

# Can Microcredit Work to Alleviate Poverty in Developing Countries? -A Case of the Grameen Bank of Bangladesh-

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The purpose of this paper is to examine the role of microcredit to alleviate poverty and empowering women. This paper also analyses the trend and limitation of microcredit to alleviate the poverty. There is much debate on how to assess or define the poverty level of a person, because some factors are very much related to defining poverty by country or region, and by geographical condition and income and consumption. If an individual does not have place to sleep, three meals a day, clothes to wear, access to education and health services or lack of adequate subsistence due to a minimum income then it may be considered living in poverty. The Grameen Bank started its microcredit program in 1983, as a Rural Bank, since its activities have focused on the rural poor. Later, the Grameen bank's success story in poverty reduction in Bangladesh has resulted in widespread attempts of replications in many other countries, including the United States and Canada. Over the last three decades microcredit has become an important instrumental development tool. It now reaches more than two hundred million borrowers and most of them are women and poorest of the poor. The replication of the Grameen Bank's microcredit is steadily increasing worldwide, in Asia, Africa, Europe, and North and South American countries. More and more poor women are being engaged in small-scale business. This is largely due to the poverty issue and traditional roles attached to them which limit their opportunities for employment in job markets. A large number of women are at a disadvantage in formal sector employment due to their exclusion from education and skills training, traditional concepts of sexual division of labor, and the incompatibility of wage employment with household responsibilities. Microcredit has claimed to foster economic development through the providing of credit, creating a hope for its borrowers. It also empowers women through asset transfer and social mobility to make poor people aware of their latent potential, and make them ready to actively participate in improving the overall development of the poor people's life at the grassroots level. Despite the 'success stories' of microcredit there have been some negative impacts when a borrower becomes over indebted, has business failure, or otherwise finds unable to repay.

**Keywords: Microcredit, Poverty Alleviation, Grameen Bank, Developing Countries**

## **1. Historical Background of Microcredit**

The terminology 'Microcredit' was initiated in 1976, by Yunus through a small action research project at Jobra, a village that is adjacent to the Chittagong University campus. In December 1976, the Grameen Bank Project (GBP) operations were launched at Jobra. Local arrangements were made with Janata Bank to extend loans to the landless. The landless and the destitute could not avail of any loan

facility from the existing banking system, as they did not have assets to provide collateral. Yunus found 42 such people, all of them together needing a total of US\$27. He felt quite dreadful at the time that society could not provide this US\$27 to the hard working poor women. His first reaction was to take it from his own pocket, but he realized that it was not a long-term solution. Then, he began searching for an institutional response to the dilemma. He went to the local bank branch looking for loan. He learned a lot about the banking practices and he saw that they have nothing to do with poverty alleviation. Finally he persuaded them by offering himself as a guarantor, then bank said that was the only way he could do it. He took loans from a bank in 1976 and lent the money to the poor people of the village. He wanted to make sure that the people would pay back of their loans, so that the banks would not stop the facility. The process that takes place in the bank is characterized as organizational development for participation. Yunus has expressed this view succinctly. “The most essential element I would emphasize in any development strategy is its focus on the human being.”

Later, at the request of Yunus, Bangladesh Agriculture Bank opened an experimental Grameen Bank Project (GBP) branch at Jobra Village in March 1978. Gradually, GBP attracted the attention of the banking community. Bangladesh Central Bank and all other nationalized commercial banks started to support GBP in 1979. Eventually, in 1983, Yunus succeeded in setting up a separate bank; namely the Grameen Bank, which means ‘*Village Bank*’. Now the Grameen Bank is the biggest financial institution for microcredit program in Bangladesh. The Grameen Bank was not started as a bank or financial institution at the very beginning. It was established by a professor (Dr. Muhammad Yunus, winner of the Nobel Peace Prize 2006, now known worldwide) of Economics at Chittagong University in Bangladesh.

## **2. Introduction of Microcredit**

Over the past decades, many developing countries development strategies followed a ‘top-down’ administrative approach. This was the main reason that the poor at the grassroots level could not participate in the social development process to become its beneficiaries. As a result, most of the population was neither able improve their well-being nor taste the fruits of development of their countries. Poverty was not alleviated, and as a result, education, health and nutrition conditions are still very poor and literacy rates remain low. Presently, microcredit is becoming popular day by day as an instrument for the poor in the developing world, as the development institutions, development practitioners and the Non-Governmental Organizations (NGOs) hope to improve the socioeconomic conditions of the poorest of the poor through income-generating activities. The developing countries' governments also emphasize microcredit programs in their social development programs parallel to NGOs programs at the grassroots level.

### 3. What is Microcredit and How Does it Works

Microcredit is small amounts of money poor people can borrow without any collateral. “Microcredit is the extension of very small loans to impoverished borrowers who typically lack collateral, steady employment and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower women and uplift entire communities by extension.”<sup>1</sup> 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.” “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.”<sup>2</sup> 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.

Nowadays there are many types of microcredit programs existing around the world such as *Traditional microcredit*, *Activity-based microcredit*, and *rural credit through a specialized bank*, *Cooperative microcredit*, *Consumer microcredit*, *Bank-NGO microcredit*, *NGO microcredit*, *Non-collateralized microcredit* and *Grameen type microcredit*. In this paper the author uses the word ‘microcredit’ on and about Grameen type microcredit or Grameen credit. Grameen believes that poverty is not created by the poor; it is created by the institutions and policies which surround them. In order to eliminate poverty there is a need to make appropriate changes in institutions and policies, and/or create new ones. *Grameen believes that charity is not an answer to poverty alleviation. It only helps poverty to continue and creates dependency on others.* The Grameen Bank brought microcredit to the poor, women, the illiterate and the people who pleaded that they did not know how to invest money and earn an income. Grameen created a methodology and an institution around the financial needs of the poor, and created access to credit on reasonable terms enabling the poor to build on their existing indigenous knowledge and skills to earn a better income in each loan cycle. Now many poor people have access to borrowing money from a financial institution without any collateral/mortgage. Grameen microcredit system encourages the borrowers' social development to adopt some goals in social, educational and health areas. These are known as ‘Sixteen Decisions’ (no dowry, education for children, sanitary latrine, planting trees, eating vegetables to combat night-blindness among children etc.). Conventional banks do not see this as their business. To enable an understanding of microcredit program and its impact in many Asia, Africa and Latin American countries, the Grameen Bank's

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<sup>1</sup> <https://en.wikipedia.org/wiki/Microcredit>

<sup>2</sup> Muhammad Yunus, 'In Credit for Self-Employment of the Poor' Grameen Bank' Dhaka, 1988, p. 2

microcredit programs are briefly outlined and general features of the Grameen Bank credit program are given below:

- “a) It promotes credit as a human right.
- b) Its mission is to help the poor families to help themselves to overcome poverty. It is targeted to the poor, particularly poor women.
- c) Most distinctive feature of Grameen credit is that it is not based on any collateral or legally enforceable contracts. It is based on “trust”, not on legal procedures and systems.
- d) It is offered for creating self-employment for income-generating activities and housing for the poor, as opposed to consumption.
- e) It was initiated as a challenge to the conventional banking which rejected the poor by classifying them to be “not creditworthy”. As a result it rejected the basic methodology of the conventional banking and created its own methodology.
- f) It provides service at the door-step of the poor based on the principle that the people should not go to the bank, the bank should go to the people.
- g) In order to obtain loans a borrower must join a group of borrowers.
- h) Loans can be received in a continuous sequence. A new loan becomes available to a borrower if her previous loan is repaid.
- i) All loans are to be paid back in instalments (weekly, or bi-weekly).
- j) Simultaneously more than one loan can be received by a borrower.
- k) It comes with both obligatory and voluntary savings programs for the borrowers.
- l) Grameen credit's rule-of-thumb is to keep the interest rate as close to the market rate, prevailing in the commercial banking sector, as possible, without sacrificing sustainability. Reaching the poor is its non-negotiable mission. Reaching sustainability is a directional goal.
- m) Grameen credit gives high priority on building social capital. It is promoted through formation of groups and centers, developing leadership quality through annual election of group and center leaders, electing board members when the institution is owned by the borrowers.”<sup>3</sup>

#### 4. How to Access in Grameen Microcredit System

The Grameen Bank encourages the landless poor who want to become members to form a group of five like-minded persons with similar economic and social status from the same village. Only one member of a household may be in a group. Each group elects its own chairman and secretary and must hold weekly meetings. Usually, the Grameen Bank workers move around the village to identify the prospective clientele using the bank's criteria. The bank workers play an

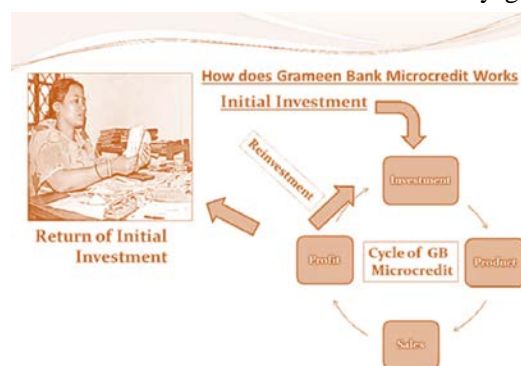


<sup>3</sup>Grameen Bank, 'Grameen Bank At a Glance' 2011 (<http://www.grameen-info.org>)

important role in forming the groups and in disbursing loans and collecting the weekly installments. A male bank worker is responsible for serving and transacting bank business with about 250 members and a female bank worker with 150 members. Every group has its own chairperson who maintains the necessary communication with the center chief. The Grameen Bank offers a training phase for the member members. During this training period, the members has to learn about the bank's system and their underlying responsibilities. The bank workers inform them about the rules and regulations of the bank before disbursing the loans. At first, the bank disburses loans only to two members amongst the five group members. The members are kept under close supervision of bank workers, who check if they are performing well in their accounts with the bank, then the bank will disburse loans to the other group members. The group thus acts as an institution to ensure mutual accountability. The Grameen Bank does not require any collateral against its micro-loans. Since the bank does not wish to take any borrower to a court of law in case of non-repayment, it does not require the borrowers to sign any legal instrument. Although each borrower must belong to a five-member group, the group is not required to give any guarantee for a loan to a member.

## 5. Cycle of the Grameen Bank's Microcredit Program

Villagers form a group of five members with recognition of the GB to receive microcredit loans for income-generating activities. After receiving loans from the Grameen Bank borrowers usually go through four stages (Investment, Product, Sales and Profit, see Chart 4). These stages explain how the GB does work. All stages are equally important in their income-generating business. (1) **Investment** is the initiative stage of any kind of business. In this early stage, borrowers are aware of many things regarding their business vision, mission and goals. (2) **Product**, at this stage borrowers look at their potentiality and assess the real demand of their products in the market. It helps them to move in the right direction to increase the profit. (3) **Sales** are the focal part of the business so borrowers are working very hard at this stage to increase their sales. (4) **Profit** is the sole criterion and is the last stage of any kind of business. Once borrowers start receiving profit from the investment their involvement in income-generating becomes much stronger.



## 6. An Analysis of the Comparative Survey on GB Members and Non-Members

The intention of this survey was to get a clear evidence of the Grameen Bank members' socioeconomic achievement by their involvement in income-generating activities through microcredit program. This survey was conducted during the period of February to March in 2010, and in August to September

2011, through interviews with some 395 female Grameen Bank members at three branches of the bank, in three different regions of Bangladesh- Tangail (Rakkhitbelta), Feni (Pathannagar Chagalnaya) and Munshiganj (Joshlong Tongibari) districts. Tangail is located 150 Kilometer north of Dhaka, capital city of Bangladesh. Feni is 250 kilometer east of Dhaka and Munshiganj is about 65 kilometer south of Dhaka. All of these regions are located in remote areas and basically depend on agricultural activities. However, they differ from each other in various ways. For example, in *Tangail*, most of the Grameen Bank members are involved in agricultural activities, and very few of them use their loans in non-agricultural activities. In Feni, on the other hand, a major portion of the Grameen Bank members are involved with handicrafts, because Pathannagar Chagalnaya is a Muslim fundamentalist area where women are supposed to stay at home. In Munshiganj, a business oriented area, most of the Grameen Bank members are involved with small business such as shop keeping at the village. The survey was based on questionnaire, field observation and interviews with the cooperation of the Grameen Bank members, bank's field level officer and staff. Higher management officials were also interviewed to get an overall view of the bank's operational activities. Analysis is drawn through personal interviews.

**Table 1: Interviewed Grameen Bank Members through Questionnaires**

Grameen Bank Branch	Questionnaire with interview	Questionnaire responded	Response Rate of questionnaires
Joshlong Tongibari	150	129	86.0
Rakkhitbelta	150	135	90.0
Pathannagar Chagalnaya	150	131	87.0
Total	450	395	87.6

Through the three Grameen Bank branches, the author conducted a questionnaire survey assisted with the interview method, covering 450 members but 395 members' responded to the whole question items. Among the three branches, the number of the interviewed members who responded was as follows: 129 (86%) at Joshlong. Tongibari, 135 (90%) at Rakkhithbelta, and 131 (87%) at Pathannagar Chagalnaya branch (Table 1). The bank members were also interviewed about the differences between their socioeconomic conditions before joining the microcredit program and 3~5 years after joining. Among the 395 members, 61% of the members have been borrowing money from the bank since 2005, and rest of the 39% members started their business through microcredit from 2006 to 2009.

## **7. Social Indicator Differences between the Members and Non-Members**

There are significantly strong differences between some social indicators observed in the field survey between the Grameen Bank members and non-members. From each district 50 households were chosen to be surveyed in August 2011, 25 households which were Grameen Bank's members and 25 households that were non-members. It is worth mentioning that both the Grameen Bank's members and non-members of the same village were living in the same socioeconomic conditions before joining the microcredit program. In the members' own words, '*Our financial condition was as bad as the non-*

members present conditions are in our village. Through income-generating activities we are alleviating our poverty little by little since we got involved in the credit program. Now we have food to eat three times a day, we can send our children to school instead of depending on their labor, and we are able to pay for clothes and medicines. All these things we achieved just by our direct participation in the Grameen Bank's microcredit program.' This survey reveals that there has been a dramatic change in the Grameen Bank members' lifestyles. The differences in some social indicators (e.g. income, education, health and drinking water), between the two groups as shown in Table 2. The average monthly income of a Grameen Bank's member is Taka 6,965, while a non-member hardly earns Taka 1,980. Likewise, 98.6% of the Grameen Bank members' children go to the school while 35% children of the non-members' do not attend school. During the past years, only 16.9% of the Grameen Bank members suffered from some kind of disease, while 25.4 % of non-members did, and 89.3% of the Grameen Bank members use tube wells for drinking water whereas only 62.8% non-members do. This highlights the fact that poor people are able to improve their overall socioeconomic conditions given an opportunity through their direct participation in microcredit program at the grassroots level. Table 2 gives an example and shows that the Grameen Bank's members increased their income more than three times compared to the non-members in the same village through income-generating activities.

**Table 2: Differences in Social Indicators between the Grameen Bank Members and Non-Members**

<b>Social Indicators</b>	<b>Grameen Bank Members (N=150)</b>	<b>Non-Members (N=150)</b>
Income	GB members average monthly income Taka. 6,965	Non-members average monthly income Taka.1,980
Education	98.6 percent of the GB members primary school-age children go to school	65 percent of the non-members primary school-age children go to school
Health	16.9 percent of the GB members suffered from some kinds of diseases during the last one year	25.4 percent of the non-members suffered from some kinds of diseases during the last one year
Sources of Drinking Water	89.3 percent of the GB members use tube wells for drinking and clean/safe water	62.8 percent non-members use tube wells for drinking and clean/safe water

Microcredit intends to promote self-employment and the income of poorest of the poor through small-scale of business and income-generating activities. Evidence, as mentioned earlier, shows that the Grameen Bank members, on average, experienced an increase in income their participation in a microcredit program. However, it needs to understand the dynamics of their income-generating activities that might have an effect on the income change of the Grameen Bank members' lifestyle.

In general, it was found that many female members were found to engage more in self-employment and experienced tremendous socioeconomic change. On the other hand, non-members females in the same village engaged all day long in household work. Compared to the Grameen Bank members, non-members household social indicators (income, access to health services, children education and access

to safe drinking water) were not satisfactory. This study endeavored to show whether participation in microcredit loan made any difference in the performance of women income-generating activities. This was done by comparing income-generating performance of microcredit loan of the Grameen Bank's borrowers and non-borrowers in three districts in Bangladesh. The findings in above figures show that the Grameen Bank borrower's socioeconomic and overall conditions are better than those of non-borrowers living in the same village.

## **8. Socioeconomic Impact of the Grameen Bank Members**

From the interviews of the bank members and the field observation of their income-generating activities in 2010 and 2011, very significant differences were observed in the bank members' socioeconomic conditions before and after joining the Grameen Bank. Within 3~5 years, through the rural microcredit program, they have improved their standard of living through increased incomes, became literate, have better nutrition and have access to health services & sanitation. Before joining the Grameen Bank, only 6% of the members were involved in some kind of economic activities; the literacy rate was only 11 percent, 29 % had access to health services, and 24% had sanitation facilities. Currently, the study reveals that 97% of the respondents are involved in economic activities. Some of the surveyed members responded: 'It is the first time in our life to earn cash income'. Their literacy rate has improved to 100% and 85% of the members have access to health services and, at least now, they can pay for medicines, and 79% feel their sanitation conditions have improved.

## **9. Ten Indicators to Assess Poverty level of the Grameen Microcredit Borrowers**

There is much debate on how to assess or define the poverty level of a person, because some factors are very much related to defining poverty by country or region, and by geographical condition and income and consumption. If an individual does not have place to sleep, three meals a day, clothes to wear, access to education and health services or lack of adequate subsistence due a minimum income level then it may considered living in poverty. "A poverty line is a tool for measuring poverty. Most poverty lines are based on income or consumption data. People are counted as poor when their measured standard of living (usually income or consumption) is below a minimum acceptable level."<sup>4</sup> The Grameen Bank has decided to assess their borrowers' poverty level through its own indicator. The Grameen Bank way to evaluate poverty level is quite different than the World Bank, Asian Development and the United Nations. Usually, the Grameen Bank workers visit their clients door to door for give a survey and apply the Grameen Bank's own indicators.

“According to a recent internal survey, 75% of Grameen borrowers' families have crossed the poverty

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<sup>4</sup> *The World Bank, 'Poverty Reduction Handbook' Washington D.C., 1993*



line.”<sup>5</sup> Every year the Grameen Bank staff evaluates their work and check whether the socioeconomic situation of the Grameen Bank's borrowers is improving. The Grameen Bank evaluates the poverty level of borrowers using indicators. A borrower is considered to have moved out of poverty if her/his family fulfills the following criteria:

- “1. The family lives in a house worth at least Taka 25,000 or a house with tin roof, and each borrower of the family is able to sleep on a bed instead of on the floor.*
- 2. Family members drink pure water of tube-wells, boiled water or water purified by using alum, arsenic-free purifying tablets or pitcher filters.*
- 3. All children in the family over six years of age are going to school or have finished primary school.*
- 4. The minimum weekly loan installment of the borrower is Taka 200 or more.*
- 5. Family uses a sanitary latrine.*
- 6. Family members have adequate clothing for everyday use, warm clothing for winter, such as shawls, sweaters, blankets, etc., and mosquito-nets to protect themselves from mosquitoes.*
- 7. Family has sources of additional income, such as vegetable garden, fruit-bearing trees, etc., so they are able to fall back on these sources of income when they need additional money.*
- 8. The borrower maintains an average annual balance of Taka 5,000 in her savings accounts.*
- 9. Family experiences no difficulty in having three square meals a day throughout the year, i.e. no member of the family goes hungry any time of the year.*
- 10. Family can take care of their health. If any member of the family falls ill, the family can afford to take all necessary steps to seek adequate health care.”<sup>6</sup>*

## **10. Empowering Women through Asset Transfer and Social Mobility**

The purpose of microcredit loans is to make poor people aware of their latent potential and make them ready to actively participate in improving the overall development of the underprivileged people's life at the grassroots level. The Grameen Bank proved in Bangladesh and other parts of the world that if there is even a little opportunity, then the latent power of the poor and women can be explored and their capacity building increased to reach the goal of social development of their own and subsequently improving their socioeconomic, cultural and political condition in the society. Empowering women in developing countries depends upon the ownership and control of asset, participation in socioeconomic, cultural and political activities are involved in decision making, mobility, education, awareness building and skill development of the women in a society. Even participation and contribution to the family and society



*Women are more confident and aware of their rights*

<sup>5</sup> Grameen Bank, 'annual Report 2012' Dhaka, 2012

<sup>6</sup> Grameen Bank, 'Grameen At a Glance' Dhaka, 2010

as whole is also important for women empowerment in the national development of a country. “Assets are more than just resources with instrumental value for economic purposes. The work of Amartya Sen, Anthony Giddens and Jurgen Habermas, Bebbington (1999) argues that assets also give people the capacity or potential to act, and thus are a source of engagement with the world.”<sup>7</sup> The socioeconomic status of women plays a vital role in empowering women. In typical societies, women are marginalized and powerless and possess lower socio-political and economic status compared to their male counterparts.

Ownership of assets increases the socioeconomic status of a family or individuals. In Bangladesh, land is considered an important factor in holding socioeconomic and political power in society. Women's participation in socioeconomic activities is essential for their empowerment, but in Bangladesh very few women are found to involve themselves at different stages of planning to implementation. In Bangladeshi male dominant and conservative Muslim society there is a long tradition of *women staying at home and men working outside the home*. What is very unique about South Asian countries is that it has produced the highest number of women heads of states and heads of government but it has not helped the situation to improve for women. Since 1983, the Grameen Bank has been expanding its microcredit facilities to encourage self-employment to empowering poor women in Bangladesh through their direct participation in multifaceted income-generation activities. Today, there is a remarkable change occurred among the Bangladeshi rural women lifestyle. They are now involved in decision-making and other management functions. Over time, women's social development activities have also incredibly expanded their social networking atmosphere within and outside the community.

The recognitions of microcredit have made Bangladesh a respected name in many parts of the world and microcredit become an example of an instrumental to success the poverty reduction in many countries. The Grameen Bank, and the concept and methodology of microcredit that it has elaborated through its last three decades work, has contributed to increasing the chances to reduce the poverty level and empowering the poor and particularly women in Bangladesh and many other developing countries. “Access to credit was a significant determinant of the magnitude of economic contributions reported by women. Microcredit was linked with an increase in the asset holdings in their own names, showing an increase in their exercise of purchasing power. They also found that microcredit was linked with women's political and legal awareness. The borrowers have reported significantly higher levels of mobility and political participation. Some members reported higher involvement in major decision making. The empowerment was also linked with their enhanced contribution to family income.”<sup>8</sup> The Grameen Bank approach responded to the need for action by poor people who are outside the

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<sup>7</sup> Piere Waibel, 'Putting the Poor First' Greenleaf Publisher, United Kingdom, 2012, p.88

<sup>8</sup> Schuler, S.R., and Hashemi, S.M., 'Credit Programmes, Women's Empowerment and Contraceptive use in Rural Bangladesh, Studies on Family Planning' 1994, Vol. 25, no. 2, pp.65-76.

conventional capital system or do not have any access to the financial institutions. If the microcredit program continues as it has been successfully going for last three decades in Bangladesh and other parts of the world, within a few years the Grameen Bank's microcredit system will emerge as the most important model for the socioeconomic development approach outside the conventional banking system.

## **11. Limitation of the Grameen Bank's Microcredit Program**

Initially the Grameen Bank of Bangladesh had a target to cover two million borrowers in Bangladesh. However in early 1995 the bank already exceeded its target. Right now Grameen Bank has 8.87 million borrowers and still there are many people eager to join the Bank's credit program, and some of them cannot join the bank due to its strict rules and regulations. Again it should be taken into account that, for the poor, access to the financial institution on its own would be a good solution to empowering them if they could achieve some kind of skills or access to markets. But the Grameen Bank believes that *'the borrower knows best'* and the bank exclusively supports self-employment of the poor at the grassroots level. The poor people need more knowledge and information to properly utilize their indigenous knowledge and potential to empower themselves and their next generation too. Grameen Bank has come a long way since it began its journey in the village of Jobra in 1976. Goetz stated that, "Where women are not using their loans themselves, it can be argued that women are being targeted for instrumental, not empowering reasons. Where men use women's loans, gender relations within the household are in effect (if not intentionally) using women as a tool to ease the work of credit institutions in recovering loans."<sup>9</sup> It should be taken into account that a Muslim conservative society limits women in their activities and dealings outside of their homes. In many cases, on behalf of the family, the wife receives microcredit loan from the Grameen Bank and the husband and other male family members run the business, with women taking care of cows, poultry and agricultural business at home, while men go to the markets to sell milk, eggs, vegetables and other products.

"Dean Karlen from Yale University says that whilst microcredit generates benefits it isn't the panacea that has been purported to be. He advocates also giving the poor access to saving accounts."<sup>10</sup> "During the last three decades it has faced many operational and organizational problems, gained a lot of experience through its successes and failures. It incorporated many new features in its methodology to address various crises and problems, or utilize new opportunities; discarded and modified the features which became unnecessary or less effective. Critics argue, however, that microcredit has not had a positive impact on gender relationships, does not alleviate poverty, has led many borrowers into a debt trap and constitutes a 'privatization of welfare' (Gina Neff: 1996)." "Esther Duflo and others

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<sup>9</sup> Goetz A. M., *'Who Takes the Credit? Gender, Power, and Control Over Loan Use in Rural Credit Programs in Bangladesh'* IDS, University of Sussex, UK, 1994, p. 19

<sup>10</sup> BBC, *'Business Weekly'* 2 August 2009

showed mixed results: there was no effect on household expenditure, gender equity, education or health, but the number of new businesses increased by one third compared to a control group.”<sup>11</sup> It is observed through surveys in three districts that whatever the amount of cash income women have on their hands, they use for their family - in particular for their children's food, clothes and education. However, when a woman borrows money for livestock or agricultural purposes, then she might have another source of income or depend on other family members for repayment of weekly installments to the Grameen Bank.

It is necessary to taking into account that individual survival skills are different for different borrowers who are pursuing different activities with different requirements for credit support, this stereotyped system may not be so effective for all borrowers. “Credit can both empower the borrower by enabling her to start a business whose profitability alleviates her poverty, and exacerbate that poverty if the business entered into with the credit fails to flourish and interest rate payments become burdensome or even unmanageable.”<sup>12</sup> “Unexpected circumstances include lower business revenue generated, natural disasters and borrowers' illness. In contrast, voluntary default is related to morally hazardous behavior by the borrower. In this category, the borrower has the ability to repay the borrowed funds but refuses to because of the low level of enforcement mechanisms used by the institution.”<sup>13</sup> At present, there is no inter-networking system among the microcredit providing institutions. As a result, due to some reason if a borrower is not able to repay weekly repayment in scheduled time frame then, instead of consulting with his/her microcredit provider, in many cases the borrower looks for an easy way to find another microcredit provider to get a new loan. Eventually, this kind of borrower becomes a defaulter. To overcome these kinds of problems microcredit providers should have an inter-networking system.

## 12. Concluding Remarks

The main intention of this study is to examine the role of microcredit to *alleviate the poverty* and empowering poor people in Bangladesh. Evidence shows that involving vulnerable people at every stage of their own social development through income-generating activities decreases the number of poor people in society. This study also explored how the Grameen Bank's microcredit program playing an important role which emphasizes women participation in income-generating activities. Following the above discussions, the author concludes that the Grameen Bank microcredit program approach in self-employment have the potential to make an impact on *poverty reduction* and empowering the poor. The Grameen Bank approaches place people at the mainstream of the social development through

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<sup>11</sup> Banerjee, Abhijit; Esther Duflo, Rachel Glennester, Cynthia Kinnan 'The miracle of microfinance? Evidence from a randomized evaluation.' Retrieved 17 April 2012

<sup>12</sup> Lesley Sherratt, 'Can Microfinance Work?' Oxford University Press, United Kingdom, 2016, p.5

<sup>13</sup> Brehanu, A., & Fufa, B, 'Repayment rate of loans from semi-formal financial institutions among small-scale farmers in Ethiopia: Two-limit Tobit analysis' 'The Journal of Socio-Economics,'2008, 37, 2221-2230

microcredit program. These approaches enable poor to take part in their own social development such as socioeconomic, cultural and political. There are many NGOs and development organizations which also emphasize women's active involvement in financial activities through microcredit programs. However, their total annual financial budget is still small compared to the government's annual social development budget. It means that the Grameen Bank and other organizations are successful but they have limitations to alleviate the poverty in developing countries. To ensure empowerment of the poor, commitments have been made to provide income opportunities and access to education and health facilities for all in the shortest period of time.

Without strong governmental will and social commitment, improving the lives of the poor in developing countries through only providing microcredit would be a very difficult task. The government could emphasize social development strategies which ensure the participation of vulnerable groups at the grassroots level of society in the current and future development approach. Due to the financial limitation of the developing countries a tripartite (Government, NGOs and Corporate's collaboration) approach for social development would be an alternative idea. The Government has the administrative power, NGOs have nationwide social network, and the corporates have money, skills and marketing knowhow. To overcome the poverty alleviation problem through active and effective involvement of the poor, initiatives are needed by the Government, NGOs, and Corporates as well.

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