

PROBLEMS AND PROSPECTS OF MICRO FINANCING IN BANGLADESH: A COMPARATIVE STUDY BETWEEN ISLAMI BANK BANGLADESH LIMITED AND GRAMEEN BANK

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ABSTRACT

The study attempts to analyze the problems and prospects of micro financing in Bangladesh especially in Islami Bank Bangladesh (IBBL) and Grameen Bank (GB). Since the inception of micro financing organization like Grameen Bank in Bangladesh in the mid-1970s, a number of countries have copied this model. Different conventional and Islamic banks also use this model. The apparent popularity of this model among developing countries is established in poverty alleviation. The paper shows that micro financing in Bangladesh faces enormous problems in infrastructural inadequacies, social misconception, poor legal and regulatory framework, unbridled competition from other financial institutions, and lack of qualified manpower. The researcher found some problems in both the banks commonly like: insufficient amount of credit, illiteracy, social custom barrier, severe poverty, migration of the clients to other countries and identifying the skilled & reliable customer. Despite this embarrassment of problems, the study identified several areas where opportunities exist for micro finance. This paper therefore concludes that the future of microfinance in Bangladesh is bright if the government and the policy makers consider the recommendations provided by the researcher.

Key Words: Islami Bank Bangladesh Limited (IBBL), Grameen Bank (GB), Micro Financing

1.0 INTRODUCTION

The rural-based small industry sector in developing nations contributes greatly to economic development by generating employment prospects and establishing rural savings towards productive sectors. It is revealed from many researches that this rural-based small industry sector is one of the most neglected sectors of economy in almost all least developed and developing nations of the world. Amongst others rural-based small entrepreneurs suffer from lack in working capital, institutional credit facilities and poor management. Due to the shortage of capital they are bound to borrow funds from local money lenders at a high rate of interest. This practice brings endless miseries to the rural-based small industry owners (Rahman F, 2014). There is a proverb in developing countries, 'The rural poor are born in debt, lives on debts and die in debts'. It is observed from the different study

that most of the rural people are savings minded and they try to save from whatever little earnings they have. Unfortunately, the efforts of these people remain unattended. Formal as well as informal lending organizations seldom consider the issue of rural savings as a vital factor for creating working capital for rural entrepreneurs. Institutionalization of saving habits through lending procedures might play the most important role to a greater extent in developing saving mentality among rural-based industry owners and also to organize these savings towards productive sectors. Now a days micro finance is given by both the government and non-government organizations in Bangladesh. Commercial banks like Sonali Bank Limited, Agrini Bank Limited, Janata Bank Limited, Rupali Bank Limited and IBBL, specialized banks like Bangladesh Krishi Bank (BKB), GB etc. are engaged in micro financing activities. In recent years different

Islamic banks in Bangladesh started giving micro finance towards rural areas. Some of the lending procedures of this financing system are designed in such a way that in order to obtain a micro finance, a client must show minimum personal savings in order to be qualified for a loan.

2.0 OBJECTIVES OF THE STUDY

The objective of the study is to analyze the problems and prospects of micro financing in Bangladesh especially in Islami Bank Bangladesh (IBBL) and Grameen Bank (GB) and suggest some recommendations.

3.0 REVIEW OF RELATED LITERATURE

Despite of the availability of sufficient research studies on micro finance, very scanty research studies have been conducted on problems and prospects of micro financing in Islamic banks and conventional banks, but its contribution to our national economy can hardly be investigated. In this context, detailed literature review has been exhibited. Different unpublished PhD theses, articles published in different renowned journals, seminar and conference papers, and research reports have been reviewed in this section as under:

Ahmed (2000) presented a paper entitled “Islamic versus conventional banking: A study of apparent similarities” at a seminar held in Dhaka (IERB). He found that the similarities are less important argument against the Islamic banking. The author also found that since the Islamic banks are working side by side with the interest-bearing banking, so there remains a scope to compare between interest-bearing banking and profit-loss sharing banking. The researcher viewed that Islamic banking demands a pure Islamic environment in the society where anti-Islamic activities are absent.

Ahmed S. (2003) prepared an important study entitled “BRAC’s micro-finance Canvass: Financial services and strategic linkages”. He indicates that the poor are a diverse group with diverse livelihoods, needs and potential, which change overtime due to lifecycle, new opportunities and external shocks. This diverse and dynamic

reality of poor people, lives forms the converses within which BRAC conceptualizes and designs its repertoire of development programs, in which micro finance is a core element. This paper through a few program experiences attempts to reveal the conceptual innovativeness embedded in the way BRAC thinks and acts about micro-finance. It is not only ‘micro-finance the tool’ that is a powerful poverty-alleviating weapon, but also the institutional framework of micro-finance that is created in delivering micro-finance. The extensive outreach, connection, knowledge and network, that the micro-finance institution and the people running it at all levels possess and generate in their everyday working engagements, is an extremely powerful asset in the fight to overcome poverty. From beginning to harness the power embodied in the institutional capital of micro-finance institutions. This will be the second-generation challenge for all poverty focused micro-finance institutions and Bangladesh will again lead the way. A great deal of our learning comes from our program experiences, sharing of ideas and communicating with colleagues at various levels of the organization. However, there is no substitute of careful research to complement and focus the efforts. BRAC’s Research and Evaluation Division (RED) have been working since early 1990s to develop a comprehensive Impact Assessment System (IAS). The assessment of the programs gives not only BRAC the measurement of program success, but also helps to evaluate impacts to the program in raising the socio-economic status of the participants and to identify challenges.

Ahmed, (2008) wrote an article named “Grameen Bank vs. RDS of IBBL: A comparative analysis.” He interviewed 100 members of GB, of which 25% expressed their willingness to leave GB and join RDS if opportunities were created. Among others, the basic reasons for their answers were: a) RDS is Islamic character, it does not deal with interest; b) It gives more benefits; and c) GB very often gives undue pressure on weekly payments when they are in genuine difficulty.

The operation of RDS of IBBL shows that its relative impacts are positive which indicates the superiority of RDS over GB. Moreover, Islamic Shariah model of micro finance like RDS

seems to be more effective than GB, in income generation and poverty alleviation.

Ali (2006) completed a Ph.D thesis entitled "Contribution of non-Government organizations (NGO) in human resources development (HRD) of Bangladesh – A comparative study of five Selected NGOs". He stated that all most all the NGOs raised very interesting and lucrative slogans but reality is quite different. The common slogans of all the NGOs are to alleviate poverty, to remove illiteracy and to remove socio economic condition of the distressed persons like widow, divorced and separated women. But looking on characteristics of the respondents of the target group of the NGOs are quite different features are observed.

Ami (2003) have conducted an important study named "Does micro credit reaches the poor and vulnerable? Evidence from Northern Bangladesh," a study on the micro credit clients of Grameen Bank, BRAC and ASA. They observed that the micro-credit program was more successful to reach to the poor, but less successful to reach to the vulnerable poor.

Bebczuk (2009) focused in his study that micro credit changes the level of income and livelihood of households. He used household survey data on poor households from a number of Latin American Countries as part of his study. He found that credit increased the labor income statistically and the economic effect was also significant. He also found that the poor household income was increased with access to credit compared to the poor without access to credit by 4.8 times in Bolivia at 10% level of significance, 12.5 in Guatemala at 1% level of significance and 4.5 times in Haiti at 5% level of significance. The impact of credit was very sensitive in terms of size of loan.

Fujita (2000) arranged an empirical study on "Credit flows from the poor to the rich: The financial market and the role of the Grameen Bank in rural Bangladesh." The study found that the conventional understanding that poverty alleviation by microcredit programs was attained through the generation of self-employment

opportunities by the poor is not correct. Therefore, the role of the microcredit institutions as Grameen Bank is to promote hard work and the accumulation of savings by the poor. The study concluded that the microcredit programs could not alleviate the poverty from the poorest of the poor, who are without fairly stable regular income sources to benefit from microcredit programs.

Hamid (2001) made an empirical investigation "The role of Islamic Bank in the development of small entrepreneurs" found that (i) Attempt to review the problems and prospects of the application of Islamic modes of financing in the actual situations were successful. It was however known that most of the members of the RDS were doing their business without necessarily understanding its basic philosophy. Only a few did know that IB was operating without interest. They were rather found to be very eager to earn income by borrowing funds, no matter whether it was on the basis of 'interest' or 'profit'. (ii) Although GB members were not at all conscious about the Islamic way of earning income, some of them noted the advantages of loan given in kind vis-a-vis in cash. Among those found willingness to join the IB mentioned the importance of Islamic way of living as the major cause.

Hossain (2000) presented an article at the fourth international conference on Islamic Economic and Banking in Loughborough University, UK entitled "Micro financial services and poverty alleviation in Bangladesh: A comparative analysis of secular and Islamic NGOs." But the study is very preliminary. In this study based upon secondary information, some observations were made on the comparative performance of selected Islamic NGOs (including RDS of the IBBL) and secular NGOs (including GB). A secular NGO is defined as that NGO which follows interest based lending policy and an Islamic NGO, on the other hand, is defined as that NGO which follows interest free but Islamic mode based lending policy. Otherwise, both basically followed group based lending model as developed by GB.

Hulme (1996) conducted a study on "Finance against poverty." This study was on BRAC

provided microcredit and observed positive impact on the poor borrower income with around 30% over the non-borrowers. Microcredit of the partner organizations of PKSf was also found to effect and observed strong positive impact on the income and other aspects of livelihoods. However, all most of these studies simply assessed the impact of interest based microcredit program which did not consider about *Shariah* (Islamic rules and regulations) compliance for investment.

Rahman, et al. (2000) made an important study entitled “An evaluation of Thengamara Mohila Sabuj Sangha: A case of Bogra District”. They mentioned that TMSS has been playing a beneficial role in alleviating poverty by providing financial assistance to women entrepreneurs. They also indicated the loanees of TMSS faced several problems such as inadequate loans from TMSS, disorganized and poor marketing facilities, lack of proper training and scarcity of high yielding variety seeds.

Rahman (2007) found in his article named “Grameen Bank & Islamic banking: A comparative study” that the message of Islam ensure the welfare of whole people of the world here and hereafter. All other economic system except Islamic economy possess gap in giving benefits to the parties. There, one party is beneficiary, other is sufferer. Only Islam can ensure the balanced economy. Where the objective of economy is to do well for the human being, then why are there problems in adopting better system? Therefore, we believe that not only Grameen Bank, Noble laureate for peace, but also every financial institution of Bangladesh can easily play their role on the basis of Islamic *Shariah*. The necessary environment, proper arrangement and mentality are available in our country and there is no conflict between this Islamisation and modern state concept. Many Muslim countries in the world have Islamized their banking systems. So as a moderate Islamic country Bangladesh can easily implement Islamic banking. May Allah help us!

The detailed review of related literature testifies that no comprehensive study has been conducted on comparative study on problems and prospects

of IBBL and GB. This has created a good research gap. This study would be of immense value to satisfy the target groups, beneficiaries, the donor agencies and the other policy makers.

4.0 METHODOLOGY OF THE STUDY

Methodology is an essential part of the study. It includes designing sample, sources of data, collection procedures of data and processing & analyzing data. These are stated in the following sub-headings:

4.1 Sampling Technique

4.1.1 Branch Selection

There are seven divisions in Bangladesh. Out of seven divisions two divisions (around 33%) i.e. Dhaka and Khulna are selected through stratified purposive sampling technique. Six districts (Khulna, Kushtia, Jessore, Manikong, Gopalganj and Narayanganj) out of 30 (20%) districts in two divisions are selected as sample. In this study researcher has taken two micro financing banks i.e. IBBL and GB. Because, these two banks are the largest micro financing organizations in banking arena. Only 12 branches (6 branches of IBBL and 6 branches of GB) have been selected from 6 districts for the study. With a view to making the sample unbiased and fully representative, 6 branches have been selected from Dhaka division and 6 branches have been selected from Khulna division. One branch from each district is selected purposively for the study due to one branch of IBBL is existed in every district. Here division, district etc. are the strata. Branches are selected through stratified random sampling techniques. The interview schedules are prepared for two categories of respondents viz. loan borrowers or clients and bank personnel.

4.1.2 Respondents Selection (Clients)

Anderson (1996, 816) states that size of the sample must be larger enough to provide a specified level of precision. But budget of the study dictates the sample size. Researcher has tried to make trade-off between cost/time and precision. Anderson's random sampling technique is used in selecting sample size of the respondents (clients). Since the population is known, sample size has been

determined by using the following formula (Anderson 1996, 820):

Since in this research the sequential exploratory research strategy of mixed method is followed, an attempt has been made to compare the findings of the micro financing activities of IBBL with those

of GB. So, (up to December 31, 2015) 9, 47,305 clients of RDS of IBBL and 88, 06,779 clients from GB have been considered the population of the present study (Monthly performance report of both banks, Dec, 2015).

Table # 1

Sample Size of IBBL (clients)

$n = \frac{N \cdot p(1 - p)}{N \frac{B^2}{4} + P(1 - p)}$ $n = \frac{9,47,305 \times 0.5(1 - 0.5)}{9,47,305 \frac{(0.1)^2}{4} + 0.5(1 - 0.5)}$ $n = 99.98 = 100 \text{ (App)}$	<p>Where</p> <p>N = Number of known population = 9,47,305</p> <p>P = Proportion belonging to specified category = 0.5 (Assumed);</p> <p>(1-p) = Proportion not belonging to specified Category = 0.5(Assumed);</p> <p>B = Level of significance = 10% (i.e., level of significance)</p> <p>n = Sample size</p>
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Table # 2

Sample Size of GB (Clients)

$n = \frac{N \cdot p(1 - p)}{N \frac{B^2}{4} + P(1 - p)}$ $n = \frac{88,06,779 \times 0.5(1 - 0.5)}{88,06,779 \frac{(0.1)^2}{4} + 0.5(1 - 0.5)}$ $n = 99.998 = 100 \text{ (App)}$	<p>Where</p> <p>N = Number of known population = 88,06,779</p> <p>P = Proportion belonging to specified category = 0.5 (Assumed);</p> <p>(1-p) = Proportion not belonging to specified category= 0.5(Assumed);</p> <p>B = Level of significance = 10% (i.e., level of significance)</p> <p>n = Sample size</p>
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Table # 3

Selection of Sample Respondents (Clients)

SL. No.	Division	Districts	IBBL	GB	Total	percent
1	Dhaka	Manikgonj	30	30	100	50
2		Naraingonj	10	10		
3		Gopalgonj	10	10		
4	Khulna	Kushtia	30	30	100	50
5		Jessore	10	10		
6		Khulna	10	10		
Total			100	100	200	100

Table # 4

Distribution of Respondents (Clients) by Division and their Respective Banks

SL. No.	Division	IBBL (Clients)	GB (Clients)	Total	Percent
1.	Dhaka	50	50	100	50%
2.	Khulna	50	50	100	50%
Total		100	100	200	100%

The sample has been selected for the survey considering such factors as size, location, number of clients and capacity. A total of 100 respondents (**clients**) from IBBL and 100 (**clients**) respondents from GB are selected as sample units for the survey which is found out by using Anderson's formula. Out of sample units 100 from Dhaka division and 100 from Khulna division have been selected as sample respondents perpossively.

4.1.3 Respondents Selection (Bank Personnel)

One the other hand, 38 bank personnel have been selected purposively for the study. From each bank 1 executive from head office, 6 branch managers and 12 field officers (2 from each branch) representing the sample units have been selected as bank personnel respondents. The category and number of the respondents are summarized in the table # 5.

Table # 5

Respondents Selection (Bank personnel)

Ser	Category	IBBL	GB	Total	percent
01	Executive from Head Office	01	01	02	5.27
02	Branch Manager	06	06	12	31.58
03	Field Officer	12	12	24	63.15
Total		19	19	38	100

4.2 Sources of Data

The study is involved collection of data both from the primary and secondary sources. Different types of data and their sources are discussed under the following heads.

4.2.1 Primary Data

Primary data have been collected through field survey. To have a complete knowledge and insight into the activities of IBBL and GB in socio-economic development through micro finance, the researcher has conducted a carefully designed sample survey with the help of two sets of interview schedules, specially prepared in the light of the objectives of the study. One set schedule was used for the clients and another one was used for bank personnel. During sample survey, 200 clients and 38 bank personnel were interviewed. The schedules have been filled up by

the researcher ownself. The data thus collected have been subsequently processed, tabulated and analyzed for the purpose of the study.

4.2.2 Secondary Data

The secondary sources include govt. publications, annual reports of IBBL & GB rules and regulations of the banks, seminar papers, journals, published and unpublished thesis, books, daily news, website of IBBL & GB and internet etc.

4.3 Collection of Data

4.3.1 Preparation of Interview Schedule

Data have been collected through interview schedule. This interview schedule will be particularly focused on major research questions that have been identified, particularly on socio economic impact of micro financing of IBBL and GB on socio economic development of Bangladesh. The interview schedule includes both open-ended and close-ended questions. Most of the questions were designed to get a comparable scenario between Islamic & conventional banking system (IBBL & GB). Thus, the respondents were asked to answer the questions for specific time period. Considering the socio economic impact of micro financing, two separate interview schedules were prepared; one for clients and another for bank personnel.

4.3.2 Methods of Data Collection

The following three methods have been selected for collection of data for this study:

- a. The library work method;
- b. The interview method; and
- c. The observation method.

5.0 PROBLEMS IN MICRO FINANCING OF IBBL & GB

5.1 Problems Faced by the Personnel of IBBL & GB

Since the clients are less educated and encompassed with their local culture, so the field officers are to face of various types of problems. The researcher collects data relating to the problems concerned with the bank personnel. The perceived problems are presented in table # 4.1.

Table # 6 Problems faced by the bank personnel

Sl. No	Problems	IBBL		GB	
		Frequency	%	Frequency	%
1	Misuse of investment	7	36.84	6	31.58
2	Illiteracy	8	42.10	6	31.58
3	Social custom barrier	14	73.68	15	78.95
4	Severe poverty	6	31.58	4	21.05
5	Migration to India	2	10.53	3	15.79
6	Lack of skilled and reliable customers	12	63.16	4	21.05
7	Natural calamities	4	21.05	4	21.05
8	Overlapping problems	9	47.37	11	57.90
9	Involvement local crimes	6	31.58	17	89.47

Source: Field Survey

These problems are discussed below:

5.1.1 Misuse of Investment

Some customers distract the amount of investment or loan to other sectors in lieu of the sector for which they took investment from IBBL and GB. As a result; the employees are to fall in trouble in the time of recovery. 36.84% respondents of RDS and 31.58% respondents of GB stated that it is a great problem.

5.1.2 Illiteracy

The rate of illiteracy of the poor in Bangladesh is high. This picture is not different in the study areas. It has been reported that the low rate of literacy is a formidable bottle neck in the smooth handling of business transaction with the illiterate clients. 42.10% respondents of RDS & 31.58% of GB mentioned such kind of problem.

5.1.3 Social Custom Barrier

Mainly women are the clients of the banks. There are different types of social customs in rural areas of Bangladesh like *Pordah*. It is a strong religious barrier for Bangladesh to control and recovery loan or investment by male field officers. It creates somehow difficulties for the bank personnel to perform their responsibilities smoothly. 73.68 % respondents of RDS & 78.95% respondents of GB claim that this is a great problem.

5.1.4 Severe Poverty

A proverb goes, "Necessity knows no law." The

prominent economist Ragner Nurks said, "A country is poor because it is poor." The poor round behind poverty which is called vicious circle of poverty. In fact, poverty itself is a problem. A poor person always falls in need and need. In this situation, the poor clients use their investment or loan in consumption or other urgent needs. Consequently, they can't pay their installments in time. 31.58% respondents of RDS & 21.05% respondents of GB opined that it is the main problem for micro financing of Bangladesh.

5.1.5 Migration to India

Some of the customers use their investment in their personal consumption purposes and fail to pay installments. For avoiding paying installments and fear of going under law enforcing agencies they go to another place even outside the country mainly to India. 10.53% respondents of RDS & 15.79% respondents of GB identified it as a problem.

5.1.6 Lack of Skilled and Reliable Customers

Generally for trade loan or investment banks justify the clients' creditworthiness through proper analysis. But there is no scope to analyze creditworthiness of the rural poor customers. So, it is so tough to search skilled and reliable customer. A good number of field officers mentioned that they faced serious problems to identify skilled and reliable customers. 63.16% respondents of RDS & 21.05% respondents of GB said that it is a great problem for them.

5.1.7 Natural Calamities

Natural calamities like floods, draughts, famine, natural disaster are common phenomena in

Bangladesh which create poverty. It also creates serious problems in case of paying the installment by the clients in due time. Consequently, the banks face problems to recover the investments. 21.05% respondents of RDS & 21.05% respondents of GB stated that it is a great problem for Bangladesh.

5.1.8 Overlapping Problems

Overlapping problem is one of the major problems faced by the banks. Several field officers stated that different NGOs distribute loans among the IBBL and GB borrowers with utmost secrecy. There is no data bank for searching the loanees conditions in Bangladesh. In such a situation the clients usually divert their investment or loan for some unproductive purposes or consumption purposes. Due to such diversion the clients become unable to pay the installment duly. Consequently, the recovery of investment becomes very difficult from them. 47.37% respondents of RDS &

57.90% respondents of GB identified it as a major problem.

5.1.9 Involvement of the Clients in Local Crime
Field study revealed that many clients are involved in various local crimes which become as threat for the goodwill of IBBL and GB. On the other hand, the criminals cannot move in the society easily and do not pay the installments in time. A normal field officer cannot recover the loan or investment from such type of clients. 31.58% respondents of RDS & 89.47 % respondents of GB stated that it is a major problem.

5.2 Problems Faced By the Clients

Success of the programs largely depends on identifying and solving the problems in time. Therefore, in order to improve the operations of the program, it is important to identify the borrowers' problems clearly. The problems they faced are given below:

Table # 7 Common problems faced by the clients

Sl. No.	Problems	IBBL	%	GB	%
		Frequency		Frequency	
1.	Insufficient amount of credit	60	60	65	65
2.	Lack of necessary training	40	40	42	42
3.	Social custom and culture	51	51	47	47
4.	Excess tension for defaulter group members	48	48	49	49
5.	Lack of modern technology	48	48	50	50
6.	Lack of information	38	38	40	40
7.	Insufficient gestation period for repayment	23	23	27	27
8.	Maintenance of <i>Pordah</i>	74	74	69	69
9.	Excessive formalities and huge signatures	70	70	75	75

Source: Field Survey.

5.2.1 Insufficient Amount of Loan or Investment

There is a rule for sanctioning loan for specific sector and clients. IBBL at first sanctions only Tk. 8,000 and GB sanctions only Tk. 5,000. They increase this amount gradually but at first this insufficient amount of money usually cannot meet the demand of all types of business conducted by the clients. It is the problem for the clients. 60% of RDS & 65% of GB respondents opined that it is the main problem for them.

5.2.2 Lack of Necessary Training

Majority of the customers who join RDS and GB don't know how to run a business. In most of the cases, due to lack of proper training a woman cannot run her business efficiently and effectively. Consequently she cannot earn sufficient profit and pay installments duly. 40% of RDS and 42% of GB respondents said that it is a vital problem.

5.2.3 Social Custom and Culture

A bad concept is prevailed in our society regarding NGOs activities. Still now, many people bear this conception that women cannot and should not operate business or firm. They feel shy to conduct business or firm. So, operation of business and involvement into business become hampered. 51% of RDS & 47% of GB respondents suffer such type of problem.

5.2.4 Excess Tension for Defaulter Group Members

Every member of each group is responsible for paying the installments of group member (s) if one fails to pay it. It is also an extra tension for the group members. 48% of RDS & 49% of GB respondents suffer from this problem.

5.2.5 Lack of Modern Technology

The world is developing in every moment. Production cannot meet the demand of market unless its quality is up-dated with the developed technologies. During the field investigation the researcher observed that most of the clients use traditional technology which ultimately results in augmenting costs and increasing price. So usage of modern technology is required to save the clients from becoming sick and to cope with changing needs of the market. But clients have little knowledge and ability for this end. 48% of RDS & 50% of GB respondents opine that this is one of the important problems.

5.2.6 Lack of Proper Information

Different types of information such as information regarding market and marketing of products, sophisticated technology, facilities and incentives offered by the various organizations, sales promotional activities performed by homogeneous business etc. are required for the clients for smooth operation of the business. But they do not get these information in time. 38% of RDS & 40% of GB respondents suffer from this problem.

5.2.7 Insufficient Gestation Period for Repayment

Payment of first installment starts after a week and the installments are to pay every a week continuously. It is difficult to earn profit from a business within a week. So, one week gestation period for the repaying of installment is a serious

problem for the clients. 23% of RDS & 27% of GB respondents suffer from this problem.

5.2.8 Maintenance of Pordah

Most of the clients of these sample banks are Muslim women. But 100% field officers are male. In this situation, maintaining *Pordah* becomes impossible in micro financing activities like attending meeting, paying installments etc. 74% of RDS and 69% of GB clients expressed that this is a great problem.

5.2.9 Excessive Formalities and Huge Signatures

Most of the customers of RDS & GB are illiterate or having knowledge in writing name only. To take the investment from RDS of IBBL and GB customers have to face huge formalities and put signature on varieties of documents for single investment or loan. The clients feel uneasy for maintaining these types of huge formalities. 70% respondents of RDS & 75% respondents of GB opined this problem.

6.0 PROSPECTS OF MICRO FINANCING

Bangladesh is the birthplace of the microcredit NGOs. In recent years, micro credit or in its wider dimension micro finance, has become a much favored intervention for poverty alleviation in the developing and least developed countries. Recognizing the importance and intensity of the problem of poverty the government of Bangladesh has given top priority to poverty alleviation in all the past five year plans and also in the 15 years (1995-2010) perspective plan for the country. In recent decades, micro finance in Bangladesh is implemented by NGOs, Grameen Bank, different types of government owned commercial banks, private commercial banks and specialized banks. Almost all of these organizations that include such type of credit program for economic development have given top priority to involve the poor women, because they usually repay their loans regularly. The government of Bangladesh and Bangladesh Bank has undertaken various micro financing programs for the development of small-scale industries. All banks in Bangladesh are involved in financing small-scale industries taking sufficient collateral securities against credit. The schedule collects some recommendations from the clients and bankers. Recommendations are stated below:

6.1 Providing Sufficient Amount of credit:

It is observed from the study, maximum clients have been suffering from insufficient amount of capital for expanding their business activities. The amount of investment or loan given by IBBL and GB was not sufficient to meet their needs in most of the cases. So, the requirements of clients should be assessed properly and the required amount of investment or loan should be provided accordingly.

6.2 Providing Proper Training: The business of the clients hampers for lack of proper training especially in the case of livestock, poultry and fisheries. In this situation, the clients should be given sufficient formal and informal training to improve their skills to take care of their poultry, livestock and fisheries. Moreover, IBBL & GB may also establish one hatchery and one poultry farm in each potential area so that bank clients can get high yielding varieties juvenile fishes and chickens.

6.3 Proper Utilization of Fund: A large number of women clients do not use their sanctioned loan in their committed sectors. The amount of loan is mainly used by the husband, father, son or brothers. Therefore, the objectives of the IBBL and GB are not achieved. In this situation, field officers should increase their monitoring of the clients to confirm proper utilization of investment and loan. The family members who interfere business should be made conscious not to interfere by the field officer.

6.4 Providing Sufficient Education: From the field survey it is found that many clients were not able to provide higher education to their sons and daughters for shortage of sufficient money. Most of them are deprived of primary education. As a result, many children of clients are remaining illiterate. In this condition, IBBL & GB should establish free primary education center and arrange more scholarship to ensure higher education for the children of the clients. Educated people will facilitate micro finance activities and can use the fund properly.

6.5 Customizing Social Customs: Mainly women are the clients of the banks. There are

different types of social religious and custom barriers in rural areas of Bangladesh like Pordah, superstition etc. It is really a strong religious and custom barrier for Bangladesh to control the recovery loan and investment by male field officers. It may moreover be mentioned here that ethics and morality have positive contribution to clients' well-being. This result is not unlikely as the clients bearing good moral and ethical characters are honest enough; so they did not divert their borrowed money to any unproductive sector. Besides, they are sincere enough to their activities hence were better-off. In this situation, some special trainings and workshops should be arranged by the banks for the clients so that they can be aware of social customs like *Pordah*, conservatism, superstition, local crime, proper utilization of credit or investment, honesty and reliability.

6.6 Finding out Family Problems: It is hopeful that the condition of the very poor villagers is rapidly decreasing and the severe poverty will no more after some years. It will be solved automatically and causes of family discord must be found out in order to remove the conflict in the family.

6.7 Supporting in Protecting Natural Calamities: Natural calamities like draughts, flood and famine etc. cause havoc every year in Bangladesh. As a result, poor rural people face problems seriously during these types of disaster. To save the poor clients from natural calamities, they should be provided with special training and also be influenced to make some extra savings, so that they can easily face these types of unexpected situations.

6.8 Creating Customer Database: It is viewed from the field survey that some clients take loan from different organizations. But IBBL and GB offer investments only to those who don't take loans from other organization. To overcome such type of overlapping problem, Bangladesh Bank (BB) has to develop central data bank that should be available in the online, so that micro finance providing organizations like IBBL and GB can easily examine the profile of the loanee and take initiative for corrective measures.

6.9 Easing Loan/Investment Procedure: From the field observation the researchers found that field officers are to maintain excess formalities and huge documents at the time of providing investment or loan. As a result, they bear extra work load for documentation. So formalities must be reduced to tolerable extent by both the banks. The researcher also found that a large number of signatures are needed to take credit by the clients. These signatures should be reduced at a tolerable and rational number. Thus, the unnecessary work load of field officers may be reduced.

6.10 Providing Modern Technology: It is observed from the field survey that clients use conventional technology to produce goods and services. Consequently they cannot ensure the quality of the goods and services. As a result, consumers are not satisfied with goods and services. So modern technology should be used and in this aspect, all sorts of help and support should be provided by the IBBL and GB.

6.11 Extending Gestation Period: From the field survey it is also found that gestation period is very limited for micro finance. It is difficult to earn profit from a business within a week and pay the installment of the loan or investment. So gestation tenure should be expanded from one week to minimum one month.

6.12 Providing Congenial Environment: The researchers have deeply watched from the field survey that the place of group meeting is not well decorated and secured. Consequently, the field officers and clients feel uneasy at the time of meeting. So, the place of meeting should be secured, specified and well decorated. So that principles based on honor and ethics would be ensured and the full cooperation by the field officers may be provided to the clients.

6.13 Providing More Employee Benefit: It is opined that the salary structure and other facilities of field officers are not satisfactory. Consequently they do not feel comfortable in their jobs. In order to deploy full energy, salary and other facilities of field officers should be increased which will encourage them to do more work efficiently.

6.14 Providing More Employee Facilities: The researcher observed from the study that the promotion system of the field officers is very lengthy and increment system is not so sound. So, the bank may arrange quick promotion on the basis of skills, education and performance in field working of the field officers and take initiative to arrange handsome increment and bonus to accelerate optimum performance. In this way effective and efficient services would be got from the employees.

6.15 Setting Buying Agent: In many cases the field officers of IBBL are giving cash taka to the clients in lieu of purchasing product. But buying and selling are the two methods of Islamic investment. In this regard, actual and separate buying agent should be recruited by the bank (IBBL) so that the purchase of commodity becomes confirmed. If GB takes this method, fund diverting tendency would be reduced and utilization of fund in proper sector(s) would be ensured.

6.16 Enforcing Separate Islamic Banking Act: Absence of Islamic banking act it is tough to control the micro financing Islamic banks and other institutions. So Govt. may enact separate Islamic banking act.

7.0 CONCLUSION

In recent years, microfinance has become a much favored intervention for socio economic development in the developing and less/least developed countries. Recognizing the importance and intensity of the problem of poverty, the government of Bangladesh has given top priority to poverty alleviation as well as socio economic development. It can be judged that, in conventional banks like GB money deals in money (with high interest rate) and there is a scope to divert money to consumption or other unproductive purpose. So, it creates overdue culture. On the other side, in Islamic modes of investment money deals with money and it becomes safe due to investment mainly through goods purchasing and selling. Consequently, it deters overdue culture. *“ALLAH (SWT) has permitted trade and prohibited interest”*

(*Al-Quran, 2:275*). So, on the economic point of view, micro financing institutions may run under the laws of Islamic economy. Through this way, the poor people of Bangladesh will rescue from the high rate of interest and socio economic development of Bangladesh would be achieved in optimum level.

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