Eradicating Poverty in Bangladesh
Surveying Microfinance Initiatives in Bangladesh

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Brittany Feor
DVM 4125
Prof. Sharma
Socio-Economic Overview of Bangladesh

In 2009, the Economist Intelligence Unity ranked Bangladesh 106th in its quality of life index out of 160 countries, which was the worst ranking among the South Asian countries, reporting that more than half the population lives on less than US$1.25 a day (Lewis, 158). However, these rankings do not reflect the spectacular progress that has been made in Bangladesh since the 1980s. GDP per capita rose from US$733 in 1989 to US$1307 in 2009 and poverty had fallen from 57 percent of the population to 49 percent by 2005 (Lewis, 158). Despite sustained economic growth and reduction in poverty, progress has not been uniform and income inequality is increasingly becoming an issue. Increases in urban income inequality are due to rapid urbanization that has resulted in urban slums and a transfer of poverty from rural to urban areas.

Bangladesh, formerly known as East Pakistan, received independence from Pakistan in 1971. Bangladesh quickly became dependent on foreign aid and by the end of the 1980s was receiving annual aid flows of US$1.7 billion (Lewis, 36). During the 1990s this trend was reversed, Bangladesh became increasingly less aid dependent and was sustaining positive growth rates. In 1990, foreign aid was 7.6% of GDP and by 2001 it was only 2 percent and the debt-service liability had declined from 24 percent in 1988 to 6 percent in 2006 (Lewis, 143). The numerous NGOs used their access to aid and funding to build a relationship with the aid dependent government that allowed them to substantially influence policy formation in Bangladesh. During the 1980s there was a strong push for liberalization and privatization of the economy from the international development community (Lewis, 2).

In response to international pressures, “Bangladesh began on a path as a ‘reluctant liberaliser, …The results have been characterized as neither ‘planned gradualism nor shock therapy’, with an uncoordinated mix of unfolding reforms taking place in varying ways and at different paces across different sectors.” (Lewis, 145). Allowing the development of export processing zones (EPZs), which produced US$1 billion in export revenues in 2002 (Lewis, 147). Exports in garments rose from US$0.64 billion in 1990 to US$4.86 billion in 2001 and accounted for 75 percent of total exports in 2009 at US$11 billion (Lewis, 148). GDP growth rose from 3.7 percent during the 1980s to 5.2 percent during the late 1990s and further increases in export earnings were captured as they reached 18 percent of GDP in 2006 (Lewis, 136). Economic restructuring began as agriculture declined from one-half of GDP in the 1970s to one-sixth during the 1990s and the services sector increased from one to two-thirds of GDP (Lewis, 137).
Other significant contributions to economic growth and poverty reduction include agricultural growth, remittances growth and improvements in infrastructure. Food security has consistently been at the forefront of government policy in Bangladesh not only because of its low-income status but because it is frequently ravaged by natural disasters and extreme weather. Government policy has promoted the modernization of agriculture very effectively, “[r]ice production had increased from an average twelve million tons per year during the 1970s to close to eighteen million tons by the 1990s, based mainly on the expansion of the irrigated winter *boro* crop” (Lewis, 138). In 2000, agriculture accounted for 25.5 percent of GDP and Bangladesh was almost entirely food self-sufficient (Lewis, 138). Remittances also steadily increased from US$500 000 in 1985 to US$1.5 billion in 1997 which pulled Bangladesh’s current account out of deficit for the very first time (Lewis, 152). This growth was maintained and remittances increased from 3 percent of GDP in 1995 to 9.5 percent in 2009 (Lewis, 152). The Grameen Bank founder, Muhammad Yunus, also founded Grameen Phone, a joint venture with Telenor, which boasted more than 25 million subscribers by 2009 (Lewis, 140). Grameen Phone was a significant improvement over the previously dysfunctional and incomprehensive telecommunications network, thus facilitating greater national connectivity. Similarly, the Jamuna Bridge, completed in 1998, represented a large improvement to national infrastructure as it connected both halves of the country. The project was funded by the Asian Development Bank, World Bank and the Japanese government and reduced the travel time from Dhaka to Bogra by 14 hours (Lewis, 140). Unfortunately the energy sector continues to struggle to provide electricity. In 2009 only 45 percent of households reported having an electricity connection (Lewis, 143).

The World Bank’s Economic Update on Bangladesh for October 2012 reported continuing economic growth, significant increases in FDI to more than US$1 billion and effective tightening of monetary policy while warning that the impacts of the euro crisis on Bangladesh must be a priority as they continue to hinder potential growth in the area. GDP growth has been steady from 6.1 percent in 2010, 6.7 percent in 2011 to 6.3 percent in 2012 and is projected to be 6 percent in 2013, despite the downward pull of the euro crisis (World Bank, 19). Inflation is projected to fall from 10.6 percent in 2012 to 7 percent in 2013, while remittances are projected to grow 9 percent in 2013 (World Bank, 19). The World Bank (2012) praised Bangladesh’s favourable fiscal performance as the government achieved a small surplus, which allowed the Bank of Bangladesh to build official reserves to US$11 billion (1). The report does call for much
needed improvement to infrastructure and reprimanded Bangladesh’s poor delivery of electricity despite investment that increased the productive capacity.

Microfinance and Bangladesh

Lewis (2011) identifies four main areas in which microfinance initiatives (MFIs) have benefitted Bangladesh: consumption smoothing, increasing income, aggregate poverty reduction and social outreach. MFIs facilitate greater income stability in low-income households, which decreases income variability and allows for greater consumption smoothing. Members of the Grameen Bank and BRAC have 50% less consumption variability than non-members (Lewis, 2011). Studies have found that over a period of seven years borrowers experience income increases between 8 and 18 percent (Lewis, 119). These increasing incomes and greater economic contributions of borrowers can have spillover effects, which positively impact non-borrowers as well. One village study found that while borrowers enjoyed an 8.5 percent reduction in poverty, non-borrowers also had a 1.1 percent reduction in poverty during the same period (Lewis, 119). The most widely debated social outcome of MFIs is female empowerment. Lewis (2011) argues that women “tend to be more able to engage in discussion about family planning with husbands, enjoy a more prominent role in household decision making, gain greater mobility, achieve a higher level of enrollment of their children in schools and enjoy better health outcomes” (Lewis, 120). Mahjabeen (2008) also concluded that MFIs raise the income of all households, increase consumption of all households, generate employment and enhance social welfare (1089).

MFIs play a major role in credit provision in Bangladesh; nearly half the population sits below the poverty line and is unable to provide adequate collateral to get traditional commercial bank loans. Domestic credit provided by the commercial banking sector accounts for 40 percent of GDP in Bangladesh compared to 250 percent in the US and Japan; nearly 80 percent of Bangladeshis can not access credit through commercial banks (Mahjabeen, 1085). The Grameen Bank, Bangladesh Rehabilitation Assistance Committee (BRAC), Association for Social Advancement (ASA) and Proshika are the major micro-lenders in Bangladesh. The four combined lend to 87 percent of those borrowing from the NGO sector, amounting to US$1 billion in lending in 2005 (Lewis, 119). The Grameen Bank alone had eight million borrowers in 2010 and maintained a loan recovery rate of 97 percent (Lewis, 115).

Critics argue that MFIs charge outrageously high interest rates, which prevents the core poor from participating, increases the repayment burden or diminishes the positive income
impact. Interest rates generally range from 20 to 50 percent (Lewis, 120). However, Hulme & Aron (2009) argue that “[a]bsolutely cheap credit is typically the problem. Relatively cheap credit can, in principle, work” (28). They argue that by using subsidies to provide absolutely cheap credit MFIs will mistarget the poor and end up allocating too much credit to non-poor households. Developing credit that is relatively cheaper than the alternatives available to poor households, will allow for greater targeting of poor households and help maintain financially sustainability of MFIs. This does not require that MFIs provide credit at the cheapest interest rates possible but that these interest rates are lower than those of informal moneylenders or other informal credit markets, in order for poor households to capture benefits. These interest rates must ideally be higher than the existing credit available to non-poor households so as to not target these households. The result is higher than average interest rates, but this also helps maintain financial sustainability because the costs of micro-lending are higher than the institutional costs of commercial loans. Lewis (2011) also argues that, “such criticism needs to be put in context: poor households do not have the option of accessing a loan from a mainstream commercial bank, and informal moneylenders charge 120 percent per year on average” (120 Lewis).

Nawaz (2010) differentiates between microcredit and microfinance, explaining that “[m]icrocredit is a method for providing small amounts of capital to poor people so they can improve their existing income-generating activities, or develop new ones, and is widely used in developing countries…microfinance adds the provision of savings and insurance services to that of credit” (670). Microfinance is a variation of traditional South Asian rotating credit associations (Lewis, 119). Individuals contribute to a fund and the contents are distributed among members in a rotating system. Rural MFIs are generally based on group lending, so if one member of the group cannot make a payment on their loan the other members will have to make it for them. Alas, this system can also lead to the exclusion of the most destitute households. Group members may not want to include households that are extremely poor because they perceive them as too risky (Hermes, 876).

Nawaz (2010) also criticizes the ability of MFIs to target the poor and calls for greater flexibility in loans and repayment, as well as the inclusion of skill training (681). In Nawaz’s (2010) study some non-participants cited fear of repayment and perceived high interest rates as reasons for not borrowing (681). Greater flexibility in repayment schedules would lessen the repayment burden and the fear of high interest rates. Additional skill training would allow
borrowers to take greater advantage of loans. If borrowers are able to use loans more effectively, increases in income will be great enough to lessen the repayment burden. Hermes (2011) and Nawaz (2010) both argue that loans are too small and do not allow for adequate investment expenditure to actually increase productive activities. Flexibility in loan size would allow for greater investment expenditure on productive activities and flexibility in the repayment schedule would allow time for such activities to generate income as well.

The pre-existing socio-economic context of borrowers affects the extent to which MFIs can benefit borrowers. Successful MFI schemes from Asia are often duplicated unsuccessfully in South America and Africa: “if the evidence shows that a specific microfinance program worked in the context of the slums of a city in sub-Saharan Africa in a particular year, this does not necessarily mean that the same program works elsewhere” (Hermes, 877). Nawaz’s (2010) study also highlights the importance of pre-existing socio-economic conditions in determining the borrowers ability to capture the benefits of MFI. Households that had pre-existing physical, human or social capital saw greater relative income increases. Nawaz (2010) concluded that pre-existing capital, as well as a regular income, made households more inclined to utilize loans to create or increase income generating activities and these households experienced greater income growth (678). Households that are relatively poor and lacking capital or regular income will not utilize loans for income generating activities because, as mentioned earlier, these activities take time to generate income and the loan repayment schedule begins almost immediately (Nawaz, 679). Therefore, households must be able to draw from other sources to be able to make payments until their investment begins to create income and only households with adequate pre-existing capital or regular income sources will be able to do this. Nawaz’s (2010) study also found that as time in the program increased so did the socio-economic improvements of respondants (675). This is especially relevant in the case of respondants that have utilized loans to invest in income generating activities. Essentially, the full benefit of this type of investment cannot be measured until the investment has taken full affect and generates the entire increase in income that results from the investment.

**Financial Systems Approach and the Poverty Lending Approach**

The financial sustainability debate is concerned with whether the financial systems approach or poverty lending approach to micro-lending will provide the greatest social outreach
for the greatest period of time. The poverty lending approach relies heavily on donor funding and government subsidized credit and provides skill training, family planning and health services (Hulme & Aron 55). These services are provided to borrowers in order to address an array of socio-economic issues and enhance the borrower’s ability to utilize their loan. The financial systems approach uses subsidies to finance the development of financially sustainable organizations, which can then finance their microloans by borrowing from commercial banks (Hulme & Aron 58).

Hermes (2011) argues that “large scale outreach to the poor cannot be guaranteed if MFIs are not financially sustainable”, and only 1 to 2 percent of MFIs operating in Bangladesh are financially sustainable, 28 percent could become sustainable but 70 percent have little chance of ever being sustainable (878). It can be argued that the poverty lending approach targets poor and vulnerable households more effectively than the financial systems approach. “MFIs that mainly provide individual loans perform better in terms of profitability, but the fraction of poor borrowers and female borrowers in the loan portfolio is lower than for institutions that mainly provide group loans” (Hermes, 878). Hermes (2011) also claims that the empirical evidence shows there is a negative correlation between MFI efficiency and social outreach (879). Lastly, Hermes (2011) argues that subsidies can keep inefficient MFIs in business (879). If MFIs are to be an effective development tool they must be able to reach the most vulnerable households. However, MFIs that are not financially sustainable may be forced to shut down if funding or subsidies are revoked. Funding for MFIs is currently abundant but there is no guarantee that funding will continue indefinitely. Hence, there exists a tradeoff between sustainability and outreach.

Hulme & Aron (2009) argue that “given the scale of the demand for microfinance worldwide, [the financial systems approach] is the only possible means to meet widespread client demand for convenient, appropriate financial services” (55). Hulme & Aron (2009) are also critical of the poverty lending approach because it does not place as much emphasis on savings mobilization as the financial systems approach does. Savings and credit are both important tools in consumption smoothing, which is of the utmost importance to poor households that experience relatively large income variability. Hulme & Aron (2009) assert, “the poor can save, do save, and want to save money” (37). Unfortunately, inadequate financial services in rural areas and urban slums make it difficult to find a safe place to save money. Hidden money could be stolen or
blown away, claimed by needy friends and relatives or loose its value due to high inflation (Hulme & Aron, 37). Thus, the financial systems approach fills a desperate need that the poverty lending approach does not.

**Case Studies**

Nawaz (2010) chose Sadakpur, a village in the Comilla District of Bangladesh, to study the socio-economic impact of MFIs on the poor because 27 percent of the households were borrowers, which leaves a sufficient number of non-borrower households for a comparative study (672). The majority of studies, including Bashar & Rashid (2012), Chemin (2008) and Mahjabeen (2008), use this approach to isolate the impacts of MFIs on socio-economic indicators. In 2003, when the fieldwork occurred, Sadakpur had 5387 inhabitants and 873 households and was considered relatively poor compared to the rest of the Comilla District (Nawaz, 672). The Grameen Bank, BRAC and ASA have all been active in the village for more than five years and the MFIs have focused lending only on women (Nawaz, 672). These are three of the four largest microfinance institutions operating in Bangladesh, they are assumed to be relatively efficient examples of MFIs, and are thus representative of the full capacity of MFIs to enhance the socio-economic welfare of borrowers.

Based on the poverty index developed by Nawaz (2010) 12.8 percent of households were very poor, 48.9 percent were moderately poor, 32.8 percent were non-poor but vulnerable, 5 percent were non-poor and 0.5 percent were rich (673). The target group was identified as those in the very poor and moderately poor groups. Of the target group, two-thirds were excluded from MFIs and only one-third was included; the bottom 4 percent of the poorest group were also excluded (Nawaz, 673). Despite a large amount of exclusion within the target group the MFIs did sufficiently target the poor. Only 1.6 percent of the borrowers were considered non-poor (Nawaz, 673). A target group based on landlessness also existed, which was households with less than 0.5 hectares of cultivable land or assets which total less than the current price of 0.5 hectares of medium quality cultivable land (Nawaz, 673). Based on landlessness, the MFIs were not as effective in targeting the poor. Only 52 percent of the landless households were included in MFIs and 23 percent of the households that were included were not considered landless (Nawaz, 673). Based on indices of total assets before joining the program and type of housing the MFI’s targeting was relatively accurate. According to these indices, no more than 13 percent of borrowers being from outside the target group (Nawaz, 674). Nawaz (2010) posited that most of
the target group exclusion was systematic or due to self-selection bias. 32.3 percent of households that did not participate cited lack of manpower skills or personal reasons (Nawaz, 674). This type of exclusion would be considered self-selection bias because the households have decided themselves not to participate because they do not perceive the program beneficial to them. 10.3 percent believed they would be unable to make payments and 2.2 percent said they were excluded from lending groups because of the extremeness of their poverty (Nawaz, 674). Self-exclusion based on inability to make repayments could be considered self-selection bias but it is also a symptom of the inflexible repayment schedule so this will be considered systematic exclusion. Exclusion from lending groups is systematic exclusion. Groups may chose to exclude households that are extremely poor in order to mitigate risk, since the entire group is held accountable for repaying loans that other member cannot payback. Nawaz (2010) also cites that risk mitigation is a common reason groups may exclude other households (675).

Nawaz (2010) compares the increases in income between borrower and non-borrower households in order to determine the impact of MFIs on income levels. A greater percentage of borrowers experienced an increase in income than non-borrowers during the same period and Nawaz (2010) also concludes that this difference is statistically significant above the 5 percent level (675). The median annual income of borrowers was 46 400tk and 41 500tk for non-borrowers and after 3 to 5 years in the program 74.7 percent of households experienced increases in income, while after 5 years this increased to 95.3 percent of households (Nawaz, 675). Strikingly, while income levels rose, poverty levels remained high. Despite increases in their income levels, 31.7 percent of borrower households remained below the lower poverty line and 46 percent overall remained below the upper poverty line (Nawaz, 675). Nawaz (2010) claims that low levels of productivity in traditional agriculture and high levels of extreme poverty prior to the arrival of MFIs partially explain the inability of many borrowers to increase their income above the upper poverty line, as well as key socio-economic determinants (listed earlier). Socio-economic indicators based on consumption habits showed the greatest increase in food, healthcare, clothing and toilet. 89.8 percent of households were able to have three meals a day after joining MFIs compared to 80.3 percent prior to joining and 84 percent of non-borrower households reported having three meals a day during the same period (Nawaz, 676). 68.3 percent of borrower households reported improvement in access to health care, while 52 percent of non-borrower households experience improved access to health care during the same period (Nawaz,
Cheim’s (2008) study also concluded that the socio-economic welfare of borrowers was enhanced. “By comparing participants to matched individuals in non-treated villages, I found that microfinance has a positive impact on participants’ expenditure, supply of labour and male/female school enrolment. Participants spend on average 3 percent more than similar non-participants” (Chemin, 482). Mahjabeen’s (2008) study further demonstrated that MFIs could help alleviate income inequality. Within Mahjabeen’s (2008) model MFIs facilitated an increase in rural income share from 4 to 29 percent (1089).

**Targeting the Poor and the Vulnerable**

Hermes (2011), Nawaz (2010) and Chemin (2008) all argue that the core poor are often excluded by lending groups or MFI officials in order to mitigate risk. Hermes (2011) posits further that the poorest households are risk averse and may choose to self-exclude from MFIs. In Nawaz’s (2010) study the poorest households were excluded but this exclusion was relatively small. Furthermore, the case study showed that the MFIs were fairly good at targeting the poor although some loans were issued to non-target households. The main concern with issuing loans to non-target households is that it may decrease the capacity of the micro-lender to meet the needs of the target borrowers (Nawaz, 680). This is of particular significance in areas where microfinance demand outstrips the supply or MFI services are stretched beyond capacity. However, many borrower households that were non-poor were also considered vulnerable. Based on the results of the case study, Nawaz (2010) argues that MFIs can more appropriately be interpreted as decreasing vulnerability rather than increasing income or decreasing poverty. The borrower households decreased their vulnerability by diversifying their income sources, building assets and strengthening their crisis coping mechanisms (Nawaz, 672).

Nawaz’s (2010) conclusion justifies the tendency of MFIs to lend only to women because they are considered more vulnerable. In developing countries, women account for 83.4 percent or 88.72 million borrowers (Haile et al, 256). Haile et al. (2012) claim that “increasing women’s access to microfinance services may give them a greater say over household expenditures, ownership of assets and savings, and reduce domestic violence as women becomes less dependent on their husbands”(258). Kaushik (2010) explains that MFIs that target women rectify the skewed incentives that women face due to existing inequalities (xvi). Inequalities due to social and cultural constructs create barriers that prevent women from accessing commercial credit, technical assistance and training, which prevents them from taking advantage of economic
opportunities (Kaushik, xvi). Greater access to credit also enhances female bargaining power, which significantly empowers women in male dominated households. “Independent income improves women’s ability to fulfill gender-role expectations (food), to address their practical needs (clothing) as well as their strategic needs […] This increases their bargaining power in household decision making” (Haile et al., 264). Lewis (2011) confirms that the Grameen Bank, for example, played a central role in enabling women’s access to social services including health care and family planning as well as creating opportunities for skill training and self-employment (37). Kaushik (2010) emphasizes the trend for women to be portrayed “as victims of social practices or target for development but not as participants in development” (XV). MFIs ability and tendency to target women makes them active participants in the development process and gives women the opportunity to enhance their own livelihoods.

Microfinance as a Policy Tool

Bashar & Rashid (2012) claim that Bangladesh has not taken full advantage of the potential of urban microfinance. MFIs tend to focus on rural areas because the “assumption [is] that urban poverty [is] generally a spillover and that, if rural poverty [is] contained, urban poverty would also be kept under control” (Bashir & Rashid, 151). Rapid urbanization is increasingly becoming a major policy issue in Bangladesh. The population of Dhaka increased from 0.4 million in 1951 to 1.4 million during the 1970s to 10 million by 2001 and 31.1 million by 2007 (Lewis, 162). 35.4 percent of the population of the new mega-city is poor: 3.4 million people (Lewis, 163). During the same period, the population of Chittagong, the second largest city, grew from 0.4 million to 4 million and the share of population of Bangladeshis living in urban areas increased from 8.8 percent to 25 percent, at rate of 3.5 percent per year (Lewis, 162). The shift of poverty from the rural areas to the urban areas strains social services and results in massive unemployment and poverty. Of the 535 MFIs in operation in Bangladesh only 50 focus on urban microfinance and 220 overall provide some urban microfinance, the Grameen Bank is not one of them (Bashir & Rashid, 157). Bashir & Rashid (2012) also point out that climate change is leading to rural population displacement in Bangladesh and further increasing the levels of urbanization (152). Therefore, urban poverty is a pressing policy issue in Bangladesh. Hermes (2011) concluded, based on examples from Sri Lanka, that MFIs are also effective disaster relief tools (877). Bangladesh is prone to extreme weather and flooding which causes large seasonal
fluctuations in household income. Post-disaster, MFIs cannot only help households rebuild destroyed capital but can also help decrease income variability.

Social protection schemes in Bangladesh have also played a significant role in poverty reduction. The innovative strategies used enhance access to resources rather than simply providing resources. BRAC’s Challenging Frontiers of Poverty program argues that because cash and food is consumed, “it is insufficient to help people move out of poverty. Instead there must also be support to people’s ongoing efforts to build their livelihoods by strengthening material and social assets. BRAC’s approach is to provide both cash payments and an asset, such as a cow, along with functional education, health-support services and rights awareness building” (Lewis, 159). Many social protection schemes also incorporate microcredit schemes.

A combination of social protection programs and MFIs would allow Bangladesh to address several of its major policy issues including urbanization and climate change, most effectively. MFIs should continue to be a priority in Bangladesh. However, as suggested by Hermes (2011) and Hulme & Arun (2009), financially sustainability must become a priority within the microfinance community. Financially sustainability will guarantee the viability of microfinance as an effective development tool in the long run. Without financial sustainability, the long run viability and thus, meaningful impact of MFIs, becomes uncertain. Nonetheless, Hermes (2011) and Nawaz (2010) also argue that the financial systems approach is not as effective at promoting social outreach as the poverty lending approach, primarily because the poorest households are excluded from MFIs in order for other members to mitigate risk. Social protection programs funded by governments and donors can absorb the poorest households that are not suitable candidates for MFIs operating under the financial systems approach. Social protection programs employ concepts similar to those of MFIs but can, financially, provide more in-depth training and services, such as, financial planning, basic skills training and family planning. As households become more self-sufficient, enhance their skills and productivity levels and become more financially savvy they can better participate in MFIs. By cutting skills training and family planning services, MFIs can free their resources to expand their credit supplies and enhancing repayment schedules. Instead, the government would finance and provide these services through social protection programs.
Conclusion

After gaining independence in 1971, Bangladesh struggled with high levels of poverty and was perceived during the next two decades as a rather hopeless case, a development disaster. Presently, Bangladesh is praised as a development success and is the model country for MFIs worldwide. The World Bank (2012) even claims that Bangladesh is on track to meet several Millennium Development Goals, including reducing poverty by 50 percent by 2015 and may even reach middle-income status by 2021. Microfinance is often credited with the impressive poverty reduction in Bangladesh. However, the economic climate has shifted during the last decade and despite continuing GDP growth of 6 percent of more per year, Bangladesh’s continued success is not certain. Microfinance is an excellent development tool, in the context of Bangladesh and has yet to be exploited to its full capacity. Nonetheless, in considering the future of MFIs in Bangladesh, it is paramount that financial sustainability be a leading priority in the microfinance community in order to guarantee its positive impacts can be maintained in the long run. Government policy in Bangladesh should exploit the potential of MFIs while supporting their transition to financial sustainability and the financial systems approach to lending. Government policy should promote the growth of social protection programs so that they may complement MFIs. In doing so, social protection programs can capture the poorest households that are excluded from MFIs practicing the financial systems approach to lending, as well as, provide services that place excessive strain on MFI costs. The bottom up approach of microfinance has proved extremely affective in enhancing the livelihoods of poor and vulnerable households in Bangladesh but nearly half the population still remains below the poverty level. Therefore, policy must embrace MFIs, since they have proved successful, while facilitating their continued success, especially because MFIs show great potential in addressing the major issues in Bangladesh, urbanization, climate change and poverty.
Works Cited


