

Role of micro finance essay sample

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To be an executive of today, theoretical study is not enough. It should be supported by practical which is necessary for the modern business world. In order to resolve the dichotomy between these two areas all the departments of the commerce faculty in Chittagong University arranges term paper report in partial fulfillment of B. B. A program. The completion of this program is necessary for every student to complete his/her academic course. Term paper brings the students closer to the real business world. It can also help them to substantiate their knowledge so that they can prepare themselves to start a successful career. Throughout my term paper report as assigned by my department, I have tried to realize these objectives to the fullest. The main focus of my assignment was to know the Role of Micro Finance. I have collected all the data from website, annual publications and booklets. During this program, I tried to acquaint myself with the real world and national economy and made an attempt to suit its complexities with theoretical knowledge. The format of the report is somewhat like this in the beginning, I have placed an executive summary that contains the gist of my findings during the program. Then the first few section highlight on the purpose, scope, methodology and limitation of the study. The collected information and my all findings regarding micro finance have been presented in the subsequent sections.

I owe a profound sense of gratitude to my honorable teacher, Professor Mrs. Jannat Ara Parveen, & Mr. Shahadat Hossain, Department of Finance and Banking, University of Chittagong, whose potential guidance helps me to make it successfully. Finally, I would like to say that my untiring efforts would become successful when any interested person will find my report useful.

Acknowledgement

First of all I am grateful to the merciful and almighty ALLAH, who has enabled me to complete this report successfully on “ Role of Microfinance for poverty alleviation of Bangladesh- a comparative study.” I feel immense pleasure and satisfaction in presenting this term paper, which is in termination of my B. B. A. program. The gain of this paper depends on the contribution of many people, especially who spare time to share their prudent art of judging of merits and faults and suggestions.

I owe a great deal of gratitude to my honorable teacher Professor Mrs. Jannat Ara Parveen, & Mr. Shahadat Hossain. He offered me constant guidance and many insightful and constructive observations throughout the study.

Basically, his support, encouragement and availability to discuss ideas and problems have contributed much in completing this study. He always kept me on task and pointing out me back to my term paper objectives. I really appreciate for his patience and high efficiency in guiding me in a proper way in conducting this term paper. His friendly guidance and cooperation which is very rare inspired me to complete the whole work timely. He preserves my special thanks.

I am also grateful to all officers and staffs of Micro Finance Institutions (IBBL and BKB) who provided me some key information in preparing this report. Besides, I thank our group members for their hard working, encouragement and collaboration in the success worthy completion of this outstanding case study.

RATIONALITY

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As a student of Department of, Finance and Banking, University of Chittagong, it is required to prepare a term paper on a practical sector. For this I preferred to make a term paper on “ Role of Microfinance for Poverty alleviation of Bangladesh”- comparative analysis between RDS of IBBL and BKB.

Microfinance is one of the most important topics in the present world. In the third world country like Bangladesh Microfinance is a very important instrument to alleviate poverty. Most of the population in our country lives below the poverty line. The advent of MFIs in our country is not so long. After the Liberation war various MFIs started their activities to help the poor economically. And now- a- days many MFIs operate in our country. Now- a - days Microfinance becomes an important instrument in the economy of third world country like Bangladesh. For this reason a desire grew in my mind to know properly about Microfinance, MFIs, their activities and their success in our country.

And as a student of Finance & Banking, I should properly know about the important instruments of economy like Microfinance.

So I select this topic to prepare my term paper.

Certificate from Supervisor:

This is certified that Tauhidul Alam student of BBA program (final year) of Department of Finance & Banking, The University of Chittagong, Bangladesh, bearing ID: 07303087 Session: 2006-07, has successfully completed the assigned term paper on “ Comparative analysis between RDS of IBBL and MC

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Programs of BKB for poverty alleviation of Bangladesh” under my direct supervision.

I wish their success in every stage of life.

Mr. Shahadat Hossain
Assistant Professor,
Department of Finance & Banking,
University of Chittagong, Bangladesh.

Executive Summary

As a part of BBA program, I completed my term paper program. Most of the courses of BBA program are practical oriented. And term paper program is also a vital requirement to obtain the BBA degree. Consequently I tried my best to prepare and present this term paper on “ Role of Microfinance for Poverty alleviation in Bangladesh”-Comparative analysis between RDS of IBBL and BKB. Most Microfinance institutions are non-governmental organizations (NGOs), Private commercial banks, specialized banks and State owned banks often providing an array of social services. They focus on Microfinance as a social intervention or a poverty alleviation tool. They also face a dilemma between achieving commercial viability and serving the poor. Most of the Microfinance institutions do not mobilize savings. They emphasize on disbursement of loan. They think that, poor can reduce their poverty if they get the opportunity of some investment and MFIs helps in this case by providing micro loan. There is no doubt that strong demand exists for microfinance services, among the poor.

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More than nineteen million of the poorest households around the world now have access. That is encouraging because the number has increased substantially since 1997 when the Microcredit Summit Campaign (MSC) was launched. A lot of effort is being put into institutional capacity building for MFIs that have the vision and willingness to provide micro finance services to large numbers of poor households. New effective management tools are being created and disseminated to microfinance institutions. This paper contains the follows –

- * A detail overview of the role of MF in the development of BD.
- * A analysis about two commercial banks(IBBL and BKB)
- * Performance of these institutions.
- * The activities of two MFIs working in Bangladesh.
- * Problems, Prospects and some suggestions for these MFIs.

Abbreviations

ASA : Association for Social Advancement

BRAC : Bangladesh Rural Advancement

MF : Micro Finance

MFIs : Micro finance Institutions

NGO : Non Governmental Organization

ROSCA : Rotating Savings and Credit Association

USAID : US based Agency for International Development UNDP : United Nations Development Program

ADB : Asian Development Bank

IBBL : Islami Bank Bangladesh Limited

RDS : Rural Development Scheme

BKB : Bangladesh Krishi Bank

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1. 1 Prelude:

The micro finance revolution is a significant contribution to the practice of worldwide development. It is an ambition achievement that will be the definitive work on micro finance. The micro finance revolution has been occurred around the world for low-income people. Micro finance refers to small scale financial services provided to low-income clients. To most, microfinance means providing very poor families with very small loans (micro credit) to help them engage in productive activities or grow their tiny businesses. Over time, micro finance has come to include a broader range of

services (credit, savings, insurance, etc.) as we have come to realize that the poor and very poor and the very poor who lack access to traditional formal financial institutions require a variety of financial products. Micro-finance is delivered to urban and rural poor primarily for employment and income generating activities. Micro finance can play vital role for economic development in Bangladesh. It can improve the economic condition day by day. During 1988, a number of non-governmental organizations and Grameen bank pioneered of small amount of collateral-free, affordable loans, popularly known as micro credit.

These micro credit programs have been successful in providing commendable access to credit by landless women and men, and achieving high repayment rate of up to 98%. Impact studies of micro credit programs have substantiated the important role of credit in the economic development process of Bangladesh. The recent BIDS study on rural poverty (199) notes that the higher rate of growth in per capita income observed for micro credit recipient when compared of that of non-recipients. An increase of self-employment, generated by the poor with greater access to credit, has also increased rural wages due to a reduction in the rural labor supply as reported by a world Bank study on the impact of Grameen Bank (1995)

1. 2 STATEMENT OF THE PROBLEM:

Bangladesh with its 60% people below poverty line and 30% living in absolute poverty is suffering from acute rural urban economic disparity coupled with illiteracy, lack of Proper health and sanitation facility. Rural Development Scheme (RDS) of IBBL and diversified micro credit programs change towards the improvement of the economic and social life style of the

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rural poor through increased production equitable distribution of resources and empowerment. Specific target of rural development scheme in today include the rural poor, especially the more disadvantaged groups of women. The key elements of rural development scheme are (a) Poverty alleviation and raising the living standard of rural poor (b) equitable distribution of income and wealth (c) to enhance the self-employment and income generating activities of the rural people. (d) To provide education and Medicare facilities to the poor (e) to enhance the purchasing power of rural people (f) to provide financing to develop housing in the area. IBBL open this scheme for the well being of the rural people. Because of some limitation such as lack of knowledge of the customer about the principal of Shariah banking system, diversion of funds leakage of Islamic money market, over trading business, market fluctuation, competitive market etc. the bank face the Problem to operate its service.

Besides, for getting loan from rural development scheme, first of all a group of five members has to be performed and fill the application form. But most of the rural people of our country are illiterate. They are not properly aware about the importance of these-scheme and face problem to fill the form. After getting loan they cannot properly utilize their loan because of their illiteracy and lack of training. So, these people face the problem of repayment because they cannot properly generate their income and they use their loan amount for other purpose, on the other hand, 1 field officer survey the 400 loanee which is very difficult for one to survey the vast people. Each branch will select villages initially within a radius of 10 km of the branch. For the transportation problem, supervision of loanees that is

whether the loanees use the loan amount properly or not very difficult for the field officer. Besides, there is no office in the union level. All activities are controlled from the branch office.

The major problem of rural development scheme include (a) instability of rural development institution (b) inefficient and corrupt leadership (c) abuse of local govt. institutions by the central regimes (d) Lack of agriculture rural development policy (e) inequitable distribution of benefits arising out of the rural development program (f) Limited natural and logistics resources (g) elite dominance in rural development planning and action and (h) in conducive rural society. Rural Development Scheme (RDS) is for the rural people but all of the poor people do not get the advantage of this scheme for these limitations.

On the other hand, Considering the needs of the target groups since late seventy`s BKB has been implementing a series of Micro-Credit programs out of which 10 programs have recently been completed and 31 programs are in operation at present. These diversified micro-credit programs are being implemented by BKB to achieve the following objectives: * To create employment opportunities through income generating activities. * To empower the rural women to establish their own rights. * To improve the living standard of the rural people.

* To alleviate poverty of the poor people.

* To make easy access to institutional credit facilities and resources. * To mobilize rural savings.

* To make optimum utilization of rural resources.

* To engage inactive human resources of the rural areas in productive/economic activities. * To engage rural people in development process of the country. * To eliminate exploitation done by the money lenders.

1. 3 OBJECTIVE OF THE STUDY:

The principal objective of the study is to evaluate the role of microfinance in poverty alleviation in Bangladesh. To accomplish this principal objective following specific objectives have been covered: * To understand the different forms of MF operation under BKB & IBBL * To analyze the comparative features of BKB & IBBL.

* To analyze the role of MF in alleviating poverty in the selected area.

1. 4 SCOPE OF THE STUDY:

This report covers all the details of the “ Role of microfinance for poverty alleviation in Bangladesh”. We get a clear idea about the microfinance done by IBBL and BKB. Researcher has done their field work by covering the IBBL of Hathazari Branch & BKB of Madan hat & lama Branch. And also the borrowers are asked the various questions regarding their livelihood.

1. 5 METHODOLOGY OF THE STUDY:

The study is both empirical and theoretical one. Both Primary and secondary data have been used. 1. 5. 1 Collection of Primary data:

Data related to the report was collected by preparing a questionnaire and from the interviewing the Executive Officers loanees of the Bank.

Questionnaire has been prepared for collecting data of the socio economic

conditions of 52 loanees were also observed personally during research period.

1. 5. 2 Collection of Secondary Data:

Researcher has consulted annual reports to prepare the theoretical framework of research study. Researcher has studied the Newspaper, magazines.

Researcher has also surf the internet for collecting necessary data.

1. 5. 3 Analysis of Data:

The data thus collected have been tabulated manually. Then the data have been analyzed by employing financial technique such as ratio as percentage and statistical technique such as mean, standard Deviation, Correlation, paired sample (t) test, using SPSS.

1. 6 Organization of the study:

The study has been segmented into seven chapters. The 1st chapter includes prelude, statement of the problem, objective of the study, scope of the study, methodology of study & limitation of the study. The 2nd chapter includes review of literature. The 3rd chapter contains introduction, economic history of Bangladesh, socio-economic condition of rural economy of Bangladesh, what is Micro finance?, characteristics of Microfinance/ Micro Credit, what is Poverty?, role of Micro finance, evolution of the MF in the world history, since the beginning of time, evolution of MF in Bangladesh, future of MF in Bangladesh, major MFI'S in Bangladesh. The 4th chapter contains Islamic Bank Bangladesh program of RDS, RDS of IBBL, purpose of MC investment program of RDS, characteristics of target group, purpose

period and ceiling of investment, investment model or Mechanisms, initial loan size and interest rate, savings program, group formation, security/ Collateral requirements, monitoring and supervision system, loan repayment procedure, default management, training facilities, analysis of organizational structure of RDS, BKB, BKB office statistics, about BKB, poverty alleviation and micro-credit programs/ projects, a Salient feature of BKB.

The 5th chapter includes frequency table for IBBL, t-Test for IBBL, findings and analysis of IBBL, problems associated with RDS of IBBL, frequency table for BKB, t-Test for BKB, findings and analysis of BKB, problems associated with MF program of BKB, comparative analysis between RDS of IBBL AND MF programs of BKB. The 6th chapter includes conclusion and recommendation. The last chapter contains reference and appendixes.

1. 8 Limitation of the Study:

There are some limitations which I faced at the time of making this study are given below:

- * Sufficient financial information for the year 2012 was not available, in some cases only un-audited information were collected.
- * It is undoubtedly evident that Micro finance is a major role-playing sector in third world country like Bangladesh. But Bangladesh is in a backward position than those of other countries. So, necessary data are not easily available.
- * Lack of harmonious relation & close contract between officials of the Organization.
- * It is very difficult to collect sufficient information about Micro finance institutions within a very short time which were given to us.
- * Maximum information based on available in different journals, records, books, periodicals and

documents of government and non-government, magazines, and daily papers. * There is very few information got from the Internet website and almost that was not sufficient for our paper. * Illiteracy among the borrowers

Chapter-2

Review of Literature

Review of Literature

Microfinance is important antipoverty tool for the developing country. From time to time the activities MFIs reveal what is microfinance? However, the following literature is found specifically related to microfinance and RDS scheme:

The role of central bank in Micro finance in Asia & the pacific “ Microfinance generally means not only the Provision of financial services, primarily savings & credit but also other financial services, to poor & low income households that so not have access to formal financial institutions.”

Schreiner (2003). “ Micro finance defined as efforts to improve peoples access to loans & saving services-may be the fastest-growing & most widely recognized anti-poverty tool.” Alamgir,(2009). “ ADBs microfinance development strategy defines microfinance as providing abroad range of financial services such as: deposits, loans, payment services, money transfers & insurance to poor and low income households & their micro-enterprises.” Joana Ledger wood (1999) “ Microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor pr low-income group who are excluded from the normal banking sectors.”

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Jahur and Quadir (2010) “ Growth performance and impact of RDS in terms of income, family size, education and credit.” Rahman and Ahmad (2010) “ Impact of RDS on rural livelihood, socio-economic impact assessment.” Alamgir et al. (2010) “ Structure and outreach of microfinance services, market segment, products, comparative study of RDS and conventional microfinance, impact on poverty.” Rahman et al. (2010) “ A general overview of role if IBBL including RDS.” Haque, and Yamaco (2009) “ Impact on MF on income, consumption, nutrition, housing, health, assets and liabilities.” Parveen (2009) “ Sustainability of RDS program in terms of loan recovery, outreach, market penetration, loan portfolio, relative income level and service quality.” Saeed et al. (2009) “ Methods and modes of Islamic MF, problems in operating and monitoring loan portfolio.” Sundaranjan and Errico (2009) “ Challenges in monitoring and control of Islamic MFIs, operational and control risks, regulatory environment.” Rahman et al. (2008) “ RDS facts assessment, impact on living standard.” Obaidullah (2008) “ Theoretical background of Islamic microfinance.” Khan (2008) “ Theoretical background of Islamic microfinance.” Uddin (2008) “ Impact of RDS program in poverty alleviation in terms of socio-economic factors.” Mohammed and Zubair (2008) “ Theoretical study of Islamic microfinance and its adaptability in Nigeria.” Ahmed (2003) “ Theoretical argument of Islamic microfinance, performance analysis of RDS program through profitability, cost structure and quality of services.”

Ahmed (2002) “ Empirical study of Islamic microfinance in Bangladesh in terms of financial performance, economic impact and problems of financing, three institutions-Al-Fallah, Noble, Rescue covered.”