

**“Effect of microfinance on poverty reduction and economic growth of
developing economies.”**

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A thesis submitted to the Brac Business School (BBS) in partial fulfillment of the
requirements for the degree of
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Declaration

It is hereby declared that

1. The thesis submitted is my own original work while completing degree at Brac University.
2. The thesis does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The thesis does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

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Approval

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Ethics Statement

Hereby, I LIAQUAT ALI KHAN consciously assures that, the following conditions are met for this paper **“Effect of microfinance on poverty reduction and economic growth of developing economies.”**

- 1) This is original work that has not been previously published anywhere.
- 2) At this moment, the paper is not being considered for publication anyplace.
- 3) The writer’s research and analysis are accurately and completely reflected in the article.
- 4) The publication adequately recognizes the contribution of co-authors and co-researchers.
- 5) The results are examined in relation to prior and continuing research.

If the Ethical Statement’s rules are breached, it can have major consequences.

I agree with the above statements and confirm that this submission follows the norms of the Solid state.

Ionics as outlined in the Authors’ Guide and the Ethical Statement.

LIAQUAT ALI KHAN

Abstract

The aim of this research is to assess the impact of BRAC microfinance on poverty reduction and economic growth in the union council. In developing countries like Uganda, Rwanda, Tanzania, Sierra Leone, Bangladesh, Pakistan, and Afghanistan. There are about 1.3 billion people living in abject poverty due to the economic crisis. The study tends to investigate the influence of small sums of money on poverty reduction. The findings would provide insights into how microfinance contributes to economic condition reduction, and economic growth at the village level in developing countries, particularly for female contributors.

The methodology of this study is based on a secondary method, data were obtained from various sources: books, journals, websites, and newspapers covering elements of micro-finance, poverty reduction, and economic growth.

Keywords: Microfinance, Poverty Reduction, Economic, Growth, Developing Countries.

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List of Acronyms

BRAC	Bangladesh Rural Advancement Committee
UN	United Nation
GNP	Gross National Product
MFIs	Microfinance Institutions
ASA	Association for Social Advancement
GB	Grameen Bank
ECM	Error Correction Model
MDGs	Millennium Development Goals
BRMCP	BRAC Rwanda Microfinance Company PLC
IFRS	International Financial Reporting Standards
NGOs	Non-governmental Organizations
MISFA	Microfinance Investment Support Facility for Afghanistan
RDS	Rural Development Scheme
SHGs	Self Help Group

Chapter 1

1.1 Introduction

Background of the study:

The primary goal of this research is to assess the influence of microfinance on poverty reduction and economic growth in Developing countries.

Microfinance, because of its multifaceted nature, is regarded as one of the most important programs for achieving poverty reduction and economic progress in all parts of the globe. The primary goal of this study is to investigate the influence of small sums of money on poverty reduction. The findings would provide insight into how microfinance contributes to economic condition reduction and economic growth at the village level in developing countries, particularly for female contributors, as well as to overall economic condition reduction and economic growth.

Bangladesh Rural Advancement Committee (BRAC) is one of the specialist initiatives of this organization in Dhaka, which has been working to improve the lives of neglected people since 1972. This program provides various credit products to underprivileged populations in working regions, particularly women, with the goal of engaging them in economic activity. In this study, microfinance, poverty reduction, and economic growth are considered independent and dependent variables in this study. For this study, women from development countries who labor in various locations where the BRAC organization is active in development countries are considered a population for this study. To achieve this goal, secondary data will be used to determine the outcomes. Also in this research, the secondary data will be collected from a different source. Secondary data, such as research papers, reports, bulletins, and so on, would also be utilized to collect information. A basic random approach will be used to collect data from the region of development countries.

Microfinance is not a new concept. Professor Muhammad Yunus, a Nobel Prize recipient, was the one who established Grameen Bank as an experiment in Bangladesh in 1983. Traditional microfinance operations may be traced back to 1963 when Africa established the first cooperative savings and lending institution (Credit Union). Microfinance has demonstrated its worth in numerous nations over the last three decades as a formidable weapon against hunger and poverty (Morduch 2002). "Microfinance has the potential to improve people's lives,

particularly the lives of those who need it the most," said UN Secretary-General Kofi A. Annan (Latifee, 2006). Since the 1990s, poverty reduction has been a top focus at both the national and international levels.

Since its inception, microfinance has captured the attention of many governments, NGOs, and donors as a viable tool for poverty reduction and economic progress. (Georgia summit, June 2004) Since its inception in 1972, the Bangladesh Rural Advancement Committee has undertaken credible and internationally acknowledged efforts for social transformation and the development of disadvantaged areas. By organizing disadvantaged and underprivileged communities, BRAC aims to bring about constructive social change. One of the BRAC Foundation's projects is Microfinance for Women's Empowerment, which will be the secondary focus of this study.

1.2 Purpose of Study/Justification:

- This research is to examine the impact of microfinance on poverty reduction and economic growth in that community. Who is the beneficiary of this program? This research would aid in the identification of flaws and loopholes in the aforementioned scheme, as well as in the development of the best feasible solution for utilizing the funds in the most efficient and effective manner possible. The major goal of this study is to assess the impact of microfinance on poverty reduction and economic growth in union councils in developing countries.

1.3 Statement of the Problem

Despite tremendous efforts in income growth, human development, and vulnerability reduction to date, development countries continue to face serious challenges, with approximately 1.3 Billion people living below the poverty line. Despite recent strong GNP growth rates, a concerted war on poverty is important. This is important owing to the rising economic disparity caused by increased reliance on the corporate market. In the past, majority development strategies led to poverty reproduction, as well as a quick expansion in the budget deficit, loan reliance, and a significant decline in natural resources. These developments must result in the community's horizontal and vertical polarization. As a result, there is an urgent need to review

whether the already operational poverty alleviation initiatives are helping to meet basic requirements and foster community self-reliance through human resource development and revenue creation activities.

1.4 Area of Research

The regions of the developing countries where the Bangladesh Rural Advancement Committee (BRAC) organization is active are the focus of this investigation.

Chapter 2:

Review of Related Literature

2.1 Intellectual Problems

Microfinance is the provision of financial services to those with extremely very small incomes and those who are self-employed but very poor (Otero 1989a). Financial services, according to (Ledgerwood 1999), might include payment and insurance services, credit and savings, and so on. According to (Jegade et al. 2011), microfinance refers to the loan of small amounts of capital to impoverished businesses in order to build a mechanism to alleviate poverty by providing the destitute with such resources as are available to the affluent, but on a small scale.

2.2 Microcredit and microfinance

It is critical to comprehend the concepts of microcredit and microfinance. According to (Singh 1990), microcredit refers to tiny loans, whereas microfinance refers to loans complemented by insurance and savings, among other things. Microcredit is a subset of microfinance that comprises the provision of credit to the needy and impoverished. Non-credit financial institutions such as insurance institutions, savings and payment systems are also included in microfinance. (Okiocredit, 2005).

2.3 Poverty as a concept

There are several definitions of poverty. According to Ted K. Bradshaw (August 2005), there is a shortage of food, medication, shelter, and other basic necessities. The basic requirements of each person fluctuate depending on their previous experiences and social environment (Sen, 1999). Poverty, according to the Encarta Encyclopaedia, is defined as an excessive lack of appropriate resources and income, as well as a lack of fundamental human requirements such as enough and nutritious food, shelter, clean water, health care, and clothes (Encarta Encyclopedia 2009). According to the (United Nations report 1998), poverty refers to a lack of resources and options that allow individuals to enjoy improved living situations. Poverty, according to (Professor Mohammed Yunus 1999), is the denial of such human rights as the availability of food.

If a person's daily earnings are less than \$2 USD, he is termed "poor." If a person is unable to make enough money to supply him with nutritious food, he is deemed poor (Baar, 2005).

As a result of the significant rise in inflation, poverty in Pakistan has risen from 23.9 percent to 37.5 percent. More than 60 million people in Pakistan are unable to provide food for their children or meet their basic necessities (Planning Commission, 2009).

More than 20.5 percent of Pakistan's population is in poverty, with little access to basic essentials such as food, fresh water, health care, and literacy departments. (Haq, 2008).

2.4 The Importance of Microfinance Institutions

Various third-world countries, including Pakistan, have expressed strong interest in the establishment of MFIs due to their ability to provide financial services such as microcredit, micro-savings, micro-insurance, and other microfinance services to a segment of the population that is underserved by the traditional banking system (Marconi and Mosley, 2006). The majority of small-scale businesses in developing nations engage in such informal markets, which provide financial services that differ from traditional commercial bank financing. In terms of outreach, MFIs are capable of appraising rural regions and providing services to indigenous disadvantaged groups.

Microfinance is often regarded as the only viable approach to eradicating Indian poverty. The majority of Indians live considerably below the poverty level. Microfinance is becoming increasingly popular in India. The present outstanding balance necessary to meet this demand is 1600 crores, whereas the required amount is 45000 crores (Kumar et al., 2010).

Microfinance has been shown to be effective in alleviating poverty. Financial emancipation is the next milestone reached by microfinance institutions (MFIs). This has a significant beneficial influence on the lives of the impoverished (Adeola, 2000).

Because of rising poverty, there is a high need for microfinance in emerging nations. As a result, there is a need to spread this technique throughout the world. The microfinance business must focus on meeting fundamental human needs and be able to compete with other institutions (Bhatt et al.). (2001).

Many impoverished individuals in developing nations do not have full access to microfinance institutions' services (MFIs). The reasons for this include restricted access and insufficient funds. These impoverished people also lack access to medication and education for their children. As a result, poor people will always be poor.

An underdeveloped or developing nation is one in which the majority of people live below the poverty line or are unable to get basic necessities of life such as food, water, health, education, and so on (Sirajul, 2007).

According to Adewole, a third-world nation is one in which people's income is insufficient to purchase food, education, decent sanitation, and health care (Adewole, 2008).

Poverty is one of the most significant barriers to social and economic growth. Poverty makes it impossible to fulfill economic goals. Many illicit social activities emerge as a result of inadequate social progress. Many policies and plans were developed for the globe following WWII, but due to an inability to implement them, many illicit social activities emerged as a result of inadequate social development. Many policies and strategies were developed for the globe following WWII, but due to rising poverty, these policies were never able to achieve their goals. Yunus (2003).

If impoverished people's salaries were linked to micro-financing initiatives, it might be a solution to eradicate poverty. All present microfinance tactics and policies must be reviewed in order to have a beneficial influence on poor people's income levels and poverty (Robinson, 2001).

Microfinance institutions and the services they provide have the potential to significantly improve the stability, growth, and survival of underprivileged communities. Hulme and Mosley investigated this and demonstrated it by gathering data from Bangladesh, Indonesia, and Sri Lanka (Hulme & Mosley, 1996).

2.5 Microfinance's Impact on Living Standards

Microfinance has considerably assisted individuals in Ethiopia and Bangladesh in improving their living conditions. Agriculture is the major source of income in many nations, yet individuals are unable to produce enough due to a lack of suitable pesticides, technology, and access to modern agricultural methods. There is a need to provide rapid micro-credit facilities

so that individuals can move out of these situations. As a result, the microfinance business in these nations should primarily focus on improving the agriculture sector (Tenaw & Islam, 2009).

Although there are many strong instruments available, microfinancing is often regarded as the sole successful method for providing all of the fundamental necessities of the impoverished (Jonathan & Mordch, 1998).

Microfinance investment is directly proportionate to income. However, impoverished individuals are unable to invest due to a lack of financial means. As a result, the poor stay poor and have no funds to establish a company through microfinance initiatives (Wood & Sharif, 1997).

Khushali Bank of Pakistan also provides financial services and microcredit initiatives, which effectively encourage impoverished people in Pakistan to improve their health, food, education, and other essential daily necessities. People living below the poverty level benefit from these programs as well (Montgomery, 2005).

Access to technology, along with other fundamental human needs, is a critical requirement for the impoverished. However, due to the high-interest rates on microcredit schemes, the poor are unable to use these services (Muhammad, 2010).

When people's incomes are poor, it has an impact on the country's overall economic development. On the other hand, if people's incomes are high, it has numerous good consequences for the country's economy. When individuals have a high income, they can easily afford all of their essential necessities, such as food, water, and health care, and they have a better quality of life. This scenario is only getting better as a result of microfinance programs (Bentu, 2008).

2.6 The Connection between Self-Employment and Microfinance

Microfinance is the only solution to alleviating poverty since it allows disadvantaged people to work for themselves. As a result, underprivileged individuals gain empowerment and can start their own businesses. More than 24 crore people in India are poor, and these unbanked individuals have little chance except for microfinance initiatives (Shastri, 2009).

The microfinance credit facility raises revenue. It has evolved into a new means of starting a new business or expanding an existing one. Its programs offer opportunities for constructive employment and income generation (Khandker & Shahid, 2001).

Reducing poverty through microfinance is also dependent on the individual who uses the service and how well he uses it. Microfinance would be useless if it were abused. Furthermore, if the plans are embraced by people from the middle or upper classes, their main aim would be undermined because these schemes are expressly designed for people living below the poverty line. These programs are developed with the fundamental needs of the underprivileged in mind. And, when correctly implemented, these plans may contribute up to 75% to the improvement of a country's economy (Rena et al, 2006).

Ahmed and Naveed performed a study in Pakistan's District of Rahim Yar Khan to assess the efficiency of Khushali Bank's microcredit initiatives in alleviating poverty. They utilized impoverished people's living standards, agricultural costs, agricultural savings, and output level as factors. They saw a very good impact of these initiatives in raising agricultural productivity as well as enhancing the area's living conditions (Ahmad & Naveed, 2004).

Microfinance and small loan schemes for fisheries, livestock, and cotton production, among other things, considerably assist in raising living conditions. Sometimes a lack of financial resources outweighs a poor person's inventiveness and skills, and this may be exploited through such scams. As a result, underutilized abilities can be fully used and yield profitable results (Barnes et al., 2001).

Microfinance raises per capita income through the establishment of new businesses as well as the stabilization of current new businesses. The per capita income of people who use microcredit programs is higher than that of non-borrowers (Kamal, 1996).

Microfinance plans are only for the poor who do not have access to official credit schemes owing to a lack of available sources. In Pakistan, almost 90% of commercial businesses use microfinance programs to meet their economic demands. These plans also help them to grow their business (Ghalib, 2007).

2.7 Poverty and microfinance

The increasing profitability of many government banks and non-governmental organizations has piqued the interest of commercial and traditional banks in microfinance. Khushali Bank in Pakistan is one such microfinance institution. Given the rising popularity and profitability of microfinance, many non-governmental organizations (NGOs) have shifted their whole focus to microfinance schemes (Fernando, 2004).

Because of increased agricultural production as a result of microfinancing initiatives, the total country's gross GDP is rapidly increasing (Waqar et al., 2008). Microfinance is widely used not just by men but also by women in a community. Because women play an important role in the household, women in Pakistan are also playing an important part in the expansion and stability of small commercial companies conducted via micro-financing programs (Muhammad, 2010).

Microfinancing has proven to be a tremendous benefit for underprivileged individuals in Pakistan who did not have the resources to earn a better living. Several rural assistance programs are in place in Pakistan to help people out of poverty. Among these organizations are numerous non-governmental organizations (NGOs), such as the Sungi Development Foundation. However, the bulk of these schemes has not met their full objectives because of the extremely high cost of lending worthiness. Henry, 2004).

Currently, the efficiency of microfinance schemes is determined by their financial stability. Financial stability and the cost of microfinancing options have a strong link. And the cost of micro-financing opportunities is high as long as the micro-financing sector is scarce (Ledgerwood, 1998).

Due to the tiny quantity of microcredit available through microfinancing initiatives in Pakistan, it is extremely difficult for impoverished individuals to establish a new business or venture. As a result, the poor remain impoverished. However, for the poor who already own a business, such small loans can help them boost and improve the condition of their company (Zaman & Hassan, 1999).

Another key obstacle that stops impoverished individuals from fully using microfinance schemes is excessive interest rates and service fees. The explanation might be that banks must send representatives to poor people's homes. And because such arrangements incur enormous

expenses, the costs are borne in the form of hefty service fees and high-interest rates on minor loans (Brand & Gearstick, 2001). Remenyi discovered a very promising association between income level and microfinance. When microfinance is substantial, it raises income levels to a greater extent, and vice versa (Remenyi et al., 2000).

Since the early 1970s, microfinancing (MF) has achieved enormous success by reaching millions of needy individuals throughout the underdeveloped and developing worlds, with MFIs having several branches all over the world (Mohammad Khan and Rahaman, 2007). The massive exponential expansion of MFI is not the result of a single market driver, but of the hard work and dedication of several individuals and organizations (Mohammad Khan and Rahaman, 2007). Pitt and Khandker (1996, 1998) calculated that for every hundred Bangladeshi takas provided to women, the increase in household income would be 18 Bangladeshi takas.

Chapter 3

Contribution of BRAC Microfinance Activities to Poverty Reduction in the Developing Economies

There are three significant associations that arrangement with miniature money exercises, they in corporate Grameen, ASA, and BRAC.

Grameen Bank (GB) has flipped conventional depending on its head by eliminating the requirement for security and building a monetary framework in light of common trust, obligation, support, and imagination. GB gives funding to the least fortunate of the poor in country Bangladesh with next to no security. Credit is a minimal expense weapon in the battle against neediness in the Unified Realm, going about as an impetus in the overall improvement of the financial status of poor people, who have been kept out of the financial framework since they are dejected and thus unbankable. The pioneer behind "Grameen Bank," Teacher Muhammad Yunus, contemplated that assuming monetary assets were made accessible to the poor based on proper and sensible conditions and conditions, "these large number of little individuals with their a great many little pursuits could amount to make the best advancement wonder."

ASA was established in 1978 by the late Md. Shafique Haque Choudhury is a well-educated and visionary man and committed to the country's development, especially welfare for the poor. Since its inception, ASA undertook and implemented various programs meant for improving the living standard of the poor and transforming society prosperous.

However, for the purpose of this study, the researcher would focus on Brac microfinance bank as the case study.

3.1 Establishment of BRAC

The BRAC organization was established in 1972 by Sir Fazle Hassan Abed to aid refugees fleeing the Bangladesh Liberation War. Since then, BRAC has established eight initiatives to empower those affected by poverty, social injustice, illiteracy, and sickness. Of its eight programs, Microfinance is one of the organizations. BRAC believes that the financial inclusion of underprivileged individuals and communities is a critical step toward poverty eradication.

BRAC has grown into a prominent development organization and microfinance provider in the East African nation of 42 million people. They currently run 112 locations in 48 districts, serving over 145,000 microfinance customers. They disbursed nearly 31 million USD in loans to underprivileged women and men last year.

BRAC's microfinance provides support to about 660,000 people in Bangladesh as well as in Tanzania, Sierra Leone, Myanmar, Liberia, Rwanda, and Uganda. Borrowers receive financial literacy instruction in addition to loans from BRAC. Borrowers learned to be more responsible with their money and make better financial decisions as a result of this. In addition to microfinance, the group offers community activities such as agriculture workshops, youth education, and health care. Microfinance has an even bigger influence on communities when combined with these initiatives.

BRAC's most memorable overall development was in Afghanistan in 2002, and the association presently has partners in 13 countries, principally in Asia and Africa. Through its NGO element, BRAC has been working in Uganda since 2006 to promote ladies' strengthening, give schooling to kids and young adults, address orientation-based brutality issues, further develop occupations and abilities for smallholder farmers, and help individuals in lifting themselves out of poverty. Ultra-destitution. BRAC's microfinance exercises in Uganda are overseen by an unmistakable association, BRAC Uganda Microfinance Ltd ("BUML"). From 2008 to 2018, BUML developed its borrower base from north of 60,000 to more than 200,000, as well as its branch network from 61 to 163.

3.2 Contribution of BRAC Microfinance Activities to the Poverty

Reduction in the Developing Economies

In a study in Nigeria by Tagamet (2019) the impact of microfinance foundations on destitution decrease and entrepreneurial activity in Nigeria was explored utilizing an overview research method that managed surveys to a sensible number of respondents in the miniature, little, and medium ventures sub-area in the Distinguished Local Government Area in Edo State, Nigeria. The investigation found a strong and favorable association between microfinance institutions and poverty reduction in Nigeria. However, there was a positive but negligible link between entrepreneurial activity and poverty decline.

In another review, Usifo and Ezeanyaaji (2017) found that the Augmented Dickey-Fuller test, Unit Root test, Johansen Integration Test, and Error Correction Model (ECM) were utilized to break down the effect of microfinance banks on destitution easing and financial development in Nigeria. The review utilized time-series information from the Central Bank of Nigeria's insights announcement from 1992 to 2016. The review's discoveries demonstrated that the resources of microfinance banks significantly affect Nigeria's financial development and neediness.

In another review by Gibb (2007): If we do a poverty project, we provide a model outlining certain standards that should be followed while launching Micro and Small Enterprise Development programs. The model is dynamic in the sense that policies, microfinance, institutions, and aid packages for the growth of this business sector evolve in response to changes in the needs of Micro and Small Enterprises. The demand for MSEs determines the components of support service programs.

In another review, Sumner (2003): Poverty is a multifaceted issue that impacts individuals at all levels of society, including global, national, social, familial, and individual. This demonstrates that poverty lacks a precise definition and has been extensively researched. Poverty alleviation is currently one of the It is one of the most important issues on the national government's agenda, and it is consistent with the Millennium Development Goals (MGGS), whose principal goals or objectives are the eradication of poverty and hunger in the country.

3.3 How BRAC is contributing by reducing poverty in Africa through microfinance:

African Continent

Uganda:

BRAC launched its microfinance program in Uganda in 2006, and it has since extended to 163 areas in 84 locales, serving more than 200,000 clients. BRAC has been chasing after an adjustment of administrative status that would permit it to increase the extent of its monetary administrations as a component of its obligation to give more prominent monetary

consideration, especially for minimized ladies in rustic and low-pay regions. BRAC Uganda Bank Ltd. will actually want to offer investment accounts, cash moves, protection, and other monetary administrations to Ugandans, notwithstanding its current credit items, because of the progress.

Nonetheless, BRAC, the biggest microfinance supplier in Uganda, at present serves in excess of 200,000 predominantly rural female clients, through in excess of 150 branches across essentially every region in the country. In the long time since the microfinance organization was laid out, BRAC has given micro-loans to ladies (a fundamental credit goes from USD 55-\$1,400), and small undertaking credits for male and female entrepreneurs (from USD 1,400-10,000). Its ongoing portfolio is around US \$45 million. This year, BRAC presented its application to change into a bank. In Uganda, it was a Tier 4 establishment, a class for unregulated credit-just NGOs and cash banks. After the change, BRAC will become a directed credit institution under Tier 2, permitting it to extend its set-up of administrations for clients—most eminently, to bank accounts.

Rwanda:

BRAC Rwanda's microfinance mediation was sent off in 2019 with the mission to give a scope of monetary administration mindfully to individuals at the lower part of the pay pyramid. This especially centers around ladies living in destitution in the country and difficult-to-arrive regions to set out independent work, open doors, fabricate monetary versatility, and saddle ladies' enterprising souls by engaging them financially. Furthermore, its center items incorporate a gathering-based microloan given solely to ladies, and little venture credits for business people looking to grow their organizations. They likewise give a deliberate reserve fund store administration, which enables our clients to construct their own capital and become more resistant to shocks. BRMCP is the main BRAC International Microfinance element to have completely digitized activities from the outset. In 2021, BRAC Rwanda's absolute resources expanded by around 96% to USD 2,348,790, up from USD 1,200,186 in the earlier year. Client credits and advances presently represent 206% of complete resources. Because of the additional offer capital mixture, the net value developed to USD 1,513,836 in 2020 from USD 577,819 in 2022.

Liberia:

BRAC was established in 2008 and carries out friendly advancement programs in farming, food security and occupation, training, super unfortunate graduation, youth strengthening, wellbeing, and microfinance. They support the destitute in 12 of Liberia's 15 provinces. BRAC Liberia overhauled 42,000 people. They were upheld by this and from them, practically 45% of those have a place in the rustic regions and 93% of borrowers were ladies. A credit of nearly \$8.7 million was given as a credit. (Report, April 2022).

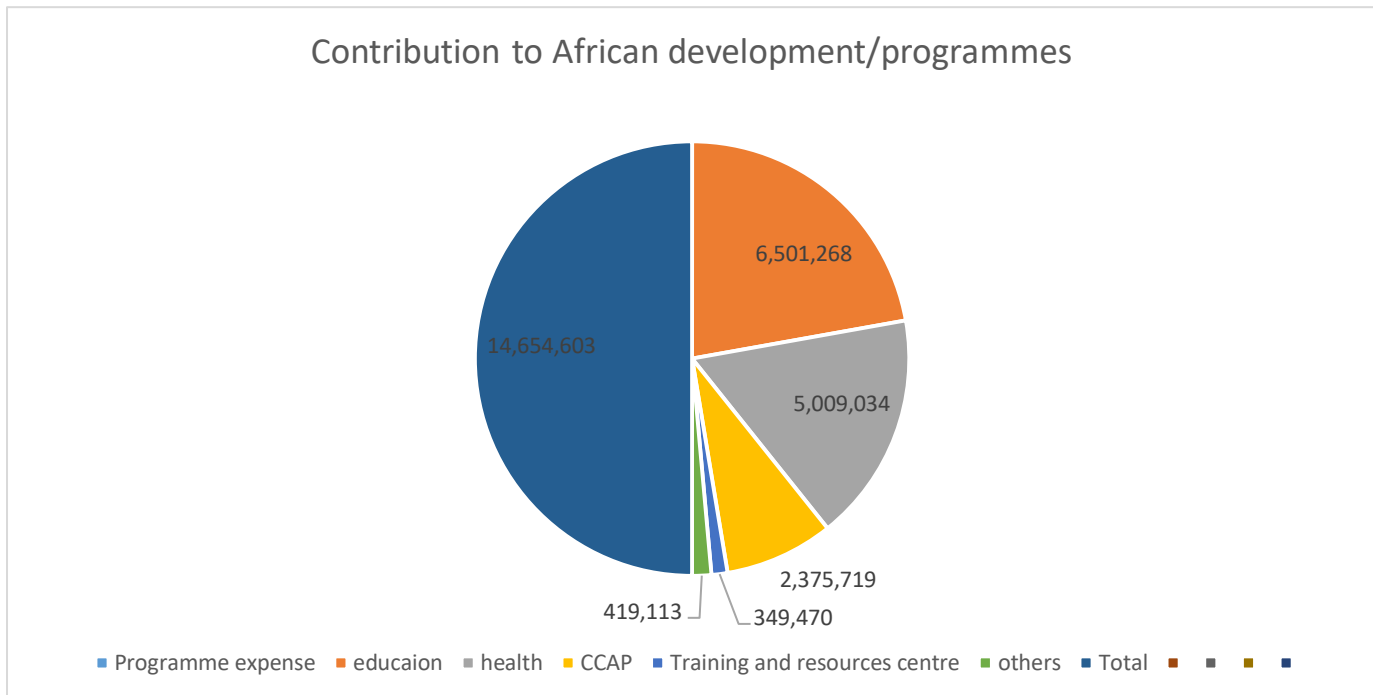
Sierra Leone:

BRAC began working in Sierra Leone in 2008, with its principal objectives being medical services, schooling, agribusiness, animals, and youth empowerment. They are currently dynamic all throughout the country's western locale and segments of the Northern Province. They helped north of 61,526 individuals in difficult-to-arrive areas in the initial two-fourths of 2021. BRAC Microfinance (SL) Limited acquired USD 1,157,000 in preceding duties in 2020, compared with USD 2,186,000 in 2019. Interest pay has diminished by generally 10% because of a 3% decline in credit distributions because of the lockdown time frame during the COVID-19 pandemic.

Tanzania:

BRAC Tanzania Finance Limited was laid out in 2007. As far as branch organization, dynamic borrowers, and advanced extraordinary, it is Tanzania's biggest microfinance establishment. It gives access to cash to people living in need through 155 branches in 25 locales and 116 regions, with an extraordinary spotlight on women living in provincial and difficult-to-arrive regions. BRAC Microfinance is a value-added assertion that subtleties the total worth contributed and the significant worth created by the firm. Finance costs have ascended by 4% from TZS 2,960 million in 2019 to TZS 3,078 million in 2020, owing generally to the rollover of a developing credit office and the execution of rent bookkeeping as per IFRS 16. The organization's benefit after the charge for the year was TZS 8,539 million (2019: TZS 16,659 million), a 49% decrease from the earlier year. The quantity of borrowers has declined by 0.34% (2019: expanded by 0.4%), and the sum dispensed has decreased by 11% from TZS 220 billion in 2019 to TZS 197 billion in 2020, as indicated by the explanation of the monetary condition starting around December 31st, 2020.

BRAC Tanzania assists with general financial advancement by enabling the hindered (especially ladies) through miniature credit, representatives through compensation and recompense installments, and supporting neighborhood administrative specialists through charge installments, all while remembering the association's development.



Source: www.brac.net

3.4 How BRAC is contributing by reducing poverty in Asia through microfinance:

Asian Continent

The ongoing verification of the impact of microfinance on neediness in Bangladesh isn't self-evident. There is work that suggests induction timing might perhaps basically diminish destitution (Khandker 1998); on the other hand, there is extra examination that argues that microfinance insignificantly influences poverty decline (Morduch 1998). The evidence of lessening shortcomings is decently more clear. The course of action of microfinance has been found to strengthen crisis strategy for practical adaptations, separate compensation securing sources, build assets, and work on the circumstance with ladies (Hashemi et al 1996,

Montgomery et al 1996, Morduch 1998, Husain et al 1998). This paper researches the association between microfinance and destitution easing by zeroing in on BRAC, one of the greatest microfinance providers in Bangladesh. The key dispute in this paper is that microfinance adds to the easing of different components that add to the shortcoming. However, the impact on pay desperation is a part of moving beyond a particular credit limit and is to some degree subject to how poor the family is, regardless.

Bangladesh:

BRAC centers around landless individuals living in destitution, with an exceptional emphasis on women, whose lives are overwhelmed by ignorance, disorder, and starvation. BRAC's chief spotlight is on its financial strengthening. Keeping that in mind, these individuals are given security-free credits going from TK 1000 to TK 10,000, which are repayable soon. A few credits, for example, home development credits, are repayable over a more drawn-out timeframe. Interestingly, BRAC sorts out an assortment of instructional classes for town association (VO) individuals to assist them with reinforcing their capacities. Most VO individuals work in different pay-producing enterprises, for example, poultry, cows, vegetable development, fish culture, estates, sericulture, and limited scope exchange, for example, supermarkets and eateries (Islam, 1996). BRAC's improvement drives are centered around six significant regions: monetary turn of events; wellbeing; instruction; social turn of events; common freedoms and lawful administrations, fiasco the board, climate, and environmental change (BRAC initially, 2009). BRAC's microfinance network as of now remembers all locales in Bangladesh through 293,016 town associations (VOs) with 8.09 million VO individuals (in the same place), 93% of whom are ladies. (BRAC net, n.d.).

Pakistan:

The BRAC Organization was founded to institutionalize the microfinance policy with a paid-up capital of USD 30 million given by 16 commercial organizations functioning in the nation. The BRAC Organization was founded to institutionalize the microfinance policy. BRAC's organization and operations have been intended for a long-term community-based service delivery system. The BRAC business model and framework necessitate structural integration and collaboration with non-governmental organizations (NGOs). It has an ongoing payout of around Rs.450 million to approximately 50,000 borrowers, and over the next five years, it will reach approximately 450,000 borrowers and an almost equal number of savers. BRAC

Organization has been able to expand its portfolio and market reputation, and it may pave the road for financial integration and overcome money market reluctance to participate in microfinance. The NGOs are intended to foster and mature themselves in terms of processes, procedures, paperwork, and banking products in collaboration with BRAC in order to graduate into MFIs.

Afghanistan:

BRAC began its most memorable global activity by wandering into Afghanistan in 2002. It is the main microfinance organization in Afghanistan to serve remote, provincial clients at scale, covering 24 out of the country's 34 territories through an organization of nearly 180 branches—which separates us from other microfinance foundations that center fundamentally on serving clients in the metropolitan regions. In the primary quarter of 2012, we chose to slowly and deliberately transition away from the microfinance space and spotlight our endeavors on other improvement mediations, especially health and training for young ladies. The focal point of our microfinance program in 2012, especially after we quit dispensing in the subsequent quarter, was the assortment of extraordinary advances. They additionally worked with our accomplices, especially the Microfinance Investment Support Facility for Afghanistan (MISFA), to guarantee that not just our slowing down, phasing out of microfinance space in Afghanistan process was precise, but additionally that our borrowers approached elective wellsprings of credit and reserve funds administrations. They plan to totally stop our microfinance program in Afghanistan. Be that as it may, there is a huge premium on genuine cash by awful Afghans. Beforehand, women were completely kept away from monetary exercises, and the monetary region was almost non-existent. Today, town affiliation people are given credits averaging US\$ 130, with a 17.5% "organization charge". BRAC has furthermore settled to save reserve plots and give security against the destruction of people.

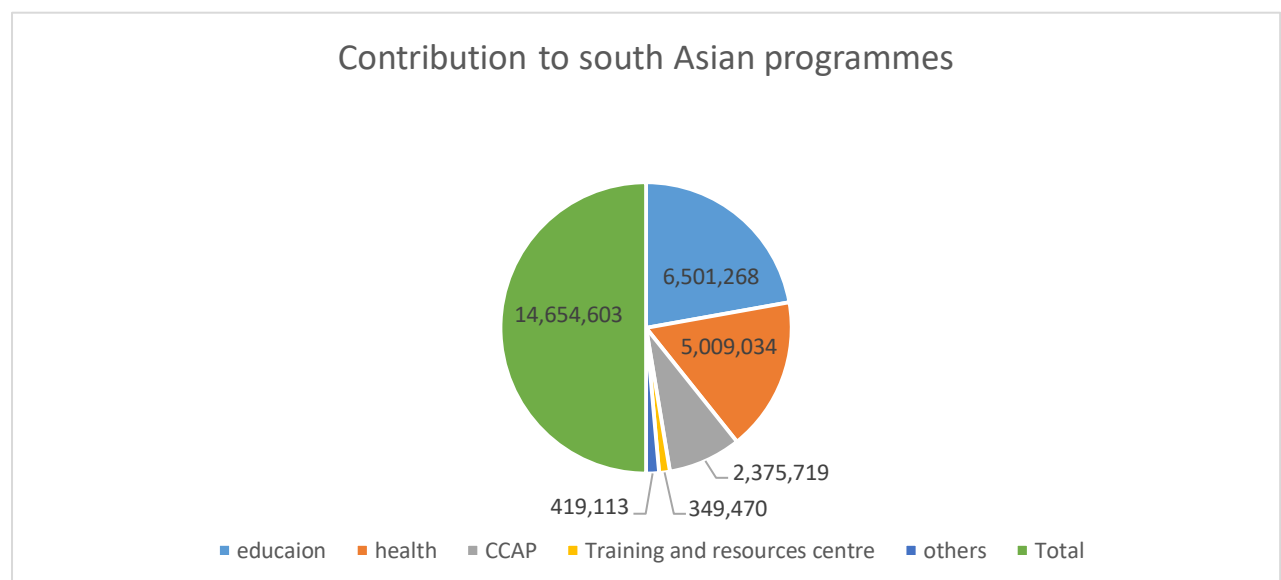
BRAC has executed comparative ventures in Afghanistan as it completed in Bangladesh, changing in accordance with neighboring conditions.

Myanmar

In 2013, BRAC Myanmar Microfinance Company Limited was laid out. It offers comprehensive monetary administrations to those living in destitution, with a specific emphasis

on ladies living in the country and challenging-to-arrive regions, as well as underestimated networks. It has the third largest branch network among Myanmar's microfinance organizations, with 85 branches in 83 municipalities. BRAC Myanmar has made around 250,000 microfinance advances to women business visionaries, as well as nearly 2,500 independent venture and ranch credits ranging from under \$100 to generally \$2,000, with certain borrowers getting advances of up to \$6,500.

BRAC loans to underserved gatherings, for example, ladies and individuals living in rural regions. With regards to BRAC's comprehensive way to deal with improvement, BRAC Myanmar's credits are essential for a total bundle of help that incorporates monetary education preparation and admittance to social improvement drives that upgrade food security and crisis readiness.



Source: www.brac.net

3.5 Flaws and loopholes of microfinance activates

1. No Business training

Generally speaking, microfinance adventures neglect to give help strengthen borrowers through preparation. Hardly any miniature loaning associations give any sort of conventional business partitioning to their beneficiaries, as they expect that all advance beneficiaries are

business visionaries and that they comprehend how to prevail in business. Nonetheless, this is seldom the situation.

Many advance borrowers, for instance, have flopped in their undertakings since they looked to enter a generally packed industry. As per Well-meaning goals, this has brought about repeating disappointment. "In Mozambique, one woman opened a vegetable shop... right close to the next five comparable slows down in the neighborhood." The market was immersed, and the women could generally not make money. A little business preparing could have kept this from happening.

2. Lack of sustainability

The subject of long-haul activity is a common topic in microfinance banter. Regardless of MFIs' monetary models and comprehension of "best practices," for all intents and purposes, all projects are vigorously upheld. UN research viewed that as only 10% of miniature loaning organizations are independent. In Bangladesh, BRAC has filled in as a model for all hopeful microfinance organizations concerning maintainability. The progress of BRAC has filled in as a norm for most microfinance across the globe. The greater part relies upon commitments and appropriations to go on in activity, jeopardizing their drawn-out maintainability. This is especially valid for programs with obviously friendly objectives. As per a new evaluation, programs that focus on the most unfortunate borrowers procure incomes that cover only 70% of their all-out uses.

The absence of monetarily suitable projects is an issue since reasonable drives might achieve a bigger size than sponsored programs. Subsequently, they can greatly affect neediness, and low-pay clients are more able to get from monetarily stable associations.

3. Proper Utilization of Fund

Perhaps the most serious shortcoming in microfinance is the redirection of assets from the serious areas. A significant greater part of female buyers don't have their supported credits in their assigned businesses. The Credit is generally used by other relatives, bringing about misconduct, but the BRAC and GB objectives are not met. For this situation, field

officials ought to further develop their client observation to guarantee ideal speculation and credit use. The field official ought to remind relatives who intrude with business not to do.

4. High-Interest Rates

In principle, microfinance is supposed to offer lower loan costs than conventional loaning. In reality, most microfinance associations force extreme financing costs on advances. Exorbitant loan fees can drive clients further into obligation and neediness. For instance, Muhammad Yunus, maker of Grameen Bank, has chastised Comparators Banco, a Mexican microfinance organization, for charging financing costs near 100 percent every year. In any case, numerous MFIs keep up with that financing costs are not a worry since they have high credit restitution rates, which is generally referred to an indication of progress. Reimbursement rates, then again, just mirror that borrowers are capable and ready to reimburse, and they uncover barely anything about the impact on prosperity.

5. Social Custom and Culture

In our way of life, there is a negative view of non-legislative association (NGO) tasks. Numerous people actually accept that ladies can't and shouldn't run an organization or partnership. They are reluctant to carry on with work or structure an enterprise. Accordingly, organization activities and commitment are hindered. As per distributed measurements, 51% of RDS respondents and 47% of GB respondents had this trouble.

Chapter 4

4.1 Limitation and Scope for future study

The study was delineated to investigate microfinance's effect on poverty reduction and economic growth. The study would have intended to cover all the African countries and South Asian countries like Uganda, Rwanda, Liberia, Sierra Leone, Tanzania, Bangladesh, Pakistan, Afghanistan, and Myanmar due to time constraints, distance, and financial problems. This study will also serve the same purpose for other countries not mentioned here.

Microfinance is essentially an approach where through group dynamics, small people, particularly rural women, could be organized into small self-help groups to take up small economic activities through small loans so that the benefit accrued could be shared among the group to ultimately make the group members empowered socially and financially. Whereas SMEs are enterprise-oriented small and medium size business units with larger investments with a focus on developing people into business entrepreneurs. The scale of activity and the finance involved is macro in nature.

In developing countries, micro-finance activities have come to a stage of a standstill with mounting overdue Bank borrowings. As usual, the entry of politicians has eroded the sanctity under which micro-financing schemes through SHGs were started way back then in the late eighties. Only strong NGOs could sustain microfinance activities through tight supervision and incentives. But they are a few numbers. In some areas, NBFCs are active and their experience may not be satisfactory.

Microfinance institutions play an important part in a country's growth. They provide an alternate source of finance to poor people who depend on moneylenders charging exorbitant interest rates. Though I cannot say that they help poor people coming out of poverty, they prevent them from going further into poverty. Micro-finance institutions could play a crucial role in the development of small-scale industries. But there are still many loopholes in this system. The BRAC has to frame some solid guidelines if these institutions are to work effectively

4.2 Conclusion

The topic of this research is to analyze microfinance's effect on poverty reduction and economic growth. Here, the researcher identified those setbacks (challenges) that have subjected developing continents – Africa and south Asia; the challenges include poverty enslavement and a rising economic disparity that is caused by reliance on the corporate market. On the basis of this, the researcher has taken a substantial approach to review whether the already operational poverty alleviation initiatives used by Brac are helping to thwart those challenges, and also whether they are fostering community self-reliance. To answer the above question on whether Brac has been meeting the demands, and fostering self-reliance, the researcher examined BRAC contribution to Africa and southern Asia developments. From the findings, it is revealed that BRAC micro-finance provides support to about 660,000 people in Bangladesh, as well as in Sierra Leone, Liberia, Rwanda, Uganda, Afghanistan, etc.

In addition, BRAC Microfinance is a deliberate reserve fund store administration, which enables its clients to construct their own capital and become more resistant to shock. They also carry out friendly advancement programs in farming, food security, occupation, training, graduation, youth strength, and well-being. BRAC micro-finance has been shown to assist the above-mentioned countries with general financial advancement by enabling the hindered (especially ladies) through miniature credit, representatives through compensation and recompense installments, and supporting neighborhood administrative specialists through charge installments while remembering the association's development.

Concerning the research methodology, the researcher employed secondary data (both quantitative and qualitative methods).

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