

# Welcome to The Presentation On Contribution of Microfinance in Rural Poverty Reduction



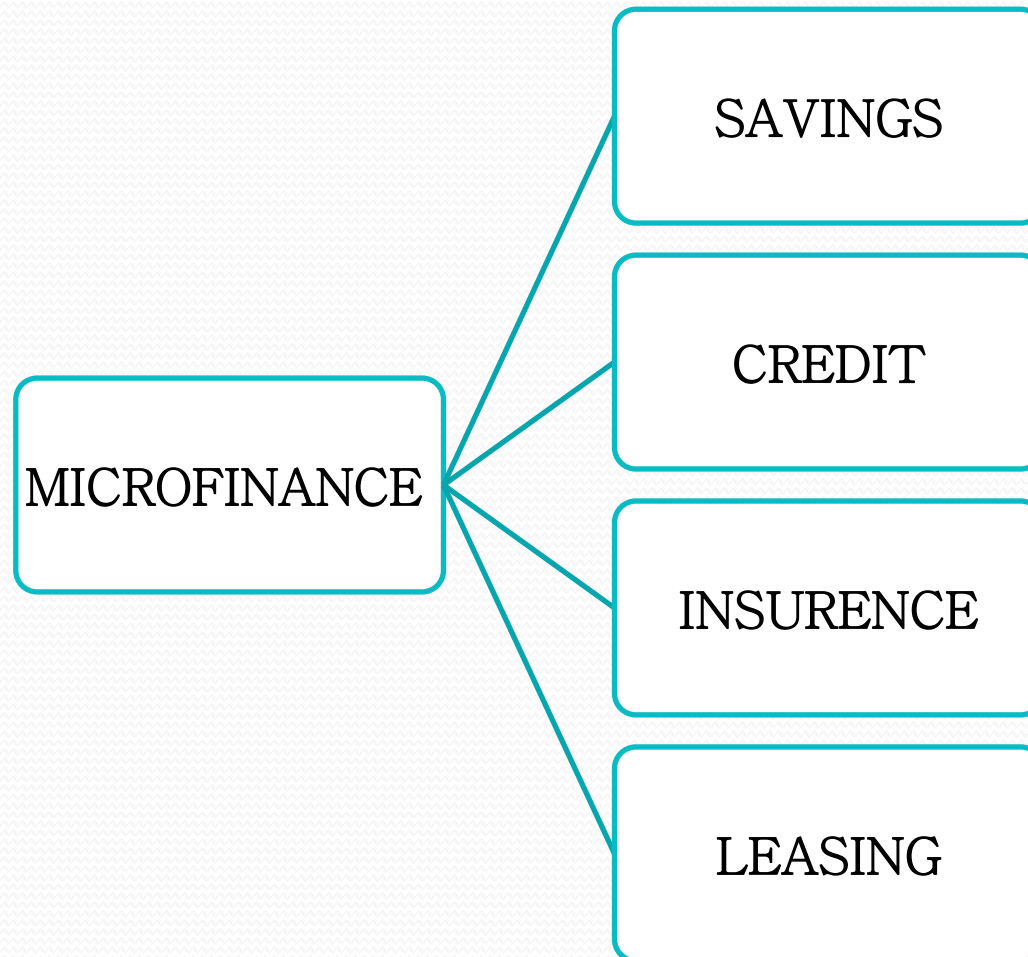
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# MICROFINANCE

THE TERM MICROFINANCE IS USED TO REFER THE SMALL-SCALE FINANCIAL SERVICES PROVIDED TO PEOPLE WHO WORK IN AGRICULTURE, FISHING AND HERDING; WHO OPERATE SMALL OR MICRO ENTERPRISES; WHO PROVIDE SERVICES; WHO WORK FOR WAGES OR COMMISSIONS AND OTHERS INDIVIDUALS AND GROUPS AT THE LOCAL LEVELS OF DEVELOPING COUNTRIES, BOTH RURAL AND URBAN.



# Component of Microfinance



# Microfinance Approaches

- DAILY SAVINGS SERVICES
- MONEY LENDERS
- ROTATING SAVINGS AND CREDIT ASSOCIATION
  - FIXED TERM ROSCA
  - LOTTERY ROSCA
  - AUCTION ROSCA
  - MERRY- GO – ROUND(NAIROBI)
- ❖ FUND
  - ❖ SELF – HELP GROUP
    - ❖ IGA GROUP
    - ❖ SLA GROUP
    - ❖ SOLIDARITY GROUP
- ❖ DAILY/ FAMALY SAVINGS

# Microfinance in Millennium Development Goal (MDG)

1 and 3 by 2015, which are

- (i) Eradicate extreme poverty and hunger,
- (ii) Promote gender equity and empower women

## Key Chooses

- Financial Services
- Employment Support Services
- Extension Services
- Skills Development Services



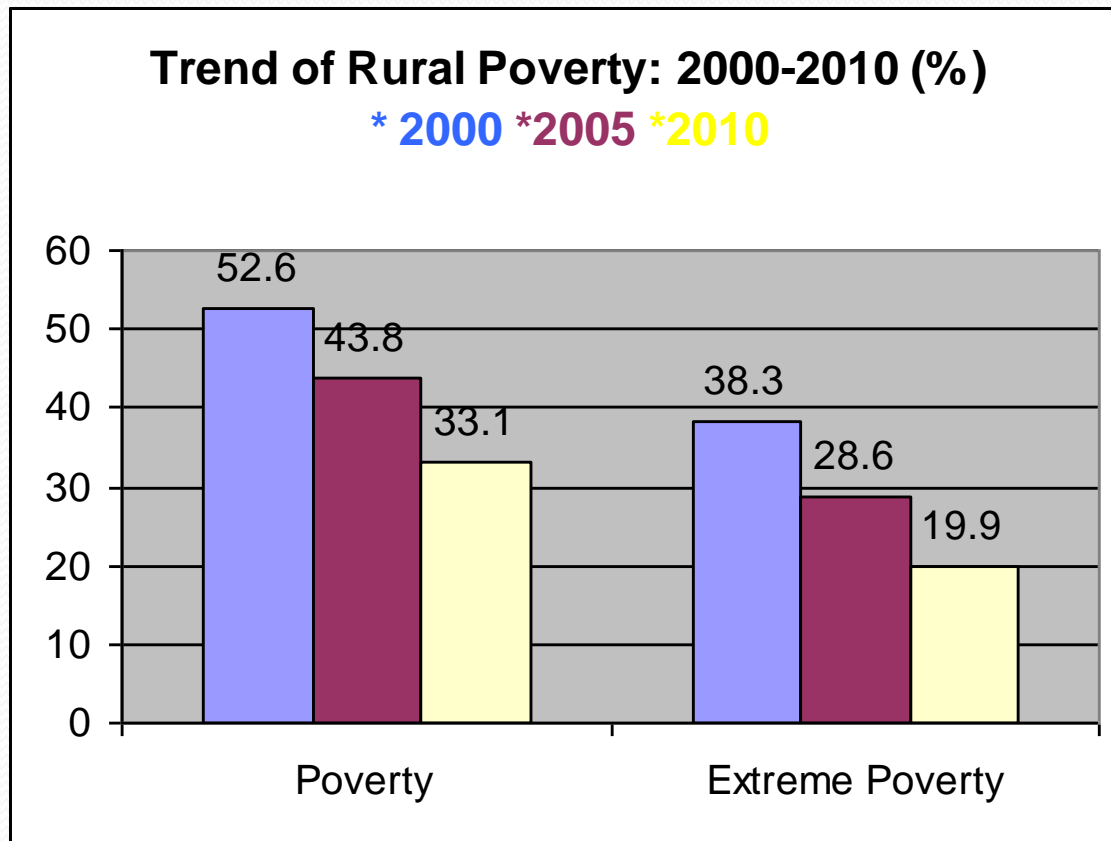
# Key Criticism

- Not Reaching the poorest of the poor
- Use loan for Consumptions
- MFI field Staff Treated the Clients badly
- MFP led to score of microfinance Suicide
- MFI put Pressure on staff for Target achievements
- Overlapping of the beneficiaries by MFIs
- Rigid and inflexible models
- Interest rates are too high



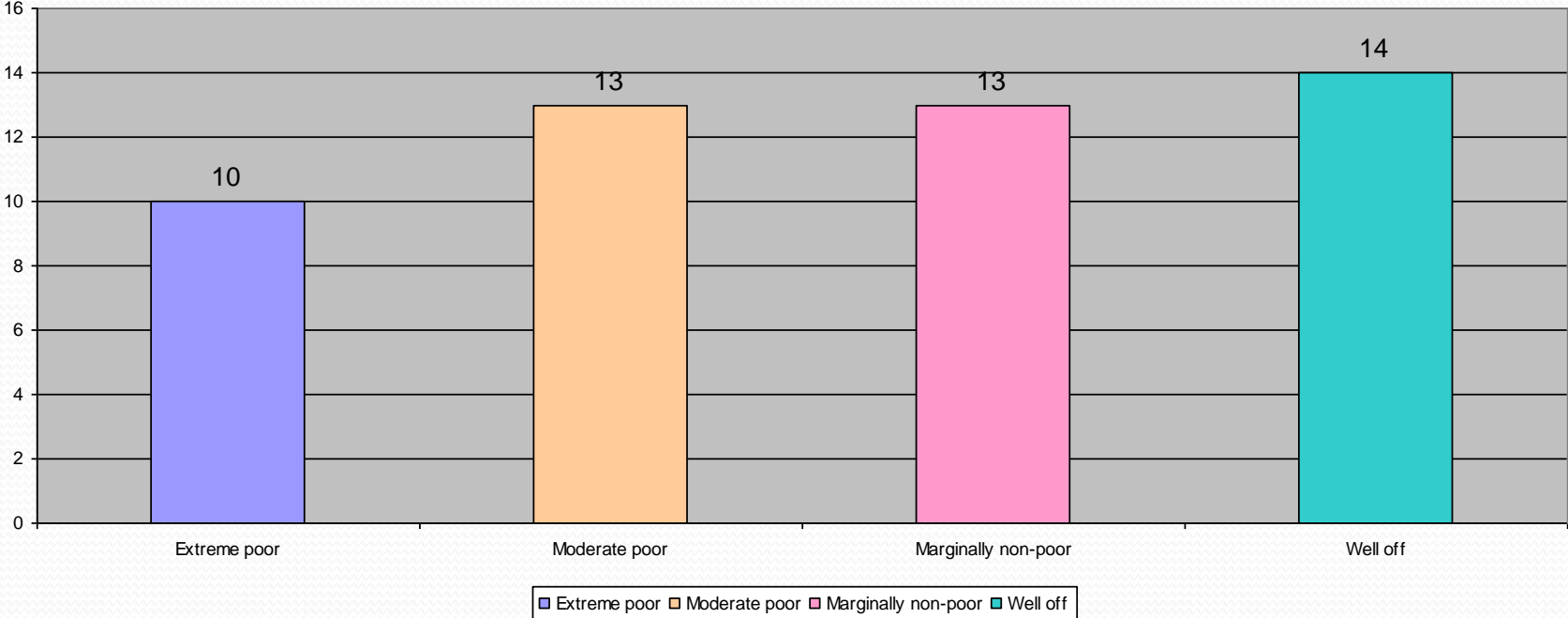
# Key contribution of Micro Finance

Declining Trend of rural poverty has continued till 2010



# Annual Growth of Non-Land Asset %

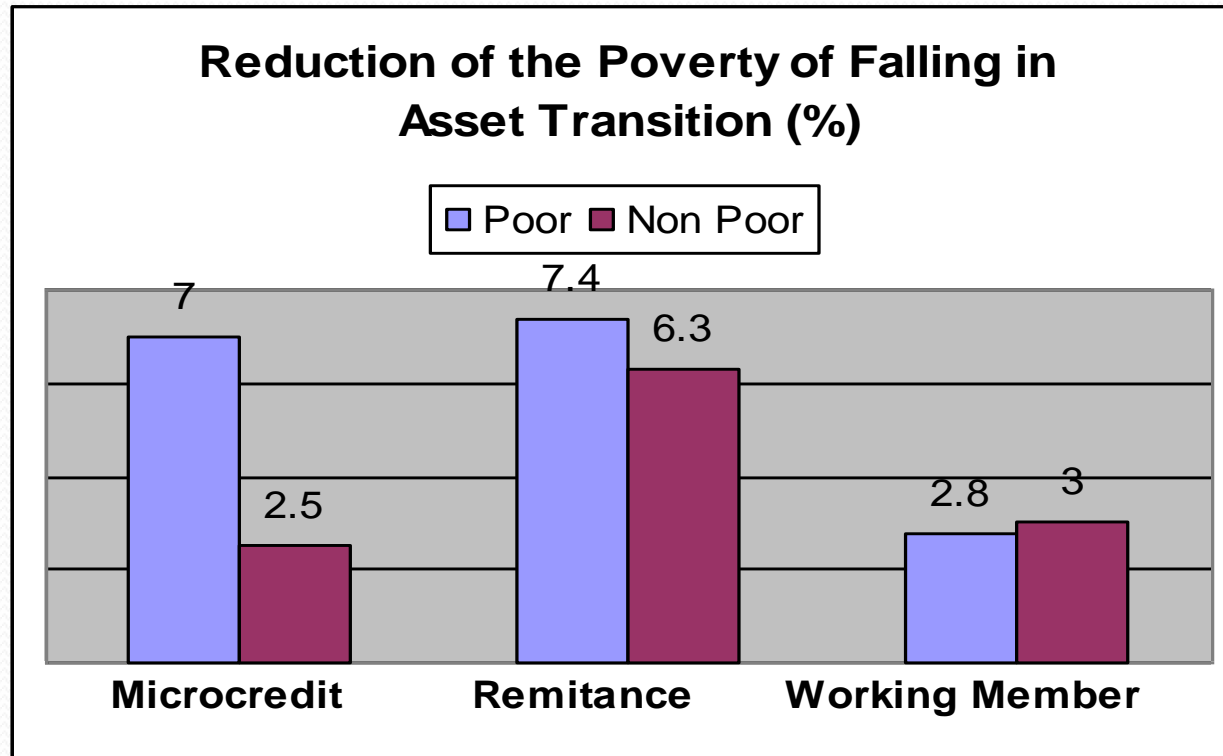
Annual Growth of Non-Land Assets %



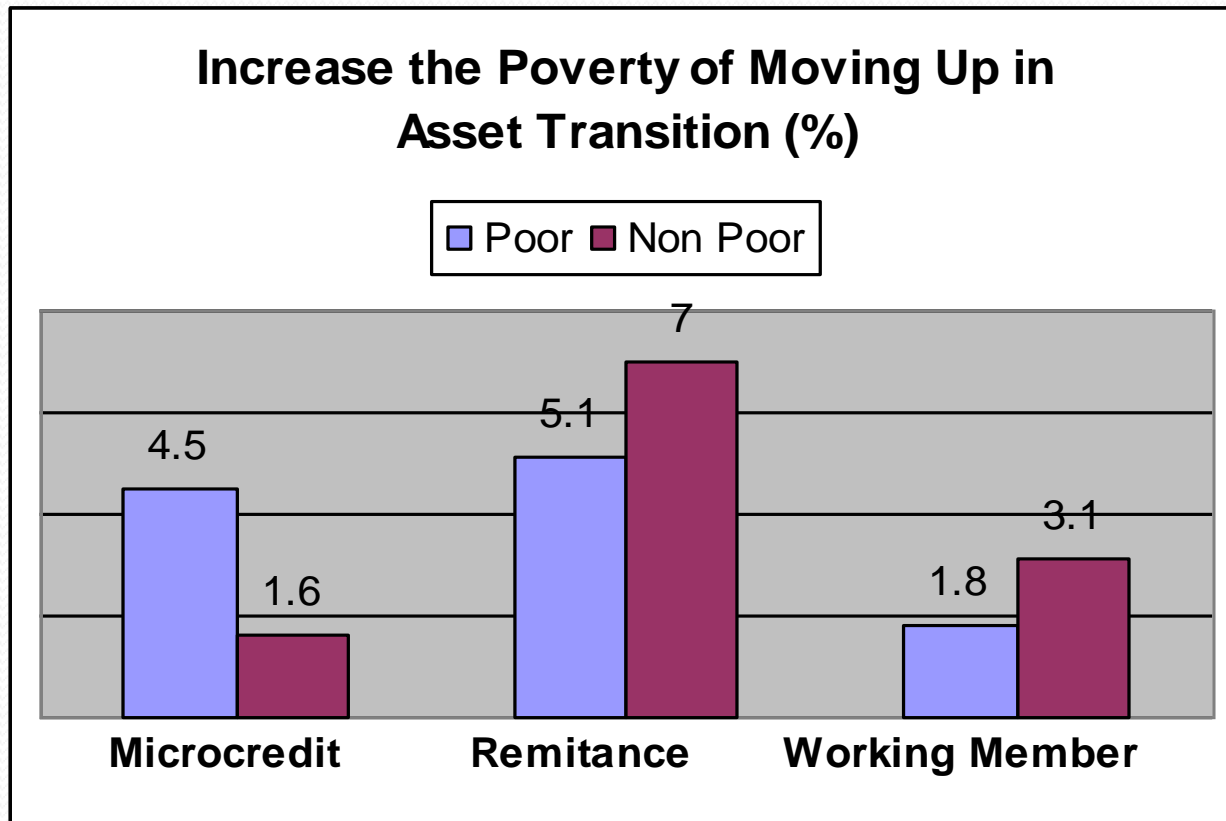


# Key Contribution

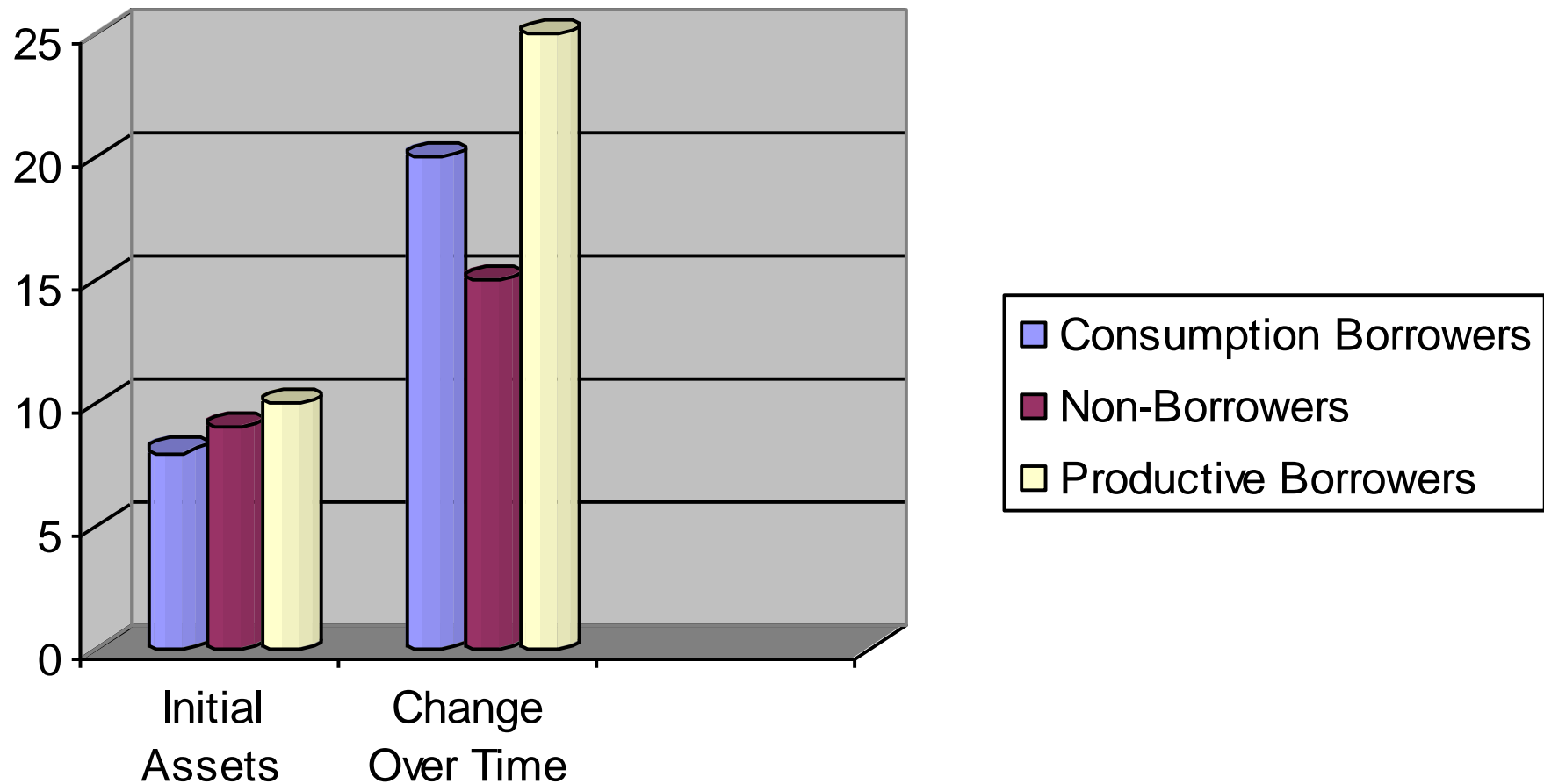
- Access to MF reduces the probability of falling in asset transitions



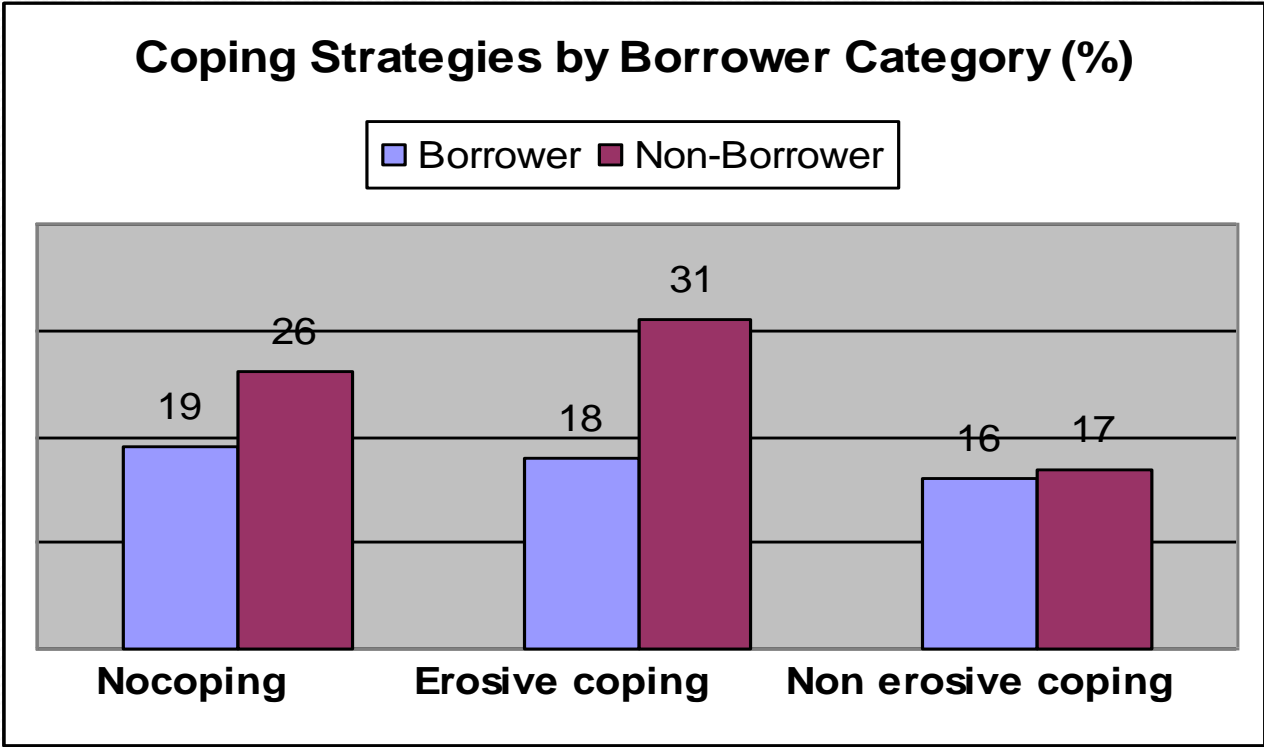
# Key Contribution:



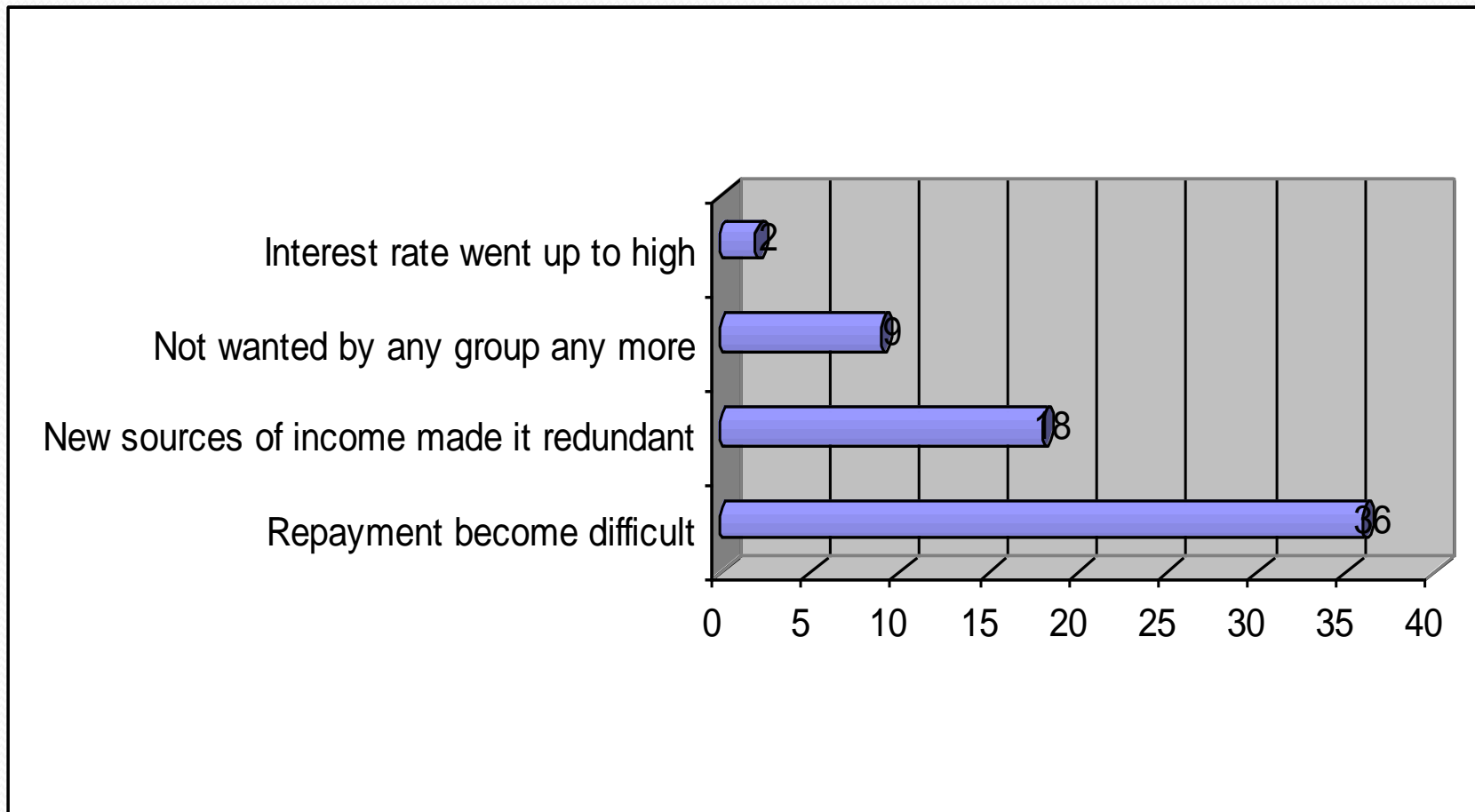
# Change in Non-Land Assets %



- Consumption borrowers benefit from better ability to avoid asset depletion at times of crises.
- Productive borrowers benefit from both avoidance of asset depletion and creation of new assets.

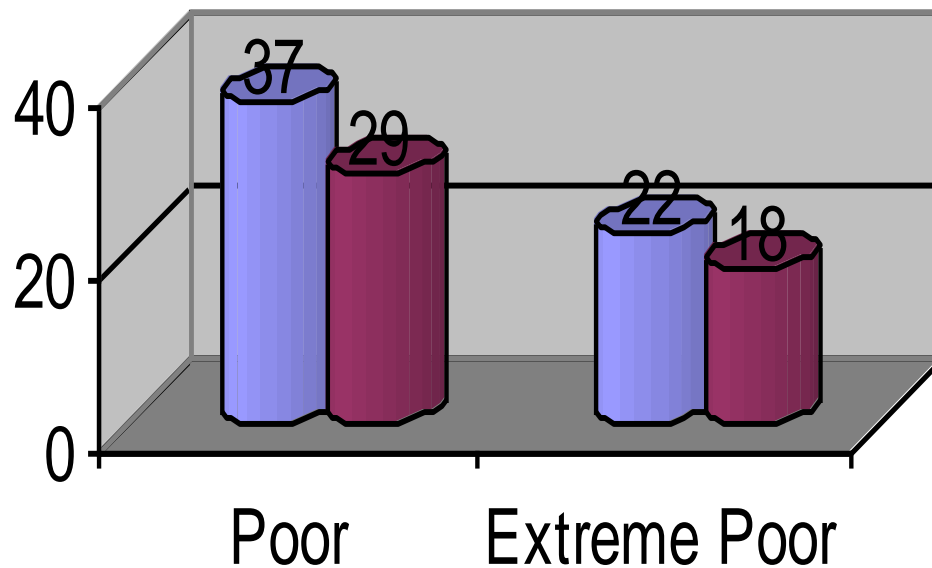


## Reasons for stop Borrowing (% of those who stopped)



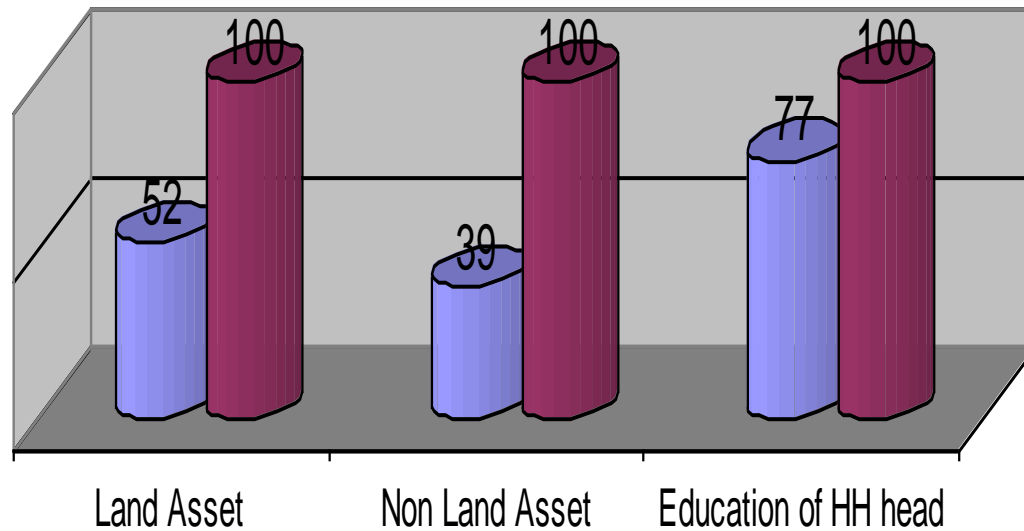
# Poverty by Borrower Group

■ Microcredit borrowers ■ Non-borrowers



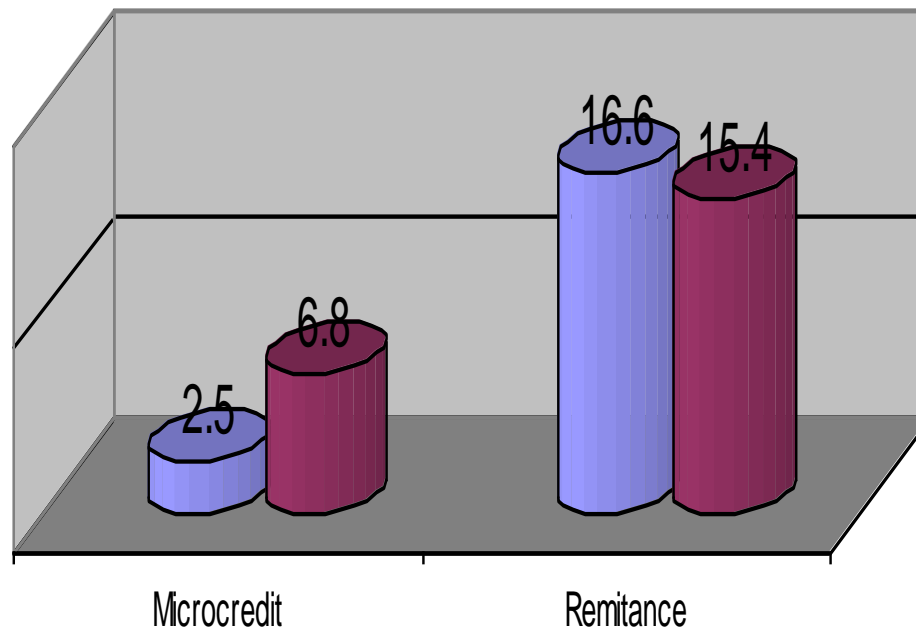
## Initial Assets: Borrowers versus Non-Borrowers(%)

■ Borrowers ■ Non-borrowers



## Reduction in the Probability of being poor(%)

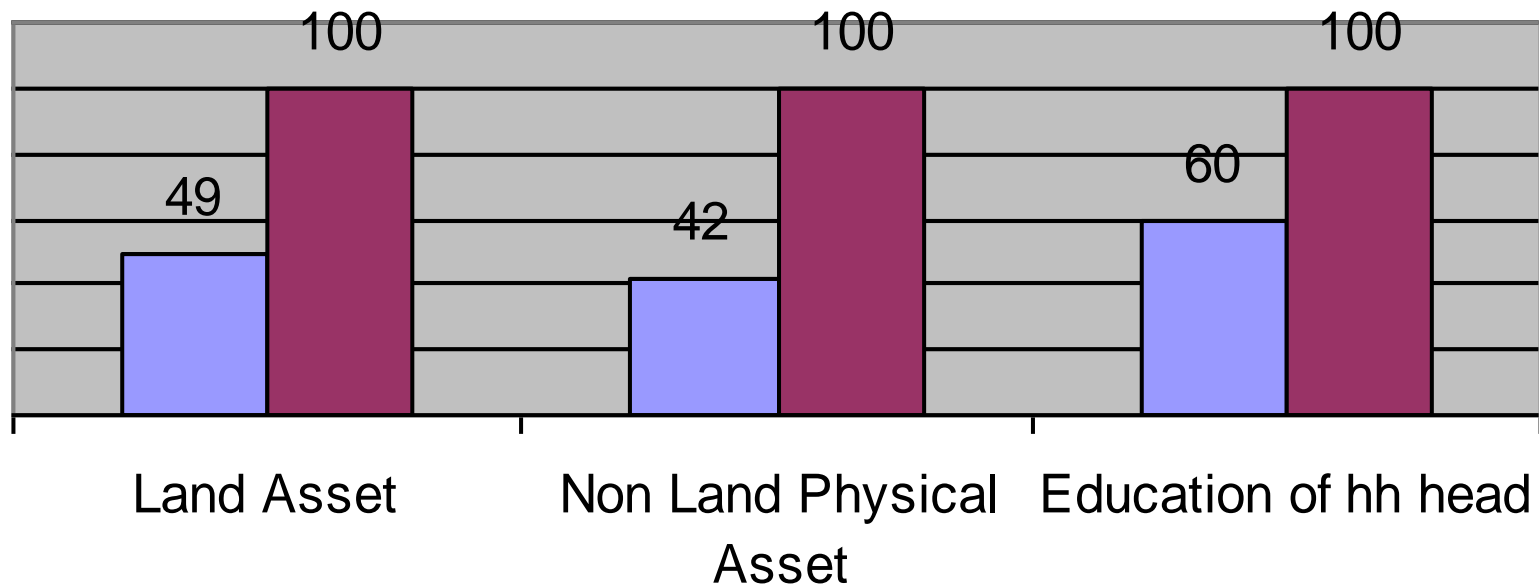
■ All Borrowers ■ Productive borrowers



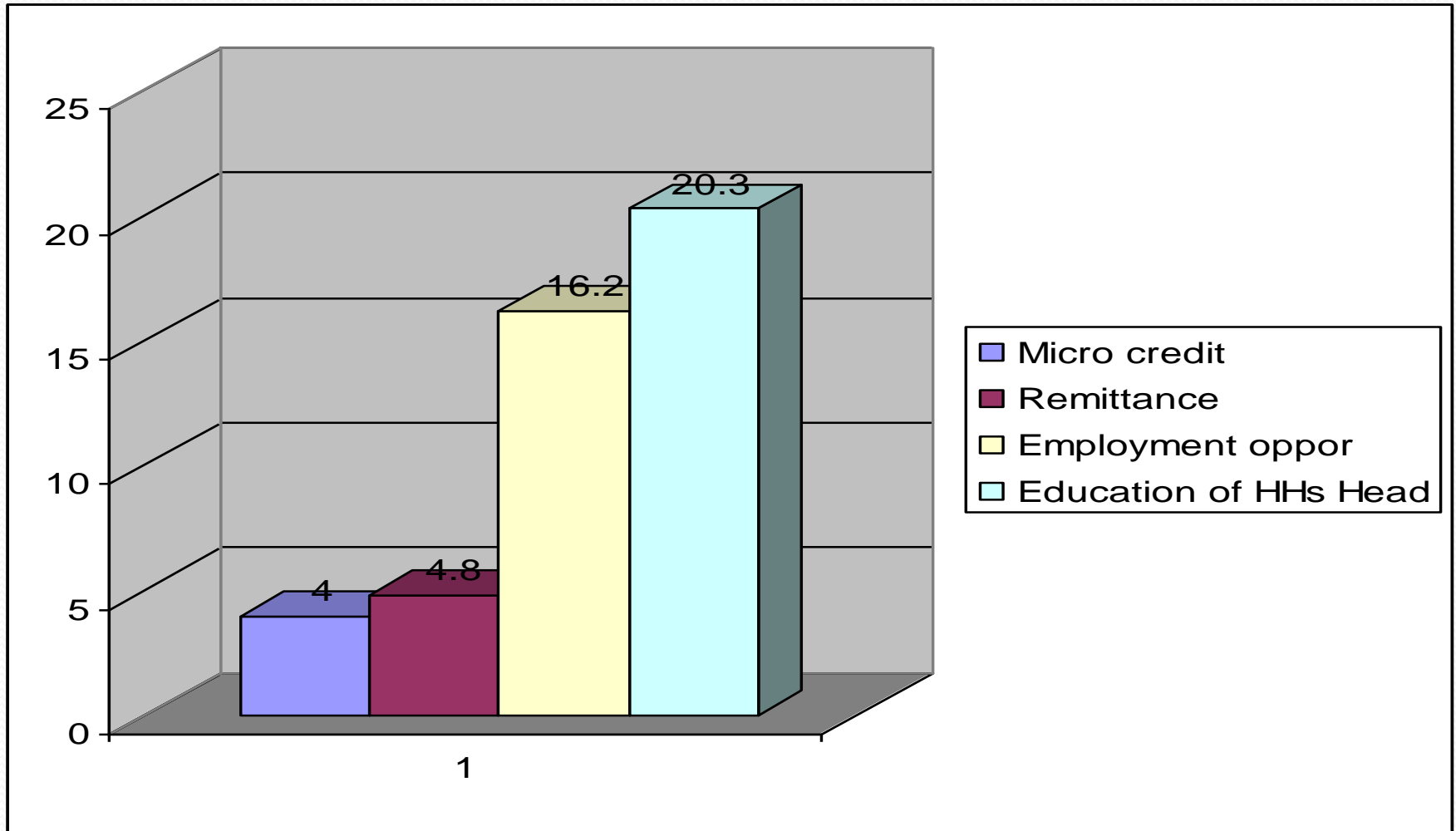


## Initial Asset Comparison between Microcredit and Remittance Receiver: Poor Households

Microcredit Receiver Remittance Receiver



# Contribution Towards Rural Poverty Reduction %



# Micro-credit and Poverty

- The microfinance contributed towards poverty reduction is about 4 percent.
- MF also improved consumption levels of those who remain poor.
- Impact of remittance is not much higher – less than 5 per cent
- Other factors are more important: e.g, employment opportunities and education.
- Clearly, there is much more to poverty reduction than micro-credit, but there is a role for micro credit as well, especially for the poor.

# Summing Up

- MF Creates scope for mobility in non- land assets, and this provides a potential “escape route” for the poor.
- Micro credit Plays an important role in enhancing the scope for accumulation of non-land assets, especially for the poor
- Micro-credit promotes asset accumulation for both “Productive borrowers” and “consumption borrowers”.
- “ consumption borrowers’ gain because they are better able to avoid depletion of assets at time of crises
- ‘Productive borrowers’ gain additionally by being better able to accumulate assets.
- Interest rate is not perceived to be a serious constraint by either group of borrowers.
- Micro-credit’s contribution to assets is also reflected in contribution to the reduction of poverty.
- MC raises consumption levels of those who stay poor (but dose not improve the consumption of non- poor).

# Summing Up

- What has been the contribution of micro credit toward poverty reduction in rural Bangladesh? In terms of reduction of poverty rate, the estimate is about 4 percent.
- Remittance's contribution is not much higher, but other factors such as employment opportunities and education are much more important.
- Clearly, there is much more to poverty reduction than micro-credit, but there is a role for it as well.
- There is no ground for belittling the contribution of micro-credit just as there is no ground for exaggerating its contribution.

# effectiveness of MFP:

- Focusing mainly on the poor. Currently, about the half the borrowers to the well-off, the analysis consistently reveals that micro-credit does very little good to the well-off.
- Offering new products and service delivery models for the poor. The survey shows that almost half of the poor and marginally poor households are left out, but at least half of them can be counted as potential clients if certain features (such as weekly repayment schedules) are revised.



**Thank You**

Microfinance Program,  
Dhaka Ahsania Mission