance can be called as ethical finance as it offers small financial services among poor, women in particular to promote standard of living of the poor and their empowerment. Though Bangladesh has achieved worldwide recognition as a star performer in microfinance near 37.04 million people, one-fourth of total population still live in poverty. The experience of poverty programs of NGOs during the last three decades reveals that they have, in general, been successful in serving the moderate poor but failed in reaching the extreme poor. The present paper will review the roles of micro finance programs as ethical finance in Bangladesh.

Keywords: Micro finance, ethical finance, poverty alleviation, empowerment

JEL Classification number: G21, I32, L3, O16

1. Introduction

The universal appeal to make the world poverty free is manifested in constitutions of all countries, writings of humanitarian intellectuals and teachings of all religions. The present world is a strange manifestation of plenty of resources with abject level of poverty which is contrary to the spirit of inclusive sustainable development. In combating poverty, microfinance has emerged as one of the effective tools across that globe. Microfinance can be called as ethical finance as it offers small financial services among poor, women in particular to promote standard of living of the poor and their empowerment. Though Bangladesh has achieved worldwide recognition as a star performer in microfinance and Grameen bank, a successful MFI won noble peace prize, near 40 million people, one-fourth of total population still live in poverty. Currently, Bangladesh microfinance industry offers financial services among nearly 37.04 million poor people; more than 90 percent of them are women. A number of empirical studies reveal that micro finance has positive impacts on the living standard of the poor (Zaman, H, 2004; Khandker, S. R., 2005, Osmani, S.R., 2012 and Khandker, Shahidur R., et. al.,. 2015). The experience of poverty programs of NGOs during the last three decades reveals that they have, in general, been successful in serving the moderate poor but failed in reaching the extreme poor (Emran, M. S., Robano, V., & Smith, S. C., 2014). The present paper will review the roles of micro finance programs as ethical finance in Bangladesh. The paper will also provide policy options for smooth growth of microfinance in Bangladesh so that microfinance programs can work as ethical finance toward poverty and inequality reduction.

In Bangladesh like many other LDCs local money lenders dominate the informal credit market. Although the indigenous money lenders can assess and monitor borrowers easily and cheaply, 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 of absence of suitable financial products and illegible collaterals. The lion share of Government sponsored rural credit has gone to the rural elite rather than 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 a 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 right to future credit in case of a default 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 make 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 organization 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 with several social development programs like education, health, skill training and environmental issues. There are four main types of institutions involved in microfinance activities in Bangladesh: (a) Grameen Bank; (b) NGO-MFIs that have received licenses from Microcredit Regularly Authority (MRA); (c) Commercial and specialized banks; (d) Government sponsored microfinance programs (e.g. through Bangladesh Rural Development Board-BRDB, co-operative societies and programs under different ministries of the Government[2]. However, Grameen Bank and 10 large Microcredit Institutions (MFIs) represent near 90% market share of microfinance industry. The micro finance industry has total outstanding loans of around BDT 829.16 billion and total number of members of 37.04 million in 2015[3]. A sector-wise distribution of loans reveals that MFIs mainly finances the informal sector of the economy such as small business, cottage industries, mini transportation, livestock, fisheries, nurseries etc.

Although micro finance has positive impact on the living standard of the poor as many studies show, a large portion of poor people, hardcore poor in particular are yet out of micro finance's network (Hashemi, 1997, Zaman 1997 & Ahmed, Salehuddin 2004 and Emran, M. S., Robano, V., & Smith, S. C., 2014). As ethical finance has an objective of building inclusive financial system for promoting welfare of each member of the society and microfinance has the major target of serving the poor, it is imperative to identify whether microfinance program has been successful as a tool in attaining its objective of serving the poor. Given this, the present paper will examine the efficacy of micro finance program from ethical finance perspectives in Bangladesh.

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[2] Resume of Banks, Insurance and Financial Institutions. 2015/16. Ministry of Finance, Government of Bangladesh

[3] ibid

The objectives of the paper are two-fold: first, to examine the efficacy of micro finance program in Bangladesh from ethical finance perspectives, and second, to put forward policy options to build an ethical micro finance market capable to serve all types of the poor.

The rest of the paper is organized into the following ways. Review of literature is made in Section II. Section III examines links between ethics and micro finance programs. Section-IV analyses impacts of microfinance on borrowers, which is followed by a discussion on challenges of microfinance programs in Bangladesh (Section-V). Finally, Section VI contains policy implications and conclusions.

2. Literature Review

A number of literatures focused particularly on examining the effect of microfinance.

Zaman (2004) argued that microcredit plays a significant role in reducing household vulnerability to a number of risks and that it contributes to improving social indicators. He found that strategic donor investments in a handful of well-managed institutions that offer a simple, easily-replicable financial product could lead to large gains in access to finance for the poor.

Khandker (2005) examined the effects of microfinance on poverty reduction at both the participant and the aggregate levels using panel data from Bangladesh. He found that access to microfinance contributes to poverty reduction, especially for female participants, and to overall poverty reduction at the village level. He concluded that microfinance thus helps not only poor participants but also the local economy.

Vanroose (2007) argued that Micro finance's ability to effectively reduce poverty is not yet clear, and it generates some unresolved ethical questions. Then, he defined poverty in a broader sense to include deficiency in human and social capital. He showed that, in this broad sense, microfinance may have negative as well as positive effects on poverty.

Duvendack and Palmer-Jones (2011) applied propensity score matching (PSM) to differentiate outcomes by gender of borrower taking account of borrowing from several formal and informal sources. They found that the mainly positive impacts of microfinance that they observe were shown by sensitivity analysis to be highly vulnerable to selection on unobservables, and they are therefore not convinced that the relationships between microfinance and outcomes are causal.

Hudon and Sandberg (2013) reviewed recent researches on the microfinance sector that addresses ethical issues. They noted that unfortunately, this sector had been largely neglected in the more critical or philosophical literature. They also argued that microfinance is an interesting test case for several important theoretical issues in business ethics, such as how to define poverty and development, understand exploitation, and view companies with a social mission.

Osmani, S. R., & Latif, M. A. (2013) did an extensive study on the pattern and determinants of rural poverty in Bangladesh. They summarized that despite the overall nature of poverty reduction, the rate of decline was not the same for everyone. Their result showed that poverty status significantly associated with a number of factors - specifically, access to assets, availability of working members within the household, education, access to non-farm employment opportunities, access to microcredit and remittance, and connectivity.

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Chakrabarty and Bass (2014) examined whether microfinance institutions (MFIs) that serve women borrowers at the base of the economic pyramid were likely to adopt a written code of positive organizational ethics (POE). Using econometric analysis of operational and economic data of a sample of MFIs from across the world, they found evidence that MFIs can build positive ethical strength in negative contexts.

Khandker, M. A. et al. (2015) critically evaluated the heterogeneous effects of microfinance intervention in rural Bangladesh and concluded that large and medium asset holders benefit more than marginal or small holders from microfinance. They also found that households with older heads or more adult males are likely to quit microfinance. However, program dropouts are not large enough to cancel out the overall beneficiary impact of microfinance.

Raihan, Selim et al. (2015) systematically assessed the role of microfinance to GDP in Bangladesh using computable general equilibrium (CGE) model. They found that in 2012 the contribution of microfinance to GDP in Bangladesh was between 8.9 percent and 11.9 percent depending on labor market assumption where the contribution of rural microfinance to rural GDP in Bangladesh was between 12.6 percent and 16.6 percent. They argued that their result underestimated the actual scenario as the methodology used in the study was not enough comprehensive to incorporate all socio-economic channels through which microfinance can contribute to GDP.

Khatun, F and Hasan, M (2015) agreed that microfinance plays a positive role in improvement of the living standard of poor people, women empowerment and poverty reduction. Despite the argument against the effectiveness of microfinance, they concluded that microfinance institutions promote economic sustainability through supporting informal micro enterprises.

Khalily, M. B. et al. (2016) explored the issue of overlapping and over-indebtedness of Bangladesh micro credit market using household level data. Overlapping household, i.e., more than one member of the family having membership with one or more institutions with or at least one person in the family having membership with more than one MFI, is better-off in terms of net savings, net assets, income, food and non-food expenditures, number of earning members, diversification of occupation structure, and employment creation. The issue of over-indebtedness is measured in growth of net assets. Commonly, overlapping has not contributed to over-indebtedness for any group of overlapping households. They suggested creating appropriate insurance mechanism to minimize vulnerability of households and to create larger impact of microcredit.

3. Ethics and Microfinance

3.1 Concepts of Ethics

The concept of ethics comes from the Greek word, “Ethos” that means both an individual’s character and a community’s culture. Though there are diverse views regarding ethics expressed by many scholars, it is not difficult to have a simple concept of ethics. Ethics may be defined as

- “Good behaviour” that recognize the rights and interest of others as well as society as a whole (Rahman, Muhammad Habibur, 1999).
- The study of morality that is concerned with the standards that an individual or a group has about what is right and wrong (Velasquez, Manuel G., 2011).
- The study and philosophy of man with emphasis on the determination of right and wrong and also as the basic principles of right action, moral principles, moral philosophy etc. The word ethical has been variously interpreted as morally correct, honourable, decent, fair, good, honest, just, noble, principled, righteous, upright, virtuous and so on (Islam, A. B. Mirza Md. Azizul, 2011).
- Ethics are principles that explain what is good and right and what is bad and wrong and that prescribe a code of behavior based on these definitions (Gomez-Mejia, L. R., & Balkin, D. B., 2012).
- Ethics are based on value a system which refers to important and lasting beliefs pertaining to right and wrong, fair and unfair, good and bad and desirable and undesirable handed down in society through customs, tradition, religion and anchoring these families (Alamgir, M., 2015).

3.2 Ethics and Microfinance

Before establishing links between microfinance and ethics, it would be helpful to understand key features of the microfinance.

- Microfinance offers micro financial services among poor people. The former includes microcredit, micro savings, micro insurance, pension and other financial products provided mainly by NGOs/MFIs among the low-income poor people. Loan amounts up to BDT 50,000 are generally considered as microcredit; loans above this amount are considered as microenterprise loans (MRA).
- The key objectives of microfinance industry are poverty alleviation and empowerment of the poor
- Majority of the clients of microfinance industry are women.
- As mainstream banking system fails to serve the poor due to absence of the suitable collaterals, MFIs have emerged to serve the unbanked people using microfinance as a powerful tool of financial inclusion.
- MFIs provide door-to-door services among the poor; clients do not need to come to the MFI office that saves time.
- The recovery of microcredit is above 90% against huge amounts of NPLs of banking systems in Bangladesh.

It is clear from the above information that there are close relationships between microfinance and ethics that implies the greatest good for the greatest number.

4. Present status and Impacts of Microfinance

Providing easy access to financial services among poor by MFIs and other institutions brings myriads benefit in Bangladesh, the birthplace of modern microfinance of the world. The assessment of key impact studies shows positive impact of micro finance on the lives of the poor people.

Potent Driver of Financial Inclusion for the Poor: In Bangladesh, microfinance programs work as the most powerful diver of financial inclusion to include unbanked poor people. Now about 37.04 million poor get micro financial services. No other public or private program has been as successful as microfinance programs to reach the poor that help them promote income, employment and alleviate poverty. MFIs play the dominating role in microfinance market accounting for 93% share of microfinance programs.

The amount of microfinance disbursed by MFIs is increasing fast with high recovery rate (more than 90%) in Bangladesh. Not only that the amount of annual microcredit (around BDT 829.16 billion) disbursed by NGO-MFIs has already outpaced the amount of annual agricultural credit (BDT 176.46 billion) by state owned and private banks. Obviously, micro credit has evolved the most powerful tool of financial inclusion among unbanked poor people. Obviously, MFIs have emerged as the most strong part of rural markets.

4.2 Micro credit for Poverty Alleviation via Promotion of Self-Employment: MFIs have proved that micro borrowers are creditworthy who pay regularly with recovery rate more than 90 percent. In a fact, the key success of microfinance lies in addressing lack of finance faced by the poor in generation of self-employment for poverty alleviation. Microfinance provides small funds for income generating activities and thus it creates self-employment, promotes income and helps the poor to get rid out of the poverty trap. Microfinance also makes consumption smooth for the poor and helps them cope with the vulnerability stemming either from temporary lack of work or natural disasters.

Microfinance programs have been able to generate self-employment for poor households in different economic activities, off-farm activities in particular. Some studies show that the generation of self-employment is the main mechanism through which microfinance has been effective in accelerating growth of income/expenditure and alleviating poverty which 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 been improved among recipients of microfinance (Hossain, 1984, 1988: Rahman 1996; BIDS 1990, 1999 & 2001; Morduch 1998, Khandhker S.R 1998, 2003 and Jaman H 1999 & 2004).

A resent paper by S. R. Osmani (2012) upholds the role of microcredit in poverty dynamics in the rural areas of Bangladesh. The paper was based on the findings from the first phase survey of long-term panel surveys covering 6500 rural households in 63 districts, and it examined the factors, including the role of microfinance, that have a causal influence on poverty dynamics. The study used the dynamic adaptation of the entitlement approach for determination of contribution of micro credit. A conservative estimate was about 5 per cent – in the sense that if microcredit had not existed rural poverty would have been almost 5 per cent higher than what it was in 2010. The contribution to the reduction of extreme poverty was found to be considerably higher – about 9 per cent.

Though poverty remained stubborn in Bangladesh for nearly two decades since independence 1971, it began to decline appreciably since 1990. S. R Osmani (2012) rightly recognized the key players involved in poverty reduction in Bangladesh e.g. sustainable annual growth of GDP, strong inflows of external remittances and massive expansion of microfinance.

4.3 Promotion of Savings and Investment: MFIs have been able to defy the perception that the poor do not save. MFIs in Bangladesh initially mobilized compulsory savings but now these institutions collect different types of savings viz-a-viz obligatory savings. The outstanding of savings of MFIs stood at BDT 135.41 billion in June, 2015 which accounts for 34% of loanable funds.

MFIs influence the rural informal credit market through its impact on poor household's savings and investment. MFIs help 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 season. 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; ASA borrowers 2003, Zaman 2004).

S. R. Osmani (2012) also upholds the positive contribution of microcredit in asset accumulation by the poor. Access to microcredit was found to enhance the probability of moving up the asset ladder and to reduce the probability of falling. While this is true for both poor and non-poor households, the effect is much stronger for the poor. Most of the poor borrowers started their journey in life with fewer assets compared to poor non-borrowers. But over time they have been able to accumulate assets at a faster pace in comparison with poor non-borrowers, thereby narrowing the original gap in endowments, and access to microcredit is found to have made a positive contribution in this regard. Furthermore, faster pace of asset accumulation has not remained confined only to those borrowers who have utilised the loan productively; it has also extended to those who have used the loans mainly for consumption purposes. For the latter group, access to microcredit has helped by reducing the need for asset depletion at times of crises. The study has also found that microcredit's contribution to asset accumulation has translated itself into contribution to poverty reduction. Access to microcredit reduces the probability of being poor by 2.5 per cent.

4.4 Empowerment of women: In Bangladesh, recipients of microfinance are above 90% women who have been able to raise their empowerment through involvement in income generating activities. 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 benefits includes increase in power of decision-making, self-sense of honor, respect and recognition from family members and others of the society and higher mobility. Though Goetz and Gupta (1996) reveal minimal impact of microfinance on empowerment of woman, many studies like Rahman (1986), Ray (1987), Zohir (1990), Rahman (1996), Mustafa et al (1996); Schular and Hashemi (1995), Hashemi, Schular and Riley (1996), Zaman (1998), Mahmud S (2000, 2004) show positive correlation between participation in microfinance and empowerment of woman.

4.5 Impacts on Human Capital Formation. Besides micro credit programs, some MFIs conduct non-formal education, health and other social 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. 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).

4.6 Employment of Large Numbers of Graduates: MFIs do not only create self employment for millions of the poor, these institutes also generate jobs for more than 0.10 million young gradates. The continued tiredless service rendered by thousands of committed and devoted graduates across the whole of Bangladesh has contributed a lot to make the microfinance industry a success one in Bangladesh and the most viable model for financial inclusion of the poor of the globe. Based on information provided for the fiscal year 2010 by 482 NGO-MFIs, microfinance sector has created direct job opportunities for over 0.01 million people; 82 percent of them are male and 18 percent are female (MRA, 2015).

4.7 Export of Bangladeshi Model of MFI: The success of grouped based microcredit lending model among the poor in Bangladesh initiated by Nobel Peace Winner Prof. Mohammad Yunus has not confined only in the territory of Bangladesh; its wave has also reached in other developing as well as developed countries of the world creating hope of relief from poverty and social exclusion among millions of the poor. Such success has generated markets in abroad for Bangladeshi large MFIs (e.g. BRAC, ASA) to sell their service in building MFIs.

5. Challenges

5.1 Inclusion of Hardcore Poor: Though MFIs have been able to reach among the poor of the country, have failed to reach the hard core poor. The hardcore poor account for 12% of population of the country who are excluded from microfinance for a range of causes such as low capacity, low self-esteem, vulnerability, high rate of interest and customized progrms.

5.2 Reaching Economically Backward Region: MFIs/NGOs could not become able effectively to reach among the people of economically backward regions of the country. As a result, MFIs showed poor performance to reduce poverty in economically poor areas. It implies that the success of NGOs operations depend largely on the better performance of key sectors of national economy (agriculture/industry) and without Government direct support, NGOs approach is not fully effective to produce pro-poor growth in economically backward regions.

5.3 Graduation of Micro finance Recipients: Another burning issue for MFIs is to help those who graduated using microfinance and need large loan to develop SMEs.

5.4 Overlapping: A few studies reveal that in some cases, microfinance has created debt cycles to pay the installments of loan by making fresh loan from moneylenders (Adams and von Pischke 1992; Dichter 1997; Johnson and Rogaly, 1997). Now it is imperative to address the issue of overlapping for sustainability of MFIs and small borrowers.

5.5 Sustainability: The issue of sustainability has drawn much attention to all stakeholders of microfinance due to (a) dependence of microfinance on subsidies/donor funds; (b) high interest rate and operational cost (c) interest of transforming microfinance programs into financially viable ones to attract commercial funds for scaling up programs. In Bangladesh, large MFIs have attained near sustainability but a good number of MFIs are still depended on subsidized funds like Palli Karma Sahayak Foudation (PKSF) fund and donor's fund. In fact, if we want to extend outreach of microfinance among excluded poor, and cater the demand of large loan of the graduated microfinance recipients, we need both soft and commercial fund since subsidized and donor's funds are not sufficient to meet growing demand.

5.6 Diversification of products: So far, the focus by NGO/MFIs has mainly on delivering credit. However, the poor need financial services covering the entire gamut - savings, loans, insurance, credit, payments, pension etc. By providing these services, NGO/MFIs can accelerate the pace of effective financial inclusion.

5.7 Governance: Good governance is essential to ensure quality of leadership and management. Governance and financial sustainability are also closely interrelated. Weak governance and management characterize many MFIs in Bangladesh. Many MFIs have been turned into club of retired persons and close relative of social elite having no understanding and commitment regarding microfinance industry. One of key challenges for survival of the microfinance is to ensure accountability and transparency in overall management of MFIs.

5.9 Regulation and Supervision: The MRA is now the sole watchdog of vast microfinance market of the country. As a new organization, it is evolving day by day. The present capacity of this regulatory organization seems to be insufficient in terms of manpower, resource base and geographical concentration (only in Dhaka). Besides, all MFIs in Bangladesh are incorporated under 4 different laws that has created many problems which needs to bring under one common law as Bank Company Act, 1991.

5.10 Ownership: Except Grameen Bank, all MFIs have not yet included representatives from the clients of micro finance.

5.11 Research and Training: There lacks skilled manpower and research works in addressing emerging issues of microfinance.

6. Policy Options and Conclusions:

Key policy options:

(1) Expansion of Outreach: To enhance the outreach in remote area and provide fast services to existing customers, MFIs need cost effective channel. In this case, MFIs may use mobile financial services. MFIs may establish partnerships with mobile phone operators and banks to reach the unbanked low income people. Presently some MFIs are providing only foreign remittances; other mobile financial services such as deposits, person to person's payments may be launched.

(2) Adequacy of Fund: MFIs need more funds to serve graduated clients and unbanked poor people. Enhanced supply of funds for graduated clients can be made possible by (a) raising voluntary and involuntary savings of NGOs/MFIs; (b) attracting more funds from commercial banks (c) increasing size of wholesale funds (PKSF); (d) introducing loan guarantee services (e) raising fund from capital markets (f) securitization of income receivables of MFIs. Soft funds for hard core poor may be increased through greater involvement of large MFIs and donor agencies. The present allocations for different ministries/departments of the Government in serving hard core poor must be enhanced. The fund for CSR allocated by private companies must be increased to meet various needs of hard core poor.

(3) Strengthening Supervisory Framework: The overall strength and capacity of MRA needs to be enhanced significantly in terms of manpower, resource base, geographical outreach and rule making authority in order to make it capable of meeting all of its operational targets. Supervisory works must be streamlined towards ensuring good governance of MFIs, which is vital for financial and operational sustainability. Days are gone for soft loans funds; good governance is a must for commercial funds which needs for maintained continued growth.

(4) Broadening Ownership: To make MFIs more transparent, accountable and people oriented new measures may be undertaken to include representative from micro borrowers and nonpolitical highly respected professionals having good grounding on microfinance and its mission.

(5) Diversification of 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 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.

(6) Rational interest rate: A crucial factor to attain sustainability is the application of rational interest rate. Some one argue 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. MFIs in Bangladesh charge between 11-15 percent flat interests which is much lower than that of money lender (more than 100%) but high compared to that of commercial banks. The interest rate of MFIs is high as compared to that of commercial bank since transactions costs are higher in dealing small loans and taking financial intermediary directly to the Poor's doorstep. Surplus generated from this operation is rolled 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.

(7) Programs for Hard core poor: Hard core poor need supports beyond subsidized funds which includes food relief, training and health facilities. Already Grameen Bank and large MFIs have undertaken special programs to address the problems of hardcore poor. But well coordinated area based sufficient programs are required. Each large MFI can be given the lead role in particular economically backward area avoiding overlapping. Government support must also be continued for hardcore poor through enhanced investment in physical and social infrastructures under different Government ministries/departments, and social safety nets. In a fact, charity based microfinance models rather than profit based model is more effective in addressing hard core poverty. As a Muslim majority country, Bangladesh uses Zakat and Waqf based microfinance models in fighting hardcore poverty.

(8) Strengthening Research and Training Capability: MFIs are facing many emerging issues that need to be addressed for smooth development of the microfinance industry. To meet the present and future challenges, it is imperative to strengthen research and training capability of MRA.

(9) Formation of Annual Program on Microfinance Programs: Like annual agricultural credit program, MRA may formulate and implement 'Annual Microfinance Program' in order to manage microfinance smoothly.

As ethical finance means inclusive financial system that promotes welfare of all member of the community, poor people in particular, microfinance has been established itself as an ethical type of finance due to its pro-poor program. Microfinance industry has mobilized 37.04 million poor members under its network; it has disbursed BDT 829.16 billon as loans and collected BDT 135 billion as savings. The impacts of microfinance programs on the lives of the poor are positive and significant. However, hardcore poor are generally bypassed by present type of microfinance programs. If microfinance programs have become able to include hardcore poor by charity based models successfully, microfinance may prove itself as a proper model of ethical finance that can benefit all types of poor and thereby promotes inclusive finance and growth.

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