

**Umeå School of Business (USB)**  
**Department of Business Administration**  
**Masters Thesis**  
**Fall 2007**  
**Supervisor: Per Nilsson**  
**Authors:    Mohammad Arifujjaman Khan**  
**Mohammed Anisur Rahaman**

**Impact of Microfinance on Living Standards,  
Empowerment and Poverty Alleviation of Poor People: A  
Case Study on Microfinance in the Chittagong District of  
Bangladesh**

## ACKNOWLEDGEMENT

*“This thesis is dedicated to our parents, spouse, family members and our friends; who always inspired us in every step to accomplish this study”.*

It is a great honor for us to work on the assigned topic and we feel glad to accomplish our task. Along with our sincerity and interest, there are few people, who really helped us to make this endeavor to be a successful one.

At first, we would like to pass our appreciation, gratitude and thanks to our honorable Supervisor, **Per Nilsson**. His valuable suggestions and ideas in every step of our work helped us a lot to prepare this thesis.

We are very much grateful to our friends, who also contributed a lot in accomplishing this piece of work to be a successful one. Specially, some of friends who helped us to translate Swedish to English, while necessary.

Lastly, we want to say that without the commitment and support of those persons, this study would never be taken shape. For these reasons, we are truly thankful to those people.

## ABSTRACT

Microfinance is not a new development. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittagong University campus in the village of Jobra, Bangladesh. Since then several microfinance institutions came up and have succeeded in reaching the poorest of the poor, and have devised new ground-breaking strategies with time for the fulfillment of their vision. These included the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers are organized into groups and peer pressure among them, which reduced the risk of default. Microfinance is now being considered as one of the most important and an effective mechanism for poverty alleviation. These are also effective mechanisms through which to disseminate precious information on ways to improve the health, education, legal rights, sanitation and other living standards, which are of relevant concerns for the poor. Above all, many micro-credit programs have targeted one of the most vulnerable groups in society – women, who live in households with little or almost no assets. By providing opportunities for self-employment, many studies have concluded that these programs have significantly improved women's security, autonomy, self-confidence and status within the household.

Our thesis is about microfinance and to investigate the impact of microfinance on the poor people of the society with the main focus on Bangladesh. We mainly concise our thesis through client's (the poor people, who borrowed loan from microfinance institutions) perspective and build up our research based on it. Therefore, the objective of this study is to show how microfinance works, by using group lending methodology for reducing poverty and how it affects the living standard (income, saving etc.) of the poor people in Bangladesh. So on the light of our research objective; we have developed our research question, which is:

***What is the impact of Microfinance on living standards, Empowerment and poverty alleviation of the poor people in Bangladesh?***

We consider ourselves between the Positivist and Interpretivist researchers. Because, our main goal is not only to find out the mechanism of microfinance in Bangladesh, but also to find out that how this mechanism helps poor people to improve their living standards as: income, savings etc. By doing so, we believe that it will give us an upper hand, specially when it comes to finding answers to the questions raised in the problem statement.

One of the most important aspects of microfinance is savings mobilization, which is discussed in the theory part. Besides these, microfinance methodology, solidarity, human development and liquidity are also discussed in the theoretical framework.

Several microfinance institutions are working in Bangladesh for the last few decades. Grameen Bank, BRAC, ASA and PROSHIKA are some of the prominent MFIs in Bangladesh. These institutions are working tremendously to the empowerment, poverty reduction and improvement of living standards for the poor people in Bangladesh. Now, they are not only working in Bangladesh but also providing help and support, and are the source of motivation to other MFIs around the world.

We have chosen our sample based on the random sampling technique, from one district (Chittagong) in Bangladesh and we interviewed the people who are already involved in microfinance activities. Therefore, the accuracy of the analysis heavily relies on the data provided by the people, we interviewed.

From the analysis of data, we found that microfinance has the positive impact on the standard of living of the poor people and on their life style. It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves. There is an argument that the interest rate of MFIs is high, but we traced that most of the respondents of our interview, did not agree on this issue and found it to be reasonable. In spite of the debate about higher interest rate, MFIs are contributing not only in alleviating the poverty and improving the living standards of the poor people, but also in offering extensive human development programs in Bangladesh.

# TABLE OF CONTENTS

Title Page	
Acknowledgement	
Abstract	

## CHAPTER ONE: INTRODUCTION

1.1	PROBLEM BACKGROUND.....	1
1.2	RESEARCH QUESTION.....	4
1.3	OBJECTIVES OF THE STUDY.....	4
1.4	LIMITATIONS OF THE STUDY.....	4
1.5	DEFINITIONS AND KEY CONCEPTS.....	5
1.6	DISPOSITION.....	9

## CHAPTER TWO: THEORETICAL METHODOLOGY

2.1	PRECONCEPTIONS.....	11
2.2	CHOICE OF SUBJECT.....	12
2.3	PERSPECTIVE.....	13
2.4	SCIENTIFIC IDEALS .....	14
2.5	SCIENTIFIC APPROACH.....	16
2.6	RESEARCH METHODS.....	17
2.7	SAMPLE SELECTION AND DATA COLLECTION PROCEDURE.....	18
2.8	QUESTIONNAIRE DESIGN.....	19
2.9	SECONDARY SOURCES COLLECTIONS.....	19
2.10	CRITICISM OF SECONDARY SOURCES.....	20

## CHAPTER THREE: THE LITERATURE RIVIEW AND THEORETICAL FRAMEWORK

3.1	WHAT IS MICROFINANACE.....	22
3.2	CHARACTERISTICS OF MICROFINANCE.....	22
3.3	THE GRAMEEN MODEL.....	24
3.4	FUNCTIONING OF THE GRAMEEN MODEL.....	26
3.5	METHODOLGY OF MICROFINANCE.....	27
	3.5.1 Group Lending.....	27
	3.5.2 Individual Lending.....	28
	3.5.3 Credit Unions.....	28
	3.5.4 Village Banking.....	29
	3.5.5 Self Help Groups/Associations.....	29
3.6	SAVINGS MOBILIZATION.....	30

3.7	HUMAN DEVELOPMENT.....	33
	3.7.1 Health Program.....	35
	3.7.2 Education Program.....	35
	3.7.3 Food Security Program.....	35
3.8	SOLIDARITY.....	36
3.9	LIQUIDITY.....	37
3.10	REFLECTIONS ABOUT THEORIES.....	38

#### **CHAPTER FOUR: BANGLADESH AND MFIs**

4.1	BANGLADESH-HISTORY AND OVERVIEW.....	40
	4.1.1 History.....	40
	4.1.2 Land and People.....	40
	4.1.3 Economy.....	42
	4.1.4 Structure of the Education System.....	42
4.2	MAJOR MFIs AND THEIR ROLE IN BANGLADESH.....	43
	4.2.1 Bangladesh Rural Advancement Committee (BRAC).....	44
	4.2.1.1 Vision and History.....	44
	4.2.1.2 Core and Support Programs.....	45
	4.2.1.3 Organizational Structure.....	45
	4.2.1.4 BRAC in World.....	45
	4.2.1.5 Microfinance Programs of BRAC, At a Glance.....	46
	4.2.2 Grameen Bank.....	46
	4.2.2.1 Vision and History.....	46
	4.2.2.2 Objectives.....	47
	4.2.2.3 Programs and Organizational Structure.....	48
	4.2.2.4 Grammen Bank in World.....	48
	4.2.2.5 Microfinance Programs of Grameen Bank, At a Glance.....	49
	4.2.3 Association for Social Advancement (ASA).....	50
	4.2.3.1 Overview and History.....	50
	4.2.3.2 Objective.....	50
	4.2.3.3 Programs and Organizational Structure.....	51
	4.2.3.4 ASA and its Global Impact.....	52
	4.2.3.5 Microfinance Programs of ASA, At a Glance.....	53
	4.2.4 PROSHIKA.....	53
	4.2.4.1 Vision, Overview and History.....	53
	4.2.4.2 Programs and Objectives.....	54
	4.2.4.3 Organizational Structure.....	54
	4.2.4.4 Microfinance Programs of PROSHIKA, At a Glance.....	55

#### **CHAPTER FIVE: DATA ANALYSIS AND INTERPRETION**

5.1	DEMOGRAPHIC INFORMATION OF RESPONDENTS.....	56
5.2	SOURCE OF START-UP CAPITAL OF THE RESPONDENTS.....	58
5.3	AMOUNT OF LOAN TAKEN FROM MFIs.....	60
5.4	ONE SAMPLE STATISTICS AND T-TEST OF DIFFERENT VARIABLES.....	62

5.5	RELATIONSHIP BETWEEN THE INCREASE OF INCOME AND INCREASE OF SAVINGS.....	64
5.6	REGRESSION ANALYSIS BETWEEN INCREASE OF INCOME AND ROLE IN DECISION MAKING PROCESS.....	65
5.7	MULTIPLE REGRESSION ANALYSIS BETWEEN DIFFERENT VARIABLES RELATED TO STANDARDS OF LIVING.....	68

## **CHAPTER SIX: PREVIOUS STUDY, CONCLUSIONS AND SCOPE FOR FURTHER RSEARCH**

6.1	PREVIOUS STUDY/EMPIRICAL EVIDENCE.....	72
6.2	DISCUSSION AND CONCLUSIONS.....	74
6.3	SCOPE FOR FURTHURE RESEARCH.....	76

## **CHAPTER SEVEN: CREDIBILITY CRITERIA**

7.1	VALIDITY.....	78
7.2	RELIABILTY.....	79
7.3	GENERALIZATION AND TRANSFERABILITY.....	80

<b>LIST OF RFERNCES.....</b>	<b>81</b>
------------------------------	-----------

<b>APPENDIX.....</b>	<b>85</b>
----------------------	-----------

## **LIST OF TABLES**

Table 1:	BRAC, at a glance.....	46
Table 2:	Grameen Bank, at a glance.....	49
Table 3:	ASA, at a glance.....	53
Table 4:	PROSHIKA, at a glance.....	55
Table 5:	Demographic information of the respondents.....	57
Table 6:	Information regarding source of start-up capital....	59
Table 7:	Amount of loan granted by MFIs.....	61
Table 8:	General Descriptive Statistics.....	62
Table 9:	One-Sample t-Test.....	63
Table 10:	Correlation test between income and savings.....	64
Table 11:	Regression Analysis between increase of income and role in decision-making process (model summary).....	65
Table 12:	Regression Analysis between increase of income and role in decision-making process (ANOVA).....	66
Table 13:	Regression Analysis between increase of income and role in decision-making process (coefficient values).....	66
Table 14:	Descriptive Statistics of different variables related to living standards.....	68

Table 15: Regression analysis between improvement of living standards and different variables (model summary).....	69
Table 16: Regression analysis between improvement of living standards and different variables (ANOVA).....	69
Table 17: Regression analysis between improvement of living standards and different variables (coefficients).....	70

**LIST OF FIGURES**

Figure 1: Working model of the thesis.....	39
Figure 2: Source of start-up capital.....	60
Figure 3: Amount of loan taken from MFIs.....	61
Figure 4: Regression analysis between increasing income and role in decision-making process.....	67
Figure 5: Multiple Regressions between different variables related to living standards.....	71

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 PROBLEM BACKGROUND**

There are about three billion people, half of the world's population, living on the income of less than two dollars a day. Among these poor communities, one child in five does not live to see his or her fifth birthday<sup>1</sup>. One study in 2006 showed that the ratio of the income between the 5% richest and 5% poorest of the population is 74 to 1 as compared to the ratio in 1960, which was 30 to 1<sup>2</sup>. To enhance international development, the United Nations Organization (UNO) announced the millennium development goals, aimed to eradicate poverty by 2015<sup>3</sup>. In this regard, microfinance is the form of financial development that has its primary aim to alleviate the poverty<sup>4</sup>. Governments, donors and NGOs around the world responded enthusiastically with plans and promised to work together towards the realization of these goals. In the recognition of microfinance, the UNO celebrated the year 2005 as a year of micro-credit<sup>5</sup>, as a result this financing instrument is perceived worldwide as a very effective mean against hunger and poverty, mainly in developing countries.

Microfinance is a credit methodology, which employs effective collateral substitute for short-term and working capital loans to micro-entrepreneurs<sup>6</sup>. The level of a country's poverty has long been linked with measures of its economic development. Little consideration was given to the social reorganization of the natural resources (e.g. empowerment vs. alienation of people, sustainable use vs. depletion of the environment).<sup>7</sup>

---

<sup>1</sup> Barr, Michael S. (2005), "*Microfinance and Financial Development*", The John M. Olin Centre for Law & Economics Working Paper Series, University of Michigan Law School, p. 271

<sup>2</sup> Microfinance/Facts and Figures ([www.planetfinance.org](http://www.planetfinance.org))

<sup>3</sup> Barr, Michael S. (2005), "*Microfinance and Financial Development*", p. 271

<sup>4</sup> Ibid, 2005, p.273

<sup>5</sup> Mia, Md. B. "*ICT in Microfinance: A Bangladesh Perspective*", p. 1

<sup>6</sup> Hubka, A.; Zaidi, R. (2005), "*Impact of Government Regulation on Microfinance*", World Development Report: Improving the Investment Climate for Growth and Poverty Reduction, p. 1

<sup>7</sup> Fallavier, P. (1998), "*Developing Micro-Finance institutions in Vietnam*", Thesis (MSc.), University of British Columbia, Vancouver, Canada, pp. 15-18

The economies with positive growth rate of Gross National Product (GNP) were measured by their poverty mitigation. This gratitude emphasized on the achievement of wealth and technology as a path for development and assumed that improved lives for all would be the natural consequence.<sup>8</sup>

Microfinance is not a new development. Some developed countries as well as developing countries particularly in Asia have a long history of microfinance. During the eighteenth and nineteenth centuries, in number of European countries, microfinance evolved as a type of the informal banking for the poor. Informal finance and self-help have been at the foundation of microfinance in Europe. The early history of microfinance in Ireland can be traced back to 18<sup>th</sup> century. It is a history of how self-help led to financial innovation, legal backing and conductive regulation, and creating a mass microfinance movement. But the unpleasant regulations prompted by commercial banking brought it down. The so-called Irish loan funds appeared in early eighteenth as charities, initially financed from donated resources and offering interest free loans. They were soon replaced by financial intermediation between savers and borrowers. Loans were granted on short-term basis and instalments were scheduled on weekly basis. To enforce the repayment, monitoring process was used.<sup>9</sup>

In Latin America and South Asia, the microfinance has grown out of experiments, but the best-known start was in Bangladesh in 1976, following a widespread famine in 1974 and a hard-fought war of liberation in 1971<sup>10</sup>. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as an experiment, on the outskirts of Chittagong University campus in the village of Jobra. The inspiration of Grameen Bank came to Muhammad Yunus' mind when he lent the equivalent of \$26 to \$42 to exploited women who were working as bamboo furniture maker. He saw that, they were enthusiastic about it and paid back their loans on time. In the beginning, Muhammad

---

<sup>8</sup> Khan, Penn F. (2005), "*Microfinance and Development*", Masters Thesis, Umeå School and Business and Economics (USBE), Sweden , p. 1

<sup>9</sup> Seibel, Hans D. (2005), "*Does history matter? The old and new World of Microfinance in Europe and Asia*", An interdisciplinary workshop, Asia Research Institute, Department of Economics and Department of Sociology, National University of Singapore, pp. 1-2

<sup>10</sup> Agion, Beatriz A. de; Morduch, J. (2003), "*Microfinance, Where do we Stand?*", the British Association for the Advancement of Science Meetings, University of Salford, UK , p. 4

Yunus focused the activities of Grameen Bank mainly on savings and small loans, and decided to put the interest rates high enough to cover the expenses. Finally yet importantly, he asked borrowers to organize themselves in solidarity groups of five people (who have to meet every week in order to repay their loans and to exchange their opinions). Inspired by the success of his experiment, he decided to spread out this system to other villages in Bangladesh. In 1983, this institution became a bank. Today it operates in almost 36000 villages and serves more than 3500000 people.<sup>11</sup>

On 13<sup>th</sup> October 2006, the Nobel Peace Prize went to Muhammad Yunus and Grameen Bank, the microfinance institution he founded 30 years ago. Muhammad Yunus has shown himself to be a leader who has managed to translate visions into practical action for the benefit of millions of people, not only in Bangladesh, but also in many other countries. Loans to poor people without any financial security had appeared to be an impossible idea.<sup>12</sup> Eventually we are in a situation, in which Muhammad Yunus, the founder of Grameen Bank, tells us the goal spread of micro-credit and finance, which give us the hope, *“Maybe our great-grandchildren will go to museums to see what poverty was like”*<sup>13</sup>.

This thesis is about microfinance and its contribution to the improvement and poverty alleviation for millions of the poorest people of Bangladesh. Microfinance has a huge impact on the lives of millions of poor people particularly women. Numerous scholars and NGOs have been working to take microfinance within the reach of poor people, who are still not benefited by the conventional financial system. It was believed that microfinance is not important for all people but most groups can benefit from this idea. In this thesis, we try to present evidence of the important contributions made by microfinance in the eradication of poverty by increasing the income generating activities, empowerment of poor people to access development services such as health and education, and reduction in vulnerability.

---

<sup>11</sup> [www.planetfinance.org/](http://www.planetfinance.org/)

<sup>12</sup> [www.grameen-info.org/](http://www.grameen-info.org/)

<sup>13</sup> Kirkpatrick, Colin H.; Clarke, R.; Charles, P. (2002), *“Handbook on Development Policy and Management”* Edward Elgar Publishing, p. 173

## **1.2 RESEARCH QUESTION**

In the light of problem, background leads to the following problem statement, which will also be the overarching question/statement for this investigation:

*What is the impact of Microfinance on living standards, Empowerment and poverty alleviation of the poor people in Bangladesh?*

## **1.3 OBJECTIVES OF THE STUDY**

To be meaningful, every work must have to formulate the objectives of the study. Furthermore, objectives are more generally suitable to the research community as evidence of the researcher's clear sense of purpose and direction<sup>14</sup>. So in the light of the research topic, the objective of this study is to show how microfinance works, by using group lending methodology for reducing poverty and how it effects the living standard (income, saving access to health and education, etc.) of the poor people in Bangladesh.

## **1.4 LIMITATIONS OF THE STUDY**

There are number of limitations in this study. Firstly, the respondents were limited (109 respondents or samples) in terms of size and composition. Secondly, the data collection was restricted only within the Chittagong district of Bangladesh, which may fail to represent the actual scenario of the whole country. While interviewing the people, we have faced problems in explaining the questions as most of the people, who are involved in microfinance program, are illiterate and living in villages. Therefore, it was too difficult to make them understand some of the technical terms: like capital, income etc. Moreover, theories were other problem when we wrote the theoretical framework. Because, no established theories were particularly defined in microfinance field yet. Grameen model has been used as an ideal theory for microfinance. Besides this, some other related things to microfinance like, saving mobilizations, solidarity, etc. were also

---

<sup>14</sup> Saunders M.; Lewis, P.; Tronhill, A. (2007), "Research Methods for Business Students", Fourth Edition, Pearson Education Ltd., p. 32

used in theoretical framework. Finally, the accuracy of the analysis heavily relied on the data provided by the people involved in microfinance program in Bangladesh.

## **1.5 DEFINITIONS AND KEY CONCEPTS<sup>15</sup>**

### ***Microfinance:***

Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services. The services provided by the Microfinance Institutions (MFIs) include credit saving and insurance services. Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives.

### ***Micro-credit:***

It is a component of microfinance and is the extension of small loans to entrepreneurs, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families.

### ***Micro finance Institutions (MFIs):***

A microfinance institution is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self-employment activities. An MFI is usually not a part of the formal banking industry or government. It is usually referred to as a NGO (Non-Government Organization).

---

<sup>15</sup> **Note:** Some of the above ideas are the reflection of our knowledge in this field and the open sources like, official websites of different agencies etc.

***Empowerment:***

Empowerment refers to increasing the spiritual, political, social and economic strength of individuals and communities. It often involves in developing confidence of the individual in his/her own capacities. It has different meanings in different social, cultural and political contexts. It indicates the expression of self-strength, control, self-power, self-reliance, freedom of choice and life of dignity, in accordance with one's values, capable of fighting for one's rights, independence, own decision making, being free, awakening, and capability. Empowerment is relevant at the individual and collective level, and can be economic, social, or political.

***Economic empowerment:***

In our research, we have also emphasized on economic empowerment. As a consequence of economic empowerment, income, savings, employment and self-employment increases and thus reducing unemployment and indebtedness. As a result of this distress, sale of commodities and land also decreases, resulting in the increase of assets and productive investment.

***Social Empowerment:***

Social empowerment refers mainly to the literacy rate and social awareness, especially of women who are much oppressed in many parts of the developing countries. We can say, in general, that is related to the participation of people in different community and political institutions, mobility and decision-making power, access to safe drinking water and sanitation coverage. The other factors which result as the increase in social empowerment are increase in contraceptive prevalence rate and access to public and common property resources, and decrease in child and maternal mortality.

### ***Poverty:***

Poverty is a condition in which a person or community is deprived of the basic essentials and necessities for a minimum standard of living. Since poverty is understood in many senses, the basic essentials may be material resources such as food, safe drinking water and shelter, or they may be social resources such as access to information, education, health care, social status, political power, or the opportunity to develop meaningful connections with other people in society.

According to the World Bank's (1980) definition of poverty, "A condition of life so characterized by malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency".<sup>16</sup>

### ***Extreme Poverty/Absolute Poverty:***

Extreme poverty is the most severe state of poverty, where people can not meet their basic needs for survival, such as food, water, clothing, shelter, sanitation, education and health care. Eradication of extreme poverty and hunger by 2015 is a Millennium Development Goal set by UNO. To determine the number of extreme poor people around the world, the World Bank characterizes extreme poverty as living on the daily income of US \$1 or less. It has been estimated that around 1.1 billion people currently live under these conditions.

### ***Moderate poverty:***

It indicates the condition where people earns about \$ 1 to \$2 a day, which enables households to just barely meet their basic needs, but they still have to go for many of the other things – education, health care –that many of us take for granted.

---

<sup>16</sup> Ghalib, Asad K. (2007), "Measuring the Impact of Microfinance Intervention: A Conceptual Framework of Social Impact Assessment", The Singapore Economic Review Conference, p. 2

***Relative Poverty:***

It means that a household has an income below the national average income.

***Liquidity:***

Liquidity refers to the availability of liquid funds in an economy and the status of condition of a person or business in terms of its ability to convert its assets into cash and to meet its obligations. It is also an indicator for understanding the capacity of a market in a particular security or commodity to withstand an unusual amount of buying or selling without affecting the market substantially.

## **1.6 DISPOSITION**

### **Chapter One: Introduction**

The first chapter introduces the problem background of the study and presents the framework to give readers a basic idea of this research. Besides research objective, research question and limitations of the study, definitions and key concepts are also discussed.

### **Chapter Two: Theoretical Methodology**

The principle purpose of this chapter is to present the theoretical and practical research methods, which also represents the choices we have made in order to make the right option of our thesis. The preconceptions that may have been influenced are how we have written this thesis, the choice of subject and why the subject is interesting to study. Moreover, we explain our perspective, scientific ideal, scientific approach, research methods in this section. This chapter later discusses the choice between conducting a quantitative and qualitative research. This chapter also gives the idea about the questionnaire design and sample selection. It concludes with the information about the secondary sources.

### **Chapter Three: The Literature Review and the Theoretical Framework**

This is the core part of this thesis and the prime purpose of this chapter is to provide the reader's insight about the theories involved in his work, which is the base of our investigation. Firstly, it provides the general definitions of microfinance and its methodology. Then it provides idea about the core program of microfinance, as, savings mobilizations, human development and solidarity. It also emphasizes on the liquidity and liquidity related problems of microfinance. Finally, it represents the reflection about theories with our work and place a working model of the thesis based on the research question.

#### **Chapter Four: Bangladesh and MFIs**

This chapter starts with the overview of Bangladesh, which is followed by the short description of the land, population, education system etc. in Bangladesh. This chapter also focuses on the major MFIs and their role in Bangladesh. There is a glimpse into their organizational structure, working methodology, and their role in eradication of poverty and upliftment of the poor.

#### **Chapter Five: Data Analysis and Interpretation**

In this chapter, statistical methodology applied to our sample is discussed. The chapter gives the overview about the type of statistical ideas we have implemented to analyze and get information from the answers we have received from our interviews. We tried to present the views of the people through the empirical findings on the impact of microfinance on their lives and their reflection, through tables and diagrams. This chapter also reflects on the view of the people about the factors like, access to education and healthcare, about their rights and duties, and their and families' future since the start of microfinance activities.

#### **Chapter Six: Previous Study, Conclusions and Scope for Further Studies**

In the first phase of this chapter, we will discuss about the previous literature as empirical evidences an empirical evidence to go deep into and support our analysis. After that, we will draw the conclusions based on the results presented in the empirical study and analysis. Finally, it also includes the scope and recommendations about further studies on the assigned topic.

#### **Chapter Seven: Credibility Criteria**

In the final chapter of the thesis, the credibility criterion is presented as a way of evaluating the validity, reliability, generalization and transferability of the investigated problem.

## **CHAPTER TWO**

### **THEORETICAL METHODOLOGY**

#### **2.1 PRECONCEPTIONS**

There are three important elements that mainly build the preconception of researchers: social background, education and practical experience. Therefore, no one can pretend to analyze or study a new scientific topic or field without being influenced by one's prior knowledge. Thus, *preconceptions are the theoretical knowledge that the researcher possesses on the particular subject and practical experiences in the field of interest.*<sup>17</sup>

The preconceptions should be accounted for and critically reviewed as a way of understanding how they might affect the study. They might have given researcher an idea about how he or she believes that the investigated appears in reality. By accounting for these references, it is easier for the researcher as well as the reader to understand how they might affect the study.<sup>18</sup> In this manner, our social, political and educational background influenced us to do this research.

We, Rahman and Khan, have the same origin and have the common social, cultural and educational background. Rahman has born in Chittagong, the second largest city in Bangladesh and Khan has born in Dhaka, the capital of Bangladesh. Bangladesh is a developing country and has been facing many political, economic and social problems for the last few decades. Since our childhood, the desire to do something for our country got implanted in our heart and mind. As microfinance is one of the best poverty eradication techniques in the world, our preconceptions were naturally directed towards it.

We both had worked as an accountant in two different companies of Bangladesh. Being an accountant, we both had intensions to work with some financial concepts. The opportunity arrived when we started our Master's thesis in USBE, Sweden. In 2006, Prof. Muhammad Yonus, from Bangladesh, received the Noble Peace prize for the successful

---

<sup>17</sup> Maj-Britt; Johansson; Lindfors (1993), "*Att Utveckla kunska – Om metodologiska och andra vägval vid samhällsvetenskaplig kunskapsbildning*", studentlitteratur, Lund, Sweden, pp 76-77

<sup>18</sup> Ibid., p. 31

implementation of Microfinance activities in Bangladesh and other developing countries. Our preconceptions and ideas were also motivated by the work of Muhammad Yunus, the consequent success and fame of his work, and most importantly our common background. After the world recognized his work by conferring him with a Noble Peace prize in December 2006, we felt enormous interest to work on this topic. As we did not have prior working experiences in the microfinance field, so we believed that we will not get biased while conducting our study.

## **2.2 CHOICE OF SUBJECT**

After the post war period, many NGO's and microfinance institutions like BRAC, Proshika, ASA and Grameen Bank have risen in Bangladesh. They have been playing a significant role in the development of the country. At present, microfinance is proving to be an effective tool to make the people come out from the poverty level. Twenty years ago, it was nearly impossible for a farmer to get the loan in Bangladesh from the traditional financial sectors like banks. Now, it is possible due to the microfinance activities. There is a positive effect of microfinance on socio economic environment in rural areas. On December 18, 2007, General Assembly of United Nations passed a resolution (resolution No. 52/194) which emphasized on reducing the poverty through national and international co-operations. Its focus was on the impact of microfinance throughout the developing countries of the world.

It has been recognized that the poor people who are capable of coming out from poverty with dignity and can improve their living standard when the right environment and opportunities exist. There are countries that have succeeded in generating dynamic and productive self-employment through microfinance programs. They have put emphasis on the improving empowerment of the women, who live in absolute poverty and experience the constant hindrances to grow. Generally, in the developing countries, the small-scale firms based on agriculture, poultry and fisheries need to have their own land, which few of them have. Most of the times, people who do not own land are deprived of getting loan from a bank due to the lack of collaterals. In these cases, microfinance organizations help

them to spread out their business by offering them different kinds of small loans, which is a common feature of microfinance institutions.

It was not the easy task to select the topic of our thesis. As we have mentioned before that the idea of our Master's Thesis on Microfinance came to our mind, when Mr. Yunus got the Noble Peace price in 2006. This idea got strength and became deep rooted when we both visited our country in 2006. Because, the research needs to be supported by some primary data and it was easy to collect when we had been to our home country. Furthermore, Rahman has grown up in micro-credit zone (Chittagong) of Bangladesh. A small village of Chittagong, named Jobra, which is extremely important for the reason that Muhammad Yunus started his microfinance activities in this area. In this way, that village become an idol not only in Bangladesh but also all over the developing world for improving the village economy. For these reasons, we started to collect our data from Jobra village. We think, the outcome of the study will evaluate the MFIs' role and it could be helpful for generating future research in the field of microfinance sector in Bangladesh.

### **2.3 PERSPECTIVE**

Hantaris and Mangen defined a perspective as the ideas and conceptions, which are most important aspects of the research and collection of information for research<sup>19</sup>. Normally, the perspective of the research depends on what the research has been conducted, purely for scientific reasons. In this way, different perspective guide to the different interpretation on the same thing also giving the different outcome as a result. Thus, the Perspective describes how the researcher approaches the problem.

It is extremely important that the researcher is aware of and clarifies from what or which point of view research has been made. The perspective works as a lens through which the investigators scrutinize reality and choose what is relevant and essential. Depending on

---

<sup>19</sup> Hantrais, L.; Mangen, S. (1996), "*Cross-National Research Methods in the Social Sciences*", A Cassell Imprint Wellington House, London, UK

from what point of view the study is made, different points will be highlighted and this will have crucial consequences on the conclusions.<sup>20</sup>

The perspective could have the reflection of the researchers' interpretation of the situation at hand. Through this study, we would like to show how the microfinance works by using social collateral, via group lending for reducing poverty, and how it has affected the standard of living of the general people in Bangladesh. In our case, we have narrated this thesis from two-perspectives. One is from the loan receivers' point of view (poor class people) and another from lender's point of view (microfinance institutions). Therefore, this thesis will examine the circumstances of the customers who are on and below the poverty line. We will also evaluate and assess how the poor people are changing their life style by operating small business activities with the help loans granted by the microfinance institutions.

## **2.4 SCIENTIFIC IDEALS**

While conducting research, researchers have to take into mind what research philosophy they have to undertake. In fact, the research philosophy is also called scientific ideal, which has influence over the study's methodology. As a result, the researchers show the reader what ideal they have followed according to their view and which ideal suits their study best. There are two foremost scientific ideals interpretivism and positivism. These ideals are the opposite of one another. According to Saunders et al. there are three views about the research process which dominate the literature: Positivism, Interpretivism, and Realism<sup>21</sup>.

Positivism ideals deal with objectivity, which points towards social world properties that should not be inferred subjectively but measured through objective methods<sup>22</sup>. The positivistic ideal tries to reproduce the reality in as much objective way as possible. If the research philosophy reflects the philosophy of positivism then the researcher will

---

<sup>20</sup> Lundahl, Ulf; Skärvad; Per-Hugo (1999), "*Utredningsmetodik för samhällsvetare och ekonomer*", Studentlitteratur, Lund, Sweden, pp. 62, 71-73

<sup>21</sup> Saunders et al. (2007), "*Research Methods for Business Students*", p. 100-102

<sup>22</sup> Easterby-Smith, M.; Thorpe, R.; Lowe, A. (2002), "*Management Research – An Introduction*", 2<sup>nd</sup> Edition, Sage Publication Ltd., UK

probably accept the philosophical attitude of natural scientist. The researcher will prefer ‘working with an observable social reality and that the end product of such research can be law-like generalizations similar to those produced by the physical and natural scientists’<sup>23</sup>. The aim of the positivistic scientific ideal is to explain, i.e. to try to find cause-effect-relation. To be able to simplify is an important goal. The researchers observe the reality and collecting the facts. This makes it possible to see patterns and regularities in the reality and this can therefore lead to general conclusions<sup>24</sup>.

On the other hand, Interpretivism is an epistemology that advocates the necessity for the researcher to understand differences between humans, in the role as a social actor. This emphasizes the difference between conducting research among people rather than objects such as trucks and computers.<sup>25</sup> Interpretivism views the world and human beings in different ways than just how one can observe, but the fact is that they are not being observed objectively but subjectively<sup>26</sup>. There is a link between observations and interpretations. The subjectivity that is being observed will influence the outcome of the research. Interpretivism can be defined as: “*a theoretical point of view that advocates the study of direct experience taken at face value, and one who sees behavior as determined by the phenomena of experience rather than by external, objective and physically describe reality*”<sup>27</sup>.

Another philosophy, called Realism is an epistemological position, which relates to scientific enquiry. The essence of realism is that, what the senses show us as reality is the truth, means that objects have an existence independent of the human mind. The theory of realism is that, there is a reality quite independent of the human mind.<sup>28</sup>

From the above discussion, we think, we are standing between the Positivist and Interpretivist researchers. Our main goal is not only to find out the mechanism of

---

<sup>23</sup> Remenyi, D.; Williams, B.; Money, A.; Swartz, E. (1998), “*Doing Research in Business and Management: An Introduction to Process and Method*”, SAGE Publications Limited, London, UK, p. 32; cited by Saunders et al. (2007), p. 103

<sup>24</sup> Lundahl, Ulf; Skärvad; Per-Hugo (1999), “*Utredningsmetodik för samhällsvetare och ekonomer*”, p. 39

<sup>25</sup> Saunders et al. (2007), “*Research Methods for Business Students*”, p. 106

<sup>26</sup> Remenyi et al., (1998), “*Doing Research in Business and Management: An Introduction to Process and Method*”, p. 34

<sup>27</sup> Cohen and Manion (1987), cited by Remenyi et al. (1998), p. 34

<sup>28</sup> Saunders et al. (2007), “*Research Methods for Business Students*”, p. 104

microfinance in Bangladesh, but also to find out that how this mechanism helps the poor people to come over the poverty and to improve their living standards like as well as economical and social empowerment. Therefore, in this sense, we are not only working on the subject, but also the object. So, we consider ourselves neither Positivist nor Interpretivist researchers, we are between these two kinds of research philosophies.

## 2.5 SCIENTIFIC APPROACH

There are usually two approaches used in conducting a scientific research. One is deductive approach and another is inductive approach. All scientific theories involve both induction and deduction and they sometimes differ in the degree to which they emphasize one over the other.<sup>29</sup> A researcher examines and then authentically records what is observed, without any prejudice. Some of these statements of inspections are established as true and serve as the basis for theories and laws. In order to establish what is true or false, and to draw conclusions, two ways are applied: induction and deduction. The basis of induction is empirical evidence, while that of deduction is logic.<sup>30</sup>

If the deductive approach is used, the researchers generate hypothesis from theory. After that, they use empirical research and data collection to test the hypothesis.<sup>31</sup> In a deductive approach, conclusions come from the evidences. The conclusions are true when the evidences are right and reliable<sup>32</sup>. Graziano et al. mentioned that the deductive approach emphasizes on deductions from constructs. The deductions are started as hypotheses and then empirically tested for the research.<sup>33</sup> Deductive approach is commonly used when a positivistic ideal is taken. Here the researcher uses the theory to make the assumptions from the objective point of view.

---

<sup>29</sup> Graziano, Anthony M.; Raulin, Michael L. (2004), "*Research Methods: A Process of Inquiry*", 5<sup>th</sup> Edition, Pearson Publication, USA, p. 38

<sup>30</sup> Ghauri P.; Gronhaug, K. (2002), "*Research Methods in Business Studies – A Practical Guide*", Pearson Education Limited, UK, p. 13

<sup>31</sup> Bryman, A., Bell, E., (2003), "*Business Research Methods*", Oxford University Press, Oxford, UK, 2003

<sup>32</sup> Cooper, Donald R.; Schindler, Pamela S. (2003), "*Business Research Method*", 8<sup>th</sup> Edition, McGraw-Hill Higher Education, Boston, USA, pp. 36-37

<sup>33</sup> Graziano et al. (2004), "*Research Methods: A Process of Inquiry*", p. 38

In an inductive approach, researchers start working with empirical observations. Based on these, the researchers make hypotheses that are used to develop new theories and later these new theories are added to the established ones<sup>34</sup>. Inductive approach emphasizes on induction and stays very close to the empirical data<sup>35</sup>. So an inductive approach focuses on developing new theories, which are then used to elaborate general statements, coming from empirical observations.

Creswell (1994) has suggested number of practical criteria to distinguish between the deductive and the inductive approach. Perhaps the most significant of these criteria, is the nature of topic of research. That is, a topic on which there is a wealth of literature from which one can define a theoretical framework, and a hypothesis lends itself more readily to deduction. When the topic of research is new, there exists much debate, and on which there is little literature available, it may be more appropriate to work inductively by producing data, analyzing and reflecting on what theoretical themes, the data points to.<sup>36</sup>

The intention of this research is not to build a new theory, but to investigate the research questions based on empirical research and primary data. Furthermore, in this thesis, we will generate hypotheses from theories and then, we will use empirical research and primary data to test the hypotheses. When we will draw our conclusions, we will also apply our logic. Therefore, based on research question and scientific ideal, we chose to follow the deductive approach.

## **2.6 RESEARCH METHOD**

There are mainly two kinds of research methods, quantitative method and qualitative method. These two methods differ in terms of the numeric (numbers) or non-numeric (words) data<sup>37</sup>. Quantitative method is predominantly used as a synonym for any data collection technique (such as a questionnaire) or data analysis procedure, such as: graphs or statistics that generates or uses numerical data. On the other hand, qualitative method is predominantly used as a synonym for any data collection technique (such as an

---

<sup>34</sup> Bryman, A., Bell, E. (2003), "*Business Research Methods*", Oxford University Press, Oxford, UK

<sup>35</sup> Graziano et al. (2004), "*Research Methods: A Process of Inquiry*", p. 38

<sup>36</sup> Saunders et al. (2007), "*Research Methods for Business Students*", pp. 119-121

<sup>37</sup> Ibid, p. 145

interview) or data analysis procedure (such as categorizing data) that generates or uses non-numerical data. Therefore, the other difference between qualitative and quantitative data is that, the qualitative data refers to words, such as pictures and video-clips, rather than numerical results.<sup>38</sup>

It is not easy to express the impact of microfinance on the general people of a country with the help of few sentences. On one hand, some impacts can be shown only in numerical figures like, savings and income, while on the other hand other impacts can be expressed only in descriptive ways, like, access to education, business experience etc. When we made the questionnaire, we tried to make it fully structured to get most of the impact of microfinance on the society. In the questionnaire, we tried to combine the numerical questions as well as some non-numerical questions. Hence, this study will also focus on the numerical data and perform the statistical tests. Thus, the result of our research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods.

## **2.7 SAMPLE SELECTION AND DATA COLLECTION PROCEDURE**

The population for our study encompasses the people who have been engaged in microfinance activities for at least two years and live in Chittagong region, Bangladesh. We chose the people with a long experience in microfinance activities because they are well informed and know much about the pros and cons about its activities, so they can reflect better to our questionnaire. We have used structured questionnaire for collecting the data by interviewing the clients attached to the MFIs. The people for the interview were selected randomly. To get the address and particulars of the interviewees in different areas, we took help from the local branches of MFIs and from the local people of the particular areas.

The data collection procedure started from village of Jobra, from where the microfinance activities started in Bangladesh, and continued to Bashkhali, Haliashohor, Hatazari, Potenga, Anowara and Potia.

---

<sup>38</sup> Saunders et al. (2007), “*Research Methods for Business Students*”, p. 145

## **2.8 QUESTIONNAIRE DESIGN**

The questionnaire comprised of background questions about gender, age, education, number of family members and living standards, and questions related to income, saving, capital etc. Structured questions and some dichotomous question were asked to collect the information from the respondents. The same context of questions was given to all interviewees and they received exactly the same interview stimulus. Questions were very specific with a fixed range of answers. Our structured questionnaire had multiple-choice questions in which the researcher provided a choice of answers and respondents were asked to select one or more of the alternatives, and dichotomous questions that had only two response alternatives, yes or no. We also used ‘Likert Scale’ (considered on 1-5 points scale) to measure the respondents’ perceptions based on few statements to perceive the impact of microfinance on their overall living standards. The points of the scale indicate the degree of satisfaction or agreement level of the household or a person after he or she has received loan from a MFI. ‘1’ represents the lowest level of satisfaction or high disagreement, whereas ‘5’ represents the highest level of satisfaction or high agreement.

## **2.9 SECONDARY SOURCES COLLECTIONS**

Although the result of the research is highly dependent on the primary sources that we have gathered from the structured interview, but it also required some secondary sources to understand the concepts, definitions, theories and empirical results. We have used several books, research literatures, articles, journals and thesis, as secondary sources for our study. Internet sources were also used as a secondary source for our thesis. Since the internet sources are less reliable, we have limited the use of those sources to the web pages of prominent organizations like Grameen Bank. Most of the sources, we tried to use, are reliable and are acceptable almost everywhere. Further, we have also used the handbooks and annual reports of some of the MFIs in Bangladesh.

However, it is not always easy to find out the appropriate research materials for the thesis. Many studies have been conducted on microfinance over the last few decades.

Nevertheless, from them we had to choose the most appropriate literature for our thesis. For this reason, we had to go through numerous references related to this topic, to find the suitable materials. These materials were mainly collected from the university library and using available search tool. We have accessed and searched the databases that we found via ALBUM on the website of the Umeå university library. Besides these, Google Scholars, JSTOR and LIBRIS were also used to find the suitable research material. The keywords used when searching for scientific articles and literatures were; *microfinance, microfinance and Bangladesh, poverty reduction and microfinance, Muhammad Yunus and microfinance, living standards and microfinance; Savings mobilization, Solidarity, Group lending, Liquidity and microfinance* etc.

## **2.10 CRITICISM OF SECONDARY SOURCES**

It is important that the secondary sources, we have used, should be of relevance and should be of good source of inspiration. Hence, we tried to pick up most of the researches, which were peer-reviewed and used by other researchers for their studies. This criterion of selection ensured the quality of secondary sources.

It is necessary to ensure that the sources used in the thesis were up-to-date due to the fact that microfinance is a rapidly growing and developing methodology. New researches, articles, books, ideas and previews, linked to microfinance, appear regularly. To ensure the reliability of our research in the present situation and scenario, we tried to refer to the latest articles or studies available to us. While getting ourselves acquainted with the facts about the origin and working of MFIs, we tried to link the recent studies with the earlier ones. This helped to give us a true picture of the things as these studies were updated regularly to ensure the availability of most of the facts. One of the most remarkable achievements of the MFIs is to spread their idea over many other developing countries. Starting from the small village in Bangladesh, its impact has been recognized even at the highest international body, UNO. To give the idea of this impact we have referred to many recent economic and social reports from UNO and other important institutions as, UNESCO, CIDA, World Bank etc.

The most important thing, which we like to point out, is the problem involved in the collection of secondary data. There are some books and articles used as references in the theoretical framework are quite practically oriented rather than based on pure theory. We have already motioned in our limitation part that there are no particular and established theories in microfinance. Previous authors and researchers have not yet defined any solid theory-based assumptions that may allow the understanding of the several areas of microfinance. Due to the fact that the books and articles are more practical-oriented, there are no purely theoretical references in this thesis and that is why the theoretical framework of this work provides practical insight. Furthermore, most of the books and research papers about microfinance are the combinations of different sources, which have mainly emphasized on the empirical findings and the effect of microfinance rather than theoretical issue. For this reasons, we have used the Grameen bank model, savings mobilizations, solidarity, liquidity and human development concepts as theories, to get the important base for our questionnaire and findings.

## **CHAPTER THREE**

### **THE LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **3.1 WHAT IS MICROFINANCE**

Microfinance is a form of financial development that has primarily focused on alleviating poverty through providing financial services to the poor. Most people think of microfinance, if at all, as being about micro-credit i.e. lending small amounts of money to the poor. Microfinance is not only this, but it also has a broader perspective which also includes insurance, transactional services, and importantly, savings.<sup>39</sup>

According to James Roth, “Microfinance is a bit of a catch all-term. Very broadly, it refers to the provision of financial products targeted at low-income groups. These financial services include credit, savings and insurance products. A series of neologisms has emerged from the provision of these services, name micro-credit, micro-savings and micro-insurance”.<sup>40</sup>

The Canadian International Development Agency (CIDA) defines microfinance as, “the provision of a broad range of financial services to poor, low income households and micro-enterprises usually lacking access to formal financial institutions”<sup>41</sup>.

#### **3.2 CHARACTERISTICS OF MICROFINANCE**

Microfinance gives access to financial and non-financial services to low-income people, who wish to access money for starting or developing an income generation activity. The individual loans and savings of the poor clients are small. Microfinance came into being from the appreciation that micro-entrepreneurs and some poorer clients can be ‘bankable’, that is, they can repay, both the principal and interest, on time and also make savings, provided financial services are tailored to suit their needs. Microfinance as a discipline

---

<sup>39</sup> Barr, Michael S. “*Microfinance and Financial Development*”, 2005, p. 278

<sup>40</sup> Kirkpatrick et al. “*Handbook on Development Policy and Management*”, 2002, p. 173

<sup>41</sup> CIDA and Microfinance: A Poverty Reduction Approach, Policy Branch, October 2002

has created financial products and services that together have enabled low-income people to become clients of a banking intermediary. The characteristics of microfinance products include:<sup>42</sup>

- Little amounts of loans and savings.
- Short- terms loan (usually up to the term of one year).
- Payment schedules attribute frequent installments (or frequent deposits).
- Installments made up from both principal and interest, which amortized in course of time.
- Higher interest rates on credit (higher than commercial bank rates but lower than loan-shark rates), which reflect the labor-intensive work associated with making small loans and allowing the microfinance intermediary to become sustainable over time.
- Easy entrance to the microfinance intermediary saves the time and money of the client and permits the intermediary to have a better idea about the clients' financial and social status.
- Application procedures are simple.
- Short processing periods (between the completion of the application and the disbursement of the loan).
- The clients who pay on time become eligible for repeat loans with higher amounts.
- The use of tapered interest rates (decreasing interest rates over several loan cycles) as an incentive to repay on time. Large size loans are less costly to the MFI, so some lenders provide large size loans on relatively lower rates.
- No collateral is required contrary to formal banking practices. Instead of collateral, microfinance intermediaries use alternative methods, like, the assessments of clients' repayment potential by running cash flow analyses, which is based on the stream of cash flows, generated by the activities for which loans are taken.

---

<sup>42</sup> Murray, U. and Boros, R. (2002), "A Guide to Gender Sensitive Microfinance", The Socio-Economic and Gender Analysis (SEAGA) Programme, FAO, pp. 10-11

### 3.3 THE GRAMEEN MODEL

In most developing countries, policies for rural financial development have been based on three erroneous beliefs concerning their target groups: 1. rural micro-entrepreneurs are unable to recognize themselves, 2. they are too poor to save; and 3. they need cheap credit for their income-generating activities or small enterprises.<sup>43</sup>

Three financial policies have resulted from these conjectures. Firstly, the credit-oriented development banks and special programs were set up which ignored savings mobilization. Secondly, credit was subsidized, and lastly generous credit guarantee schemes were set up to cover the anticipated losses. The consequences of these policies contributed neither to the self-sustained growth of rural finance, nor did they sufficiently benefit the rural poor.<sup>44</sup>

For commercial reasons financial services historically have been targeted to the rich section of the society, which have a greater capability to repay loans and preserve their savings. However, the poor community generally remained either un-served or were offered improper financial services. Poor farmers and landless laborers had acute difficulty in accessing financial services from conventional financial institutions. Banks and other formal financial institutions are currently estimated to provide services to only 25% of potential clients worldwide. Statistics indicate that apparently only 2% of micro entrepreneurs are being provided service by banks (Women's World Banking, 1994).<sup>45</sup>

To overcome these obstacles, a prominent economist and professor from Bangladesh, **Muhammad Yunus in 1976**, came up with a new concept and model, which is called, "The Grameen Model". During a field trip to a relatively poor village in Bangladesh with his students in 1974, Muhammad Yunus interviewed a woman who had a small business of making bamboo benches. Due to the shortage of the resources to purchase the raw materials, she was forced to borrow small amounts of money from a local lender. Without any collateral, she could only borrow enough money to buy the raw materials to build one

---

<sup>43</sup> Harper, M. (2003), "*Microfinance – Evolution, Achievements and Challenges*", ITDG Publishing, UK, p.11

<sup>44</sup> Ibid, 2003, p.11

<sup>45</sup> Murray, U. and Boros, R. (2002), "*A Guide to Gender Sensitive Microfinance*", p. 10

piece at a time. The woman had to repay the lender with high interest rates. Sometimes the interest rate of that loan exceeded 10% of the principal amount. After repaying the lender, the woman was left with a profit margin that was not enough even to meet her basic daily needs. Had she had access to more complimentary terms for her loan, she would have been able to save enough money to protect her from future uncertainties and in the long run, would have been able to raise herself above the survival level. Discouraged by what he saw, Dr. Yunus took matters into his own hands and lent a small amount of money as a loan to some 42 rural basket-weavers. He found that these small loans went a long way, and almost everyone who had borrowed the money, were keen to repay their loans. Dr. Yunus found out that even with this tiny amount of money it is possible not only to help the poor to survive but also to create the spark of personal initiative and enterprise in the people, necessary to pull themselves out of poverty.<sup>46</sup>

Just two years after his field trip, Dr. **Yunus** established the Grameen Bank, and introduced “Grameen Model”, which is now being considered as one of the most successful models in the microfinance industry. The Grameen Bank finds the economically active poor, who are excluded from formal financial services, and helps them by providing financial services. The Grameen bank also emphasizes on the mobilization of savings. The Grameen Bank is a kind of institution that provides small loans to the poor, especially women in Bangladesh, using innovative ways of getting around their borrowing constraints. The Grameen Bank has been enormously successful in generating sustainable livelihoods, reducing poverty and driving development in Bangladesh. Since its start in 1976, it has grown to over 1084 national branches, in over half the villages of Bangladesh. Recognized as a huge success, the “microfinance” model pioneered by Dr. Yunus has been replicated and implemented in dozens of other underdeveloped and developing countries around the world. Presently there are approximately 7000 microfinance institutions serving over 54 million clients worldwide,

---

<sup>46</sup> Roy, Mark A. (March 2003), “*Microfinance as a Tool for Development*”, BSUS 6900, (This Para is mainly taken from **Yunus**, Mohammad, “Banker for the Poor, Introduction”, [www.grameen-info.org/book/index](http://www.grameen-info.org/book/index))

who have received US\$18 billion in loans and have accumulated US\$13 billion in savings.<sup>47</sup>

### **3.4 FUNCTIONING OF THE Grameen Model**

Grameen model is one of the most modern and tailored version of microfinance. It emerged as a main business sector when it became evident that low-income people also can pay back their loans on time and can save money, provided they are able to access the customized financial services. Therefore, it would be interesting to know that how this model works.

A Grameen bank is placed with a field manager, with necessary staff members, covering an area of 15 to 22 villages. The staff's task is to visit the villages to familiarize themselves to the locality and identify the targeted people who are eligible for their project, and describe their objectives, functions and mode of operations to the people. In the first stage, they form the groups of five borrowers among the selected people. Group members should come from the same economic background and social status, and must not constitute more than 30% of individual family members. They are then given training for electing their own president, secretary and how to arrange a meeting. They also maintain cooperation with other groups and all these groups choose centre chief and centre group leader. In one group, only two of the five members are eligible for taking the loan. They conduct group observation for a month to see if the other members are following the rules of the bank. If the first two borrowers repay the loan with interest within a fixed period of time, then other members of the group become eligible for the loan. The bank emphasizes on saving also, which is used as a tool to prepare the borrowers to manage their credits. Every borrower in a group must save at least \$0.68 in a week. Additionally 5% of amount of every loan approved is set aside, which goes to a group fund, managed by that particular group to provide emergency and social loans to its members.<sup>48</sup>

---

<sup>47</sup> Roy, Mark A. (March 2003), "*Microfinance as a Tool for Development*"

<sup>48</sup> Fotabong, Leonard A.; Kedju, Akanga F. (2005), "*The Impact of Microfinance Institutions on Poverty Reduction in the South-East Province of Cameroon*", Masters Thesis, Umeå Business School (USBE), Sweden, p. 35

### **3.5 METHODOLOGY OF MICROFINANCE**

Majority of the microfinance institutions offer and provide credit on a solidarity-group lending basis without collateral. There is also a range of other methodologies that MFIs follow. Some MFIs start with one methodology and later on move or diversify to another methodology so that they do not exclude certain socio-economic categories of clients. So it becomes important to have a basic understanding of methodologies and activity of MFIs.<sup>49</sup>

#### **3.5.1 Group Lending**

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between four to eight members. The group self-selects its members before acquiring a loan. Loans are granted to selected member(s) of the group first and then to the rest of the members. Most MFIs require a percentage of the loan that is supposed to be saved in advance, which points out the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and usually meet weekly to collect repayments. To ensure repayment, peer pressure and joint liability works very well. The entire group will be disqualified and will not be eligible for further loans, even if one member of the group becomes a defaulter. The creditworthiness of the borrower is therefore determined by the members rather than by the MFI.<sup>50</sup>

One of the best-known institutions for lending and savings money, in Bangladesh, is the Grameen Bank. Grameen Bank mainly targets women (98% of their clients are women) on the basis that women repay their loans better than men and due to the oppression they need more favor. It is believed that loans expanded to women benefit all the household members with improved level of food intake, health, and education. Average loans range from US\$100 to US\$200 for a period of 3-12 months. The loan amount varies from

---

<sup>49</sup> Murray, U. and Boros, R. (2002), "A Guide to Gender Sensitive Microfinance", p. 11

<sup>50</sup> Ibid

country to country. Average loan amounts tend to be higher (\$500 or more) in countries in transition of adapting to this system.<sup>51</sup>

On one hand, the group formation guides to lower transaction costs for the MFIs, but on the other hand there are social costs related with this process. These social costs can be a negative restraint to group borrowing and joint liability approaches, and include coercive peer pressure, loss of faith and the likelihood that the poorest and most vulnerable will remain excluded or further stigmatized. Such social costs are higher in some societies than in others, depending upon underlying social relations (which influence the ease/difficulty of group formation) and the distances that people must travel to participate in-group activities. In rural areas, these costs can be higher.<sup>52</sup>

### **3.5.2 Individual Lending**

Unlike MFIs, there are very few conventional financial institutions which provide individual loans to low-income people because poorer clients are considered higher risk clients due to their lack of collateral, plus the labor-intensive nature of the credits and hence the lack of profitability of small-credits. BASIC BANK (Bangladesh), Bank Rakyat Indonesia (BRI) in Indonesia, ADEMI in the Dominican Republic and are some examples of successful lenders to poor clients. However, BRI does request collateral and a loan co-signer, while ADEMI and BASIC BANK will take the best collateral it can.<sup>53</sup>

### **3.5.3 Credit Unions**

Credit unions are the organizations that are formed on the basis of financial relation of savings and loans between its members. They accumulate savings from its members and provide short-term credit to the needed members. The demand for loans in general exceeds the supply of savings. In most rural areas credit unions are still the solitary source of deposit and credit services, besides the informal financial market. Because credit unions have social as well as commercial objectives, they may have a key role to

---

<sup>51</sup> Murray, U. and Boros, R. (2002), “A Guide to Gender Sensitive Microfinance”, p. 11

<sup>52</sup> Ibid, p. 12

<sup>53</sup> Ibid

play in offering pro-poor financial services. It has been observed that some women have not benefited much from the credit unions because the level of savings required is too high.<sup>54</sup>

Credit unions have achieved financial self-sufficiency within the last few decades. According to one statistics from the World Council of Credit Unions (WOCCU), by the end of the 1980s there were about 17,000 credit unions in 67 developing countries around the world. These unions maintain nearly 9 million members and 60% of these members are from Africa and the Caribbean Islands. These credit unions handled approximately US\$2 billion in deposits and share capital. It is estimated that they are disbursing US\$300 million in small loans to about 1.5 million small businesses.<sup>55</sup>

### **3.5.4 Village Banking**

Village banking is a kind of financial services model that assists poor communities to establish their own credit and saving associations, or village banks. Village bank provides non-collateralized loans to its members and a place to invest savings and promote social solidarity. The sponsoring agency provides loan for the village banks and village banks in turn provide individual loans to its members. Peer pressure and peer support among the members are considered as the bank guarantees of these loans, to ensure repayment where small working capital is repaid every four to six months by its borrowers. Borrowers start with a very small loan and gradually they establish loan ceiling. Loan sizes depend on the amount which borrower has saved. Member's savings are kept for the purpose of lending or investing to increase the resource base of the bank. Commercial standards are applied to determine interest rates and fees.<sup>56</sup>

### **3.5.5 Self Help Groups/Associations**

Rotating Savings and Credit Associations (ROSCAs) exist in several parts of the world but recognized under different names, like as Tontines and Susus. They are known to be

---

<sup>54</sup> Murray, U. and Boros, R. (2002), "A Guide to Genders Sensitive Microfinance", p. 12

<sup>55</sup> Ibid

<sup>56</sup> Murray, U. and Boros, R. (2002), "A Guide to Genders Sensitive Microfinance", pp. 12-13

female dominated organizations that save small amount of money and members can borrow from common pool on a rotating basis. These types of organizations or self help groups, have sometimes been used by MFI for group lending among the members.<sup>57</sup>

### 3.6 SAVINGS MOBILIZATION

Savings mobilization has recently been recognized as a major force in microfinance. In the past, microfinance focused almost exclusively on credit; savings were the "forgotten half" of financial intermediation (Vogel 1984).<sup>58</sup> The importance of savings mobilization has been highlighted in several papers in the context of microfinance. Few analyses have been shaped in order to take an in-depth look at the savings mobilization strategies, which are employed by various institutions and are then compared to the results.<sup>59</sup>

Deficiency of savings facilities creates problems at three levels: (i) at the individual level, (ii) at the level of the financial institution; and (iii) at the level of the national economy. At the individual level, the lack of appropriate institutional savings facilities forces the individual to rely upon in-kind savings, such as the savings in the form of gold, animals or raw materials, or upon informal financial intermediaries, such as Rotating Savings and Credit Associations (ROSCAs) or money-keepers. These alternative informal savings facilities do not guarantee the combination of security of funds, ready access or liquidity, positive real return and convenience, which are basic requirements or necessity of a depositor.<sup>60</sup>

Microenterprise programs can play a significant role for foster savings among the poor populations, with considerable benefits both for the savings and for the programs. According to Harper, *“Domestic Savings provide the assets for the economy’s investment in future production. Without them, the economy cannot grow unless there are alternative*

---

<sup>57</sup> Murray, U. and Boros, R. (2002), *“A Guide to Genders Sensitive Microfinance”*, p. 13

<sup>58</sup> Cited in Fiebig, M.; Hannig, A.; Wisniwski, S. (1999), *“Savings in the Context of Microfinance –State of Knowledge”*, Working Group on Savings Mobilization, Consultative Group to Assist the Poorest (CGAP), Eschborn, p. 1

<sup>59</sup> Elser, L.; Hannig, A.; Wisniwski, S. (1999), *“Comparative Analysis of Savings Mobilization Strategies”*, Consultative Group to Assist the Poorest (CGAP), Working Group on Savings Mobilization, p. 1

<sup>60</sup> Elser, L.; Hannig, A.; Wisniwski, S. (1999), *“Comparative Analysis of Savings Mobilization Strategies”*, p. 1

*sources of investment*". People's propensity to save varies significantly. Common astuteness states that as a person's disposable income increases, so does his or her capacity and willingness to save. Persons, who are living at subsistence or near subsistence levels, often we call them low-income groups, thought to be among those who are least able to contribute to economic savings. It is demonstrated that most of the developing countries, where the poor constitute the great majority, have a lower propensity to save. It has been concluded that 'the poor cannot save'.<sup>61</sup> Exploring issues related to saving mobilization, among the poor people who are self employed in productive activities, is one of the important purpose of this study.

Experiences from the empirical findings have shown that many low-income people have the capacity to save and they usually do it through informal channels. Informal approaches for savings engross the formation of alternative structures, like group or associations, through which people undertake financial activities such as lending and savings<sup>62</sup>.

There is enormous literature available, based on surveys, case studies, regional and cross-country analysis, focusing on the nature of the savings capacity and ways of saving of poor. Many affirm that not only do the poor save, but their savings have substantial implications for policy and resource mobilization for financial markets and national economies<sup>63</sup>. Savings mobilization is an interesting issue among the poor for various reasons. Mobilizing savings lift up important considerations for development programs that are working to boost productive income and employment among low-income groups. Finally, the process of saving on a regular basis can be an empowering experience for people used to living at the margin, and can contribute to an improvement in the quality of their lives. It serves to capitalize on the productive activities, which sustain the family and thereby enhancing income of the family.<sup>64</sup>

---

<sup>61</sup> Harper M. (2003), "*Microfinance-Evolution, Achievements and Challenges*", ITDG Publishing, UK, p. 25

<sup>62</sup> Harper M. (2003), "*Microfinance-Evolution, Achievements and Challenges*", p. 25

<sup>63</sup> Adams, 1973; Miracle et al. 1980; Maloney and Ahmed, 1998; Mayer et al., 1988; cited in Harper M., (2003), "*Microfinance-Evolution, Achievements and Challenges*", p. 25

<sup>64</sup> Harper M. (2003), "*Microfinance-Evolution, Achievements and Challenges*", pp. 25-26

Informal savings schemes exist throughout the developing world. Most of the pertinent in this perspective are the rotating savings and credit associations (ROSCAs). These are informal institutions in which group of individuals come together to save, share risks, and borrow. These kinds of informal organizations can be found in many countries, with different names and almost among all sections of the society. Rotating saving and credit associations are organized spontaneously among socially homogeneous groups with the strength of each group varying from six to fifty people. These groups depend on a leader, who is usually the founder and he or she is responsible for the collection and distribution of the resources. Members make a fixed amount of payment into a pot and the total assets are distributed at fixed intervals among the members in turn. The distribution of the funds is agreed upon by lottery, seniority in the group, or another established arrangement. All informal credit and savings activities, work on the principle of rotating access to a capital fund, which is continuously fed by the members' contributions. The interest rates charged from borrowers, depends on the length of the term for which loan is taken.<sup>65</sup>

Rotating savings and credit associations provide the idea, which can be a learning laboratory for understanding, what motivates poor people to save, and under what conditions they are likely to do so. The main character of most ROSCAs is a simple but resilient savings and loan system, grounded in the local culture, which is a flexible yet structured set of procedures agreed upon by all.

There are few micro-enterprise lending programs that have been designed to increase the productive activities of the poor and at the same time have shaped saving components for them. The supplement of savings as a component of micro-enterprise programs has received less concentration. The experience of several organizations, like the Grameen Bank, ASA, BRAC and PROSHIKA in Bangladesh and Accion International (ACCION) in Latin America that have mobilized savings among the poor, has provided interesting insights into this topic. While there are other organizations with experience in savings, such as, the World Council on Credit Unions (WOCCU), the Foundation for International Community Assistance (FINCA), and an Indonesian's organization, named Badan Kredit

---

<sup>65</sup> Harper M. (2003), "*Microfinance-Evolution, Achievements and Challenges*", pp. 26-27

Kecamatan (BKK), have served as an illustration in which micro enterprise programs have addressed savings<sup>66</sup>.

In Grameen Bank of Bangladesh, savings are used as a tool to prepare the borrowers to manage credit. Prospective borrowers make weekly savings deposits, and their credit eligibility is based on their capability to maintain self-discipline in saving. Each borrower must save around one taka or US\$0.04 every week through his or her group. In addition, 5 percent of each loan amount approved is set aside at the time of disbursement. This money goes into a group fund supervised by the respective group and is designed to provide social loans to its members in emergency. Each group sets the terms and condition for distribution of loans<sup>67</sup>.

Most of the MFIs in Bangladesh follow the same method as of Grammen Bank. The people of Bangladesh are far away from the social benefit system, provided by the government. From the fear of future insecurities, the people of Bangladesh have grown up their saving tendency. From this tendency, they have formed different kinds of informal savings organizations like as co-operative societies and credit unions. These kinds of organizations can be found almost everywhere in Bangladesh, with different names, like *Jubok*, *Urban Co-operative Society* etc. Microfinance organizations capitalized on this tendency as an opportunity and exploited it. They worked on the same pattern or methodology but provided the people not only with an option of more secure, reliable and formal savings organization, but also with many other social benefits.

### **3.7 HUMAN DEVELOPMENT**

Development is deeply related to rising income. However, it is true that other variables have also deep relation with development. Goals of development emphasize on the reduction of poverty rather than raising average incomes. All microfinance program targets one thing in general: human development that is geared towards both the economic and social uplift of the people they cater for. Tackling poverty has taken a new and broader dimension. Now the escalating income and savings, and building the assets

---

<sup>66</sup> Harper M. (2003), "*Microfinance-Evolution, Achievements and Challenges*", p. 27

<sup>67</sup> Ibid, p. 28

are not the only means to fight the poverty. Tackling poverty points to multidimensional concepts that emphasizes on reducing unemployment, infant mortality, maintaining essential healthcare, sanitation, food, nutrition basic hygiene, establishing gender equality etc.<sup>68</sup> On the other hand, how these kinds of development can be achieved? It is possible to achieve those development indexes, if disposable income is increased. Without maintaining balance between income and expenditure, it is difficult to tackle poverty.

Microfinance programs target both economic and social poverty. To assess the success of their efforts microfinance institutions need to measure the impact on the borrowers. The primary objective of all MFIs interventions is poverty reduction. Poverty reduction is perceived from the economic point of view. On the other hand, MFIs interventions promote living condition of poor people by offering supportive service. These supportive services are important indicators of human development. The objective of this program is to create sustainable changes in the lives and livelihood of the poor, women in particular.<sup>69</sup> As a strategy for removing poverty, microfinance institutions emphasize on improving the health of the poor, which is a main concern worldwide and particularly in low-income countries, where the burden of disease is heaviest. The relationship between poverty and ill health has been characterized as synergistic and bidirectional. Poverty confines the capacity to produce health and ill health leads to further impoverishment that diminishing the potential of individuals and households to improve their economic status. Poverty alleviation strategies (PASs), like micro-credit programs, may pilot to health benefits. There is a growing recognition that poor health is a dimension of poverty; therefore, one potential result of poverty reduction is progress in the health of the poor. PASs can adopt various forms. Debra Lipson's (1998) review of potentially pro-health PASs included community and micro-enterprise economic development, agriculture and food policies, education policies, macroeconomic policies, and environment or infrastructure investments to improve the supply of safe water and basic sanitation.<sup>70</sup>

---

<sup>68</sup> Ghalib, Asad K. (2007), "*Measuring the Impact of Microfinance Intervention: A Conceptual Framework of Social Impact Assessment*", pp. 1-2

<sup>69</sup> Annual Report (2005), Bangladesh Rural Advancement Committee (BRAC), p. 28

<sup>70</sup> Mohindra, Katherine S.; Haddad, S. (November 2005), "*Women's Interlaced Freedoms: A Framework Linking Micro credit Participation and Health*" Journal of Human Development, Vol. 6, No. 3, p. 354

Human development has close relation with few other development programs, some of them are described below.

### **3.7.1 Health Program**

Health intervention has been an integral part of the MFIs. Different organizations apply different or similar policy to identify the health problems, undertake rigorous experimentation and try to explore and then apply suitable, affordable and culturally acceptable technology. Throughout the work process, they measure and monitor its implementations and recommends corrective actions to modify methods of implementation of program, health message, training and management, where needed.<sup>71</sup>

### **3.7.2 Education Program**

Another important goal of all MFIs is to spread the light of education throughout the society. Development through this program, along with the health program, indicates human development among the people. Their effort and mission is to build up a society free of poverty, illiteracy and disease. Their goals are to expand education opportunities for disadvantaged children and provide them with necessary technical and financial support.<sup>72</sup>

### **3.7.3 Food Security Program**

In the developing countries, achieving household food security remains a critical objective of rural development. This can be done in principle by escalating agricultural productivity and off-farm income, thus improving the capability of households to steady their income and food purchasing power. *Food security, at the household level, is defined in its most basic form as access, by all people at all times, to the food needed for a healthy life*<sup>73</sup>.

---

<sup>71</sup> Annual Report (2005), Bangladesh Rural Advancement Committee (BRAC), p. 32

<sup>72</sup> Ibid, p. 41

<sup>73</sup> Zeller, M.; Meyer, Richard L. (2002), "*The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact*", Published for the International Food Policy Research Institute, The Johns Hopkins University Press, Baltimore and London, p. 21

### 3.8 SOLIDARITY

Almost all microfinance institutions believe in motivating repayment through group solidarity or group liability. For example, village banks put emphasis on loans to finance income-generating activities and savings. Providing loan to the individual through groups is an unconventional policy. In this policy, banks does not expect from group members to meet the collateral requirements. The basis of this methodology is the mutual trust among the group members. The groups member are usually lend money on unsecured basis, just using five–person group guarantee, whereby each individual is responsible for the repaying loans among the selected group. This principle of micro-credit is borrowed from the Grameen Bank of Bangladesh.<sup>74</sup>

Solidarity group lending schemes involve the formation of groups. In these groups some or all members are jointly liable for each individual's loans, thereby creating an alternative to conventional loan requirements (which poor people can rarely fulfill). From the lenders' perspective such joint liability lending enables a transfer of default risks from the institution to the borrower, and can reduce the transaction costs of providing a larger number of small loans (by concentrating clientele in groups, at regular village based meetings, rather than dealing with individual borrowers at different times).<sup>75</sup> However, this methodology engages women clients in financial activities in which female solidarity is created through promoting shared visions and goals and developing collective strengths. It can serve as a powerful tool for progressive social change as long as it fosters critiques of dominant cultural ideologies. It helps to elevate awareness and empowerment in society, especially among the women clients.<sup>76</sup>

---

<sup>74</sup> Aryeetey, E. (Summer 2005), "Informal Finance for Private Sector Development in Sub-Saharan Africa", *Journal of Microfinance*, Vol. 7, No. 1, p. 22

<sup>75</sup> Montgomery, R. (1996), p. 290, cited in, Mohindra, Katherine S. and Haddad S. (November 2005), "Women's Interlaced Freedoms: A Framework Linking Micro credit Participation and Health", p. 355

<sup>76</sup> Mohindra, Katherine S.; Haddad, S. (November 2005), "Women's Interlaced Freedoms: A Framework Linking Micro credit Participation and Health", p. 363

### 3.9 LIQUIDITY

With respect to increasing savings products for the rural poor, more emphasis has to be placed on liquidity and low transaction costs than on attractive interest rates. Financial institutions arrange reliable options for obtaining liquid funds quickly when needed (a line of credit for example) and for safely investing excess liquid funds at reasonable returns. MFIs collect obligatory savings from the clients on weekly or monthly basis, before further loans are disbursed. When the loan is disbursed, the net amount received by the client is after the deduction of first installment. So the first installment for the loan is already taken by the lender as soon as loan is sanctioned. Clients are allowed to withdraw at the end of the loan term, after a set number of weeks, months or years or when they terminate their membership.<sup>77</sup>

Despite numerous policy initiatives introduced during the past decades, the growth of small-scale industry in Bangladesh has been disappointing because of liquidity problem. In addition to liquidity, a number of factors have been designated to explain the failure of large enterprise to emerge from the micro-enterprise sectors. These factors are poor infrastructure, weak entrepreneurial and management skills and inadequate access to machinery and materials. Insufficient credit access and lack of financial services from formal financial institutions has also been recognized as a constraint on the expansion of the micro-enterprise sector. As a result, family and informal moneylenders have become the major source of finance for Medium and Small-scale Entrepreneurs (MSE). During the 1990s, group-lending methodology brought about a revolutionary change in microfinance movement. This approach has now become popular to address many of the problems of supply-led lending methodology associated with high transactions costs, risk, low repayment rates and poor targeting and sustainability. For many, the 'new world of microfinance' had the potential to provide access to credit to the poor on a massive scale by offering numerous financial services. Despite apparent success of microfinance institutions and the efforts of supply led policies and financial liberalizations, there are

---

<sup>77</sup> CGAP (Consultative Group to Assist the Poorest)

still important ‘gaps’ in the credit market and certain types of enterprise and entrepreneurs are unable to gain adequate access to credit facilities.<sup>78</sup>

To explore the nature of liquidity problems faced by the entrepreneurs is now one of the important issues in field of microfinance. Various reasons have been suggested to explain the liquidity problems, which MSE face. These encompass risk aversion, relation to fears for repaying the loan that might result in the loss of possessions, an inability and reluctance to attend weekly meetings, a hesitant to guarantee other people’s loan, and rejection of ‘poorest of the poor’ by wealthier group members<sup>79</sup>.

### **3.10 REFLECTIONS ABOUT THEORIES**

One of the most important elements need to be discussed is that in which aspects the above-mentioned theories are linked to our study. Firstly, we are going to investigate the impact of microfinance on the living standards of the poor people in Bangladesh. Income is one of the important elements of living standards as well as of savings. The MFIs are providing loans to the poor not only to increase their income but also to mobilize their savings. By mobilizing savings, poor people can secure their future and feel safe. For this reason, we have emphasized more to know the situation about the income and savings of poor community of the society.

Apart from these, other factors that contribute to human development, like education, level of access to treatment facilities and empowerment are also included in our investigations as these variables are also related to the core program and methodology of microfinance. We made endeavor to explore and find out to what extent the standard of living of poor people has been influenced since they joined the microfinance program.

The other necessary methodology of microfinance is solidarity, which is the base of microfinance. From theory, we already know that how solidarity (Group lending) works

---

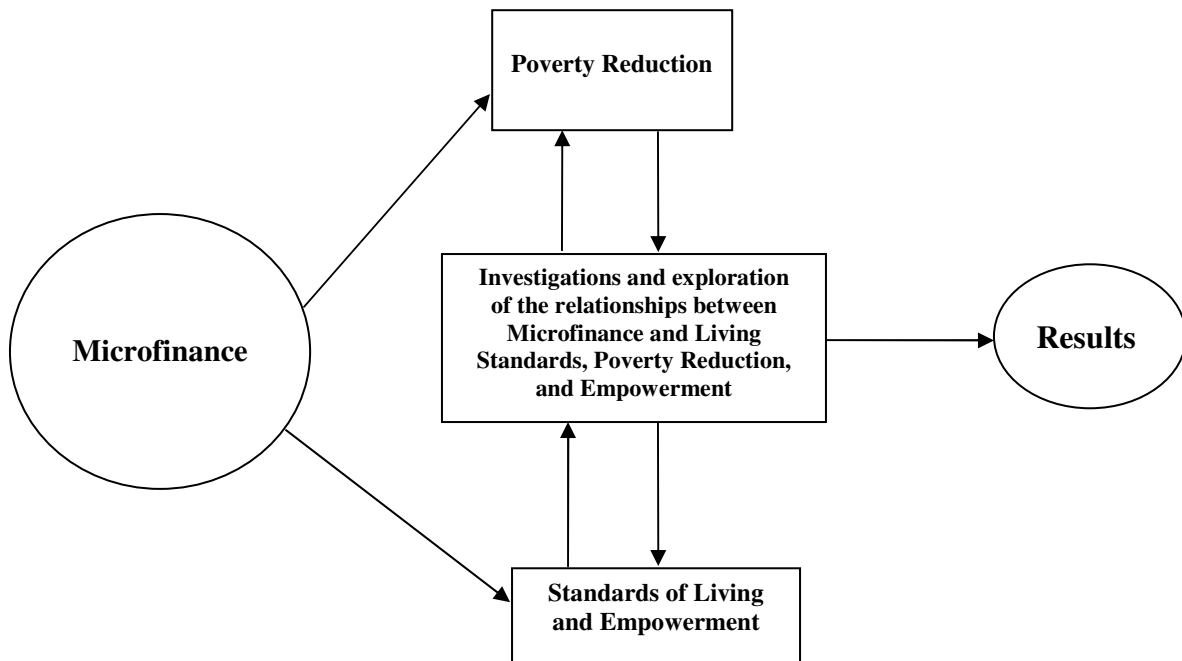
<sup>78</sup> Ryan, P. “*The Limitations of the ‘One Size Fits All’ Microfinance Lending Model: An Analysis of the Liquidity Problems of Microenterprises in Uganda*”, Bradford Centre for International Development – University of Bradford, pp 1-3

<sup>79</sup> Ibid, p. 3

as a synergy of microfinance. Previous studies have also shown that solidarity is a powerful tool of microfinance to reduce the risk and to keep the capital safe.

Lack of liquidity or fund is one of the big problems for nascent entrepreneurs, who want to set up the medium scale business. We will try to discover the nature of liquidity problem by observing the range of initial capital that is borrowed from MFIs by the people.

The following figure (1), presents the working model of our thesis. The aim of this model, subsequently our thesis, is to investigate the research question based on the theories and the primary data, we have collected.



*Figure: 1: Working model of this thesis*

## **CHAPTER FOUR**

### **BANGLADESH AND MFIs**

#### **4.1 BANGLADESH- HISTORY AND OVERVIEW**

##### **4.1.1 History**

Historically Bangladesh was the part of Bengal, an eastern province of undivided India. When India became independent in 1947, the independent nation of Pakistan came into existence, comprising of western part of India and the eastern half of Bengal province. In 1971, this eastern part of province of Bengal became independent nation, known as People's Republic of Bangladesh. Its current population is approximately 150 million with the total area of around 144,000 sq km<sup>80</sup>. Dhaka is the capital city and the largest city of Bangladesh. Other major cities of Bangladesh are Chittagong, Sylhet, Khulna, Barisal and Rajshahi.

##### **4.1.2 Land and People**

Bangladesh is mainly composed of the combined delta of the Ganges, Brahmaputra, and Meghna rivers, except the area of and around Chittagong, which is a mountainous region located along the Myanmar border. Most of the country is humid, low-lying and alluvial region with approximately 300 ft (90m) above the sea level. Bangladesh is laced with numerous streams, distributaries, and tidal creeks, forming an intricate network of waterways that also constitutes the country's chief transportation system. Along the southern coast is the Sundarbans, a mangrove swamp area with numerous low islands, which now being considered as one of the world heritages of United Nations.

Bangladesh has a tropical monsoon-type climate, with a hot and rainy summer and a dry winter. January is the coldest month with the average temperature of around 26C (78F)

---

<sup>80</sup> CIA World Fact Book (<https://www.cia.gov/library/publications/the-world-factbook/index.html>)

and April is the warmest with temperatures ranging from 33 to 36 deg C (91 to 96 deg F). The climate is one of the wettest in the world. Most places receive more than 1,525 mm of yearly rainfall, and areas near the hills receive 5,080 mm. Most rains occur during the monsoon season (June-September) and little in winter (November-February). Bangladesh is subject to devastating cyclones, originating over the Bay of Bengal, in the periods of April to May and September to November. These are often accompanied by surging waves, often causing great damage to property and loss of life.

Bangladesh is one of the world's ten most populated countries and has one of the highest population densities (about 2,100 people per sq miles/810 people per sq km.). The least densely populated areas are in the [Sundarbans](#) jungle and the Chittagong Hill Tracts. Bangladesh had one of the highest rates of population growth in the world in the 1960's and 1970's. But as a result of social awareness and development, it has seen a marked reduction in its [fertility rate](#), from 6.2, thirty years ago, to 3.2<sup>81</sup>.

The [religions](#) practiced in the region have changed significantly through history. At various times in the distance past, [Buddhism](#) and [Hinduism](#) were each the dominant religions. The [1947 partition](#) of Bengal along religious lines augmented the existing [Sunni Muslim](#) majority in the region. The most recent estimate of religious makeup from the 2001 census reported that the population was 89.58% Muslim, 9.34% Hindu, 0.62% Buddhist, 0.31% Christian and 0.15% Animist.<sup>82</sup>

Similar to neighboring India, more than half of the population lives in [agrarian](#) rural villages. But urbanization is proceeding rapidly and the capital [Dhaka](#) is one of the fastest growing cities in the world. Other major urban centers include [Chittagong](#) and [Khulna](#).<sup>83</sup>

---

<sup>81</sup> UNDP Figures, 2003

<sup>82</sup> Statistical Pocket Book, Bangladesh (2006), [Bangladesh Bureau of Statistics](#) (www.bbs.gov.bd/)

<sup>83</sup> World Gazetteer, "[Bangladesh: largest cities and towns and statistics of their population](#)"

### **4.1.3 Economy**

Bangladesh has made significant strides in its economic sector since independence in 1971. Garments industry is one of the largest and comprehensive industries in the world. Bangladesh has also made major progress in the agriculture sector to meet the needs of its increasing population and growing agro-based industries. Currently, Bangladesh is the third largest rice producing country in the world. Although improving, infrastructure to support transportation, communications, and power supply is poorly developed. The country has large reserves of natural gas but limited reserves of coal and oil. While Bangladesh's industrial base is weak, unskilled labor is inexpensive and plentiful. However, Bangladesh's poverty rate remains high, with nearly half of its 147 million people living below the poverty line. GDP is forecast to grow 6.5% in FY2007, down from 6.7% in FY 2006. Annual GDP is \$60 billion and per capita income is \$456 (2006) (Asian Development Bank, 2006). A significant contribution to the development of the country has been made by the several MFI's, Grameen Bank, BRAC, ASA and Prashika are some of them.

### **4.1.4 The Structure of the Education System**

Education in Bangladesh has three major stages—primary, secondary and higher education. Primary education is a 5-year cycle while secondary education is a 7-year one with three sub-stages: 3 years of junior secondary, 2 years of secondary and 2 years of higher secondary. The entry age for primary is 6 years. The junior, secondary and higher stages are designed for age groups 11-13, 14-15 and 16-17 years. Higher secondary is followed by graduate level education in general, technical, engineering, agriculture, business studies, and medical streams requiring 5-6 years to obtain a Masters degree.<sup>84</sup>

In the general education stream, higher secondary is followed by college/university level education through the Pass/Honors Graduate Courses (4 years). The Masters Degree is of one year's duration for holders of Bachelor Degree (Honors) and two years duration for holders of (Pass) Bachelor Degree. Higher education in the technical area also starts after

---

<sup>84</sup> Ministry of Education, Government of the People's Republic of Bangladesh ([www.moedu.gov.bd/](http://www.moedu.gov.bd/))

higher secondary level. Engineering, agriculture, business, medical and information & communication technology are the major technical and technological education areas. In each of the courses of study, except for medical education, a 5- year course of study is required for the first degree.<sup>85</sup>

#### **4.2 MAJOR MFIs AND THEIR ROLE IN BANGLADESH**

Bangladesh has been the pioneer in the field of microfinance movement since its interception since 1980s. Today Bangladesh is the home to the most extensive microfinance operations in the world. Starting from the resource of few pennies and with the clients in double digit counts, microfinance movement gained such a momentum that it has not only made great strides in Bangladesh in delivering financial services to the poor , specially women, but also has become a pioneer in the developing world. There are many MFIs working in Bangladesh and in the other parts of world, which have differences in their organizational structure and working methodology, but they all work on the common theory, philosophy and goal.

Many studies and surveys have been carried out by different agencies regarding the working of MFIs and their impact on the poor people in Bangladesh. The agencies like Bangladesh Institute of Development Studies and World Bank have found strong evidence that functioning of MFIs have helped the people in meeting their daily needs and at the same time building their assets. It has been stated in The World Bank Economic Review that microfinance has not only helped people to develop in their material capital but also in the human capital, by better access to health care and education system, and general awareness among the people about their rights and duties towards society.<sup>86</sup> One of the most important features has been the reduction of gender biased in the society. MFIs have helped women acquire assets of their own, educated them and thus gave them the right and power in the household decision making.

---

<sup>85</sup> Ministry of Education, Government of the People's Republic of Bangladesh

<sup>86</sup> The World Bank Economic Review, Vol. 19, No. 2

However, there are numerous MFIs working in Bangladesh at present so it is almost impossible to mention all of them. Therefore, we have chosen four of the most important ones and try to give the overview of them.

## **4.2.1 BANGLADESH RURAL ADVANCEMENT COMMITTEE (BRAC)**

### ***4.2.1.1 Vision and History***

With a vision of "a just, enlightened, healthy and democratic Bangladesh free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex, religion and ethnicity", BRAC started as an almost entirely donor funded, small-scale relief and rehabilitation project to help the country overcome the devastation and trauma of the Liberation War. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development with its motto "alleviation of poverty and empowerment of the poor". It is the largest in the world employing 97,192 people, with the twin objectives of poverty alleviation and empowerment of the poor. Through experiential learning, BRAC today provides and protects livelihoods of around 100 million people in Bangladesh. Diagnosing poverty in human terms and recognizing its multidimensional nature, BRAC approaches poverty alleviation with a holistic approach. BRAC's outreach covers all 64 districts of the country and furthermore, has been called upon to assist a number of MFIs in countries including Afghanistan and Sri Lanka.<sup>87</sup>

From the time of its modest inception in 1972, BRAC recognized women as the primary caregivers who would ensure the education of their children and the subsequent inter-generational sustainability of their families and households. Its comprehensive approach combines microfinance under BRAC's Economic Development program with Health, Education and other Social Development programs, linking all the programs strategically to counter poverty through livelihood generation and protection.

---

<sup>87</sup> BRAC official website ([www.brac.net](http://www.brac.net))

#### ***4.2.1.2 Core and Support Programs***

BRAC implements a comprehensive development approach, with a number of programs for economic and social development of the people. BRAC core programs include four main ones: BRAC Economic Development Program, BRAC Social Development, Human Rights and Legal Education Services Program, BRAC Education Program and BRAC Health Program.

Beside these core programs there are several support programs, institutions and divisions, initiated in order to support core programs of BRAC. These programs support the activities of BRAC , to mention few, through research and studies (RED), Public affairs and public relations, training in various fields, accounting and finance (supporting in monetary things), monitoring the activities of BRAC in general.

#### ***4.2.1.3 Organizational Structure***

The adage "It is never the same after a war," has proved to be utterly true in the life of Fazle Hasan Abed, the **Founder and Chairperson of BRAC**, one of the largest non-government development organizations in the world. Born in 1936 in Bangladesh, Abed was educated in Dhaka and Glasgow Universities.

BRAC today is a combined effort of many thousands of people – starting from the interns, volunteers, donors, staff, executives, governing body and those working at fields. BRAC is the combination of hard work and determination of its people along with the support and encouragement of many others.

#### ***4.2.1.4 BRAC in World***

Besides its expanding network and working areas in its birth country of Bangladesh, it has been continuously expanding in other parts of world, especially in Africa and some parts of Europe. By expanding its working area, it is trying to reach more and more needed people and at the same time reaching out to rich people and countries to get funds and donations for its programs.

Due to its expanding activities in the world and growing recognition, *its chairperson Fazle Hasan Abed received first Clinton Global Citizen Award and \$271m as a Education Commitment at 2007 Clinton Global Initiative.*

#### **4.2.1.5 Microfinance Programs of BRAC, at a Glance**

Inception of micro finance programme	1974
Programme coverage	Districts 64, Thanas:507
Total No of Area/Branch Offices	1,381
Total No of village Organizations	160,197
Total No of Members	4,837,099
Percentage of Women Members	98%
Outstanding Borrowers	4,159,793
Cumulative Loan Disbursement	165,794 million (US \$3,094)
Members' Savings	9,159 million (US 141 million)
Average Loan Size	9,452(US \$145)
Repayment Rate	99.49%

*Table 1: BRAC, at a glance (Source: BRAC Annual report 2005)*

## **4.2.2 GRAMEEN BANK**

### **4.2.2.1 Vision and History**

The history of origin of Grameen Bank can be traced back to 1976, when Professor Muhammad Yunus, head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. The initial activities started from Jobra village (adjacent to Chittagong University) and some in the neighboring villages in the following years. Later in 1979, with the sponsorship of central bank and support of the nationalized commercial banks, the project was extended to Tangail, a district north of Dhaka. Later the Grameen Bank became an autonomous

organization through the government legislation of October 1983. Today, Grameen Bank is mainly owned by the people whom it serves and they own 90% of its shares and remaining 10% are owned by the government.<sup>88</sup>

#### **4.2.2.2 Objectives**

The Main objective or inspiration of the Grameen Bank is to examine the possibilities of designing a comprehensive banking framework to provide the banking services to the rural poor. Professor Muhammad Yunus, the founder of Grameen Bank and its Managing Director reasoned that if financial resources can be made available to the poor people at terms and conditions which are appropriate and reasonable, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder". Grameen Bank sees credit as an empowering agent, an enabling element in the development of socio-economic conditions of the poor who have been kept outside the banking orbit on the simple ground that they are poor and hence not bankable. Based on this vision some the main objective and programs include:<sup>89</sup>

- Extend banking facilities to poor men and women
- Eliminate the exploitation of the poor by money lenders
- Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh.
- Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format, which they can understand and manage by themselves.
- Reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

---

<sup>88</sup> Grameen Bank official website ([www.grameen-info.org/](http://www.grameen-info.org/))

<sup>89</sup> UNESCO, Annual Report, 2006

#### ***4.2.2.3 Programs and Organizational Structure***

The Grameen Bank started to diversify in the late 1980s when it started attending to unutilized or underutilized fishing ponds, as well as irrigation pumps like deep tubewells. In 1989, these diversified interests started growing into separate organizations, as the fisheries project became Grameen Fisheries Foundation and the irrigation project became Grameen Krishi Foundation. These ventures were included in different areas as Trust and Fund, Communications, energy, telecom, education, software etc.<sup>90</sup>

Besides these some of the programs taken up by grameen bank are:<sup>91</sup>

- Basic loans
- Housing for the poor
- Scholarship programs for education of poor children
- Struggling (Beggars) Members Program, to reach out to the beggars

#### ***4.2.2.4 Grameen Bank in World***

Grameen Bank, in its long journey since its birth, has traversed a long path, inspiring numerous societies and countries, and benefiting millions around the world. One of the most underline achievements of Grameen bank is the Grameen Foundation. This was founded in 1997 as a vehicle to replicate the model of Grameen Bank beyond the borders of Bangladesh and increase the access of poor people to microcredit by millions worldwide.

The success of the Grameen Bank and similar micro credit efforts in India and Latin America eventually captured the attention of President Clinton, who has made it a centerpiece of his strategy to lift people out of poverty. In February of 1997, 2900 people from 137 countries gathered in Washington for the first Micro-credit Summit and they launched a campaign with the remarkably ambitious goal of providing credit for self-employment and other financial services to 100 million of the world's poorest families by

---

<sup>90</sup> Yunus, Muhammad; Grameen Family (<http://203.112.193.71/grameen/gc/gfly.htm>)

<sup>91</sup> Ibid

2005. "We have these global summits, and the enthusiasm is always there at the end," says Sam Daley Harris, director of the Micro-credit Summit Campaign. "But then it's follow-up time"<sup>92&93</sup>.

#### 4.2.2.5 Microfinance Programs of Grameen bank, at a Glance

Numbers of Members	5,579,399
Percent of Women Members	96%
Number of Canters	99,502
Number of Villages covered	59,912
Number of Branches	1,735
Number of Areas	166
Number of Zones	21
Cumulative amount Disbursed since Inception	256,497.40 (Million Taka)
Cumulative Disbursed during 2005	39,183.49 (Million Taka)
Amount of Loan outstanding	27,970.31 (Million Taka)
Members	20,138.37 (Million Taka)
Non-Members	11,521.19 (Million Taka)
Portfolio Growth Rate	39.66%

**Table 2: Grameen Bank, at a glance (Source: Grameen Bank annual report 2005)**

<sup>92</sup> Yunus, Muhammad (1999), "Banker to the Poor: Micro-lending and the Battle against World Poverty", New York: Public Affairs

<sup>93</sup> Goldberg, Nathanael (December 2005), "[Measuring the Impact of Microfinance: Taking Stock of What We Know](#)" Grammen Foundation USA Pulications Series

## 4.2.3 ASSOCIATION FOR SOCIAL ADVANCEMENT (ASA)

### 4.2.3.1 *Overview and history*

ASA in Bengali means 'HOPE'. ASA is a [non-governmental organization](#) based in [Bangladesh](#), which provides [micro-credit](#) financing. It was established in 1978 by Shafiqul Haque Choudhury who is also the current chairman. Its functioning is based on the institutional support system. Innovations and simplifications of staff training, monitoring and bookkeeping are the three areas responsible for ASA's ability to effectively manage established units and pursue bold growth initiatives simultaneously. This makes the operations smooth and efficient. This makes it simple and easy to operate both for the organization and for the clients, without the unnecessary delays of bureaucracy and red-tape. Its mission is to "reduce poverty and improve the quality of life of the poor through the provision of qualitative and responsive micro finance services in an innovative and sustainable way".<sup>94</sup>

ASA offers a successful alternative microfinance model to that of the [Grameen bank](#). ASA combines low cost operations and high growth to fuel its success. ASA continues to perfect the role of financial intermediation by developing a variety of savings products that are quite successful at generating the necessary funds from local sources. The experiences of ASA's managerial dynamism and replication of its simple model have much to offer the diverse microfinance sector as it accommodates demand for quality financial services by the poor masses. ASA is confident that a financially viable microfinance sector that provides competitive financial services to its customers will be able to expand outreach at a pace similar to its own.

### 4.2.3.2 *Objective*

ASA envisions a microfinance sector that shares experiences and expertise at the global level to take full advantage of its diversity. Upcoming microfinance institutions are sure to add their own charisma and innovations, from which ASA will in turn benefit. At the

---

<sup>94</sup> ASA official website ([www.asabd.org/](http://www.asabd.org/))

local level, ASA sees competition among successful microfinance institutions and cooperation with other financial institutions as the catalyst for improved efficiency and outreach. Only a fully developed financial sector competing for customers at all levels of society will ensure that the poor have access to quality financial services. Therefore, ASA is not satisfied with its own brisk expansion alone, but is dedicated to contributing through various means to a financially viable microfinance sector that can afford to put the customers where they belong.

#### ***4.2.3.3 Programs and Organizational Structure***

ASA at present is the most cost-effective microfinance institution in the world. It follows its own internationally acknowledged self-sustainable microfinance model. ASA has been involved in various aspects and programs of development. Some of the main programs, initiated by ASA that have gained high success and popularity are:<sup>95</sup>

1. Small loan program for women and men, designed to help the landless women
2. Small business loan program, designed for the individuals who are willing to start or continue business but don't have capital
3. Small entrepreneur lending program, structured with the view to help the small entrepreneurs and creating an employment opportunity for the jobless poor
4. Education loan program
5. Flexible loan program
6. Business development service
7. Rehabilitation loan program for natural disaster victims

ASA adopts the close relation approach between the field staff and upper management. This ensures the smooth operation by avoiding the unnecessary hurdles and steps and at any step or level things does not stuck due to the swamp of paper work. The Branch Manager (BM) is actively involved with groups, visiting regularly to check passbooks of individual group members and the books in the Branch Office. The District Officer (DO)

---

<sup>95</sup> ASA Annual report 2005

visits two or three branches daily to make sure the accounts are up-to-date and accurate. To make the operations smoother and easily accessible by the people, the system is highly decentralized. In this direction, recently, District Managers (DMs) are moved from the Central Office to occupy a desk near the center of a district. DM also handles all staff promotions and transfers thus easing the burden on the Central Office considerably, besides planning the expansion of ASA and revolving credit funds between branches. Nearly all authority and responsibility of general managers in the central office has been shifted to the DMs, now operating in the field, so that the people or clients can contact and get the things operational at the field itself and plans start taking shape almost instantly.

#### ***4.2.3.4 ASA and its Global Impact***

Since its beginning in 1978, it has made its presence field in the global arena. It not only provides the help to the people in Bangladesh, which was its earlier aim, it now provides technical assistance and consultancy services to other small and emerging MFIs, at home and abroad, with a view to making them self-dependent. It was elected by International Technical Service Provider (ITSP) to provide consultancy to many MFIs in Philippines and Nigeria.

Social Fund for Development (SFD) is an NGO of Yemen, which has been working in collaboration with ASA since 2002. Besides this ASA has been working in close contact with numerous MFIs in various parts of developing world, providing them with technical assistance and helping them in their operations and making them self sufficient.

#### 4.2.3.5 Microfinance Programs of ASA, at a Glance

Inception of micro finance programme	1978
Programme coverage	Evenly distributed over the country
Total No of Area/Branch Offices	2,291
Total No of village Organizations or groups	178,904
Total No of Members	5.99 millions
Percentage of Women Members	Not sex biased
Outstanding Borrowers	4.18 millions
Cumulative Loan Disbursement	33,082 million (Taka)
Total Members' Savings	3,036 million (Taka)
Average Loan Size	Taka 7,129
Avg. savings balance by members	Taka 748

*Table 3: ASA, at a glance (Source: ASA Annual Report 2005)*

#### 4.2.4 PROSHIKA

##### 4.2.4.1 Vision, Overview and History

Immediately after the '[WAR OF LIBERATION](#)' in 1971, a group of young men, who could realize the inadequacy of the conventional development practices, began to plan development activities with an alternative approach. With an objective to contribute to rebuilding the war-ravaged country, they formed *Proshika Manobik Unnayan Kendra* (Proshika Centre for Human Development). The development process of PROSHIKA, one of the largest NGOs of Bangladesh, started in a few villages of Dhaka and Comilla districts in 1975, although the organization formally took its first step in 1976. Proshika is an acronym of three Bangla words, *proshikkhan* (training), *shikkha* (education) and *kaj* (action).

PROSHIKA envisages a society, which is economically productive and equitable, socially just, environmentally sound, and genuinely democratic. The main mission of PROSHIKA is to conduct an extensive, intensive, and participatory process of

sustainable development through empowerment of the poor. Through empowerment, the poor are organized and made aware of the real causes of their impoverishment, a leadership is developed among them, their material resources are mobilized, income and employment is increased, and capacities are developed to cope with natural disasters. Empowerment makes the poor functionally literate, enables them to take better care of their health, to get involved in environmental protection and regeneration, get elected in local government bodies and community institutions, and provides the poor with better access to public and common property resources.<sup>96</sup>

#### ***4.2.4.2 Programs and Objectives***

The main objective or aim of PROSHIKA, like other MFIs, is mainly focused on the poor section of the society, which is still not within the reach of the benefits and privileges enjoyed by the general section of society. It tries to make the people self-sufficient, by training them in organizational skills and in skilled development, providing and encouraging them for education, promotion of self-reliance through employment and income generating activities. Besides this, the focus of PROSHIKA is also on integrated women's development, patronage to indigenous culture and its use in mobilization of the mass people in social movements, and assistance to other organizations. In short, the main objective of the PROSHIKA is to alleviate the poverty in a structured and organized manner with the focus on the improvement of women's status. This in turn makes the people aware of their democratic and human rights and thus making them more conscious and responsible towards the society and the environment.

#### ***4.2.4.3 Organizational Structure***

The top management structure of PROSHIKA includes a general body consisting of 30 members drawn from a cross-section of people. This general body appoints auditors, approves the annual report and budget, fixes audit fees and elects a 9-member governing body for the organization. The governing body is elected each year from amongst the members of the general body and it formulates policy and reviews progress. The

---

<sup>96</sup> PROSHIKA officially website, ([www.proshika.org/](http://www.proshika.org/))

president of the governing body is the chief executive and a senior vice-president, a vice-president, directors and deputy directors assist him.

#### **4.2.4.4 Microfinance Programs of PROSHIKA, at a Glance**

Numbers of Members	2.77 millions
Percent of Women Members	Approximately 60%
Number of Groups	148,039
Number of Villages covered	23559
Number of Slums	2102
Number of Households	2.13 millions
Number of primary Groups	148,039
Cumulative Disbursed during 2005	Taka 31,870 millions
Number of Education Centres Set Up So Far	53,616
Persons graduated with technical skills	1.11 millions

**Table 4: PROSHIKA, at a glance (Source: PROSHIKA Annual Report 2005)**

## **CHAPTER FIVE**

### **DATA ANALYSIS AND INTERPRETATION**

This chapter provides the empirical findings gleaned from the collected data. It provides demographic information of the respondents and the statistical analysis of the information collected from them. This is followed by the interpretation and discussion about our findings.

#### **5.1 DEMOGRAPHIC INFORMATION OF THE RESPONDENTS**

Table 5 provides the information about the gender distribution of the respondents. It shows that 83.5% of the respondents were female and whereas 16.5% were male. The lion shares of the respondents were women that testify to the fact that most of the beneficiaries of microfinance are female because we have selected people randomly without any bias towards the gender.

There are good reasons to target women by MFIs, because gender discrimination is one of the major causes of poverty, slower economic growth, weaker governance and lower standards of living and women are poorer and more disadvantaged than men. However, women contribute decisively to the well being of their family comparatively more than men.<sup>97</sup>

In terms of age, 65.1% of the respondents were in the age group of 25 to 40 years. 24.8% were less than 25 years of age and remaining 10.1% were 40 years and above .We also classified the respondents in terms of their educational experience. It could affect the way in which they manage and live their daily lives and manage the household and business. From this survey, we realized that many of our respondents had at least basic primary education, which represents 46.8% of our sample, however 21.1% had secondary educational experiences and only 11% had more than 10 years of educational experiences. Rest of the 21.1% had no educational background.

---

<sup>97</sup> Cited in Cheston, S.; Kuhn, L. (2002), “*Empowering Women through Microfinance*”, Draft Publication Sponsored by UNIFEM

<b>Variables</b>	<b>Measuring Group</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender</b>	Male	18	16.5
	Female	91	83.5
	<b>Total</b>	<b>109</b>	<b>100</b>
<b>Age (years)</b>	<25	27	24.8
	25 - 40	71	65.1
	>40	11	10.1
	<b>Total</b>	<b>109</b>	<b>100</b>
<b>Educational Level (in years)</b>	Not at all	23	21
	1 - 5	51	46.8
	6 - 10	23	21.1
	>10	12	11
	<b>Total</b>	<b>109</b>	<b>100</b>
<b>No. of Family Members</b>	<2	43	39.4
	4 - 5	58	53.2
	>5	8	7.3
	<b>Total</b>	<b>109</b>	<b>100</b>
<b>Business Experience Before Joining MFI</b>	Yes	20	18.3
	No	89	81.7
	<b>Total</b>	<b>109</b>	<b>100</b>

*Table 5: Demographic information of the respondents*

Our analysis shows that 39.4% of respondents had less than two members in their family, which indicates that respondents were either unmarried, or had no children. 53.2% had 2 to 5 members and rest of the 7.3% had more than five members. We tried to find out how many family members each respondent have because a large family size usually has higher expenses than a smaller family. In microfinance field most of the business have sole proprietors. Family members contribute to this small-scale business as additional workers.

In table 5, the analysis reveals that 81.7% of respondents had no business experience before joining the MFIs and rest of 18.3% had previous business experiences. It indicates that MFIs are contributing a lot to start the new small-scale businesses as well as in the expansion of old businesses. Therefore, we can see that more than 50% of the respondents were part of the large families, and at the same time higher proportion of the people did not have any business experience before joining MFI. So indirectly, MFIs were able to reach and benefit more people than those formally linked to them, as when they provide the business opportunity to a large family, other members are also benefited naturally.

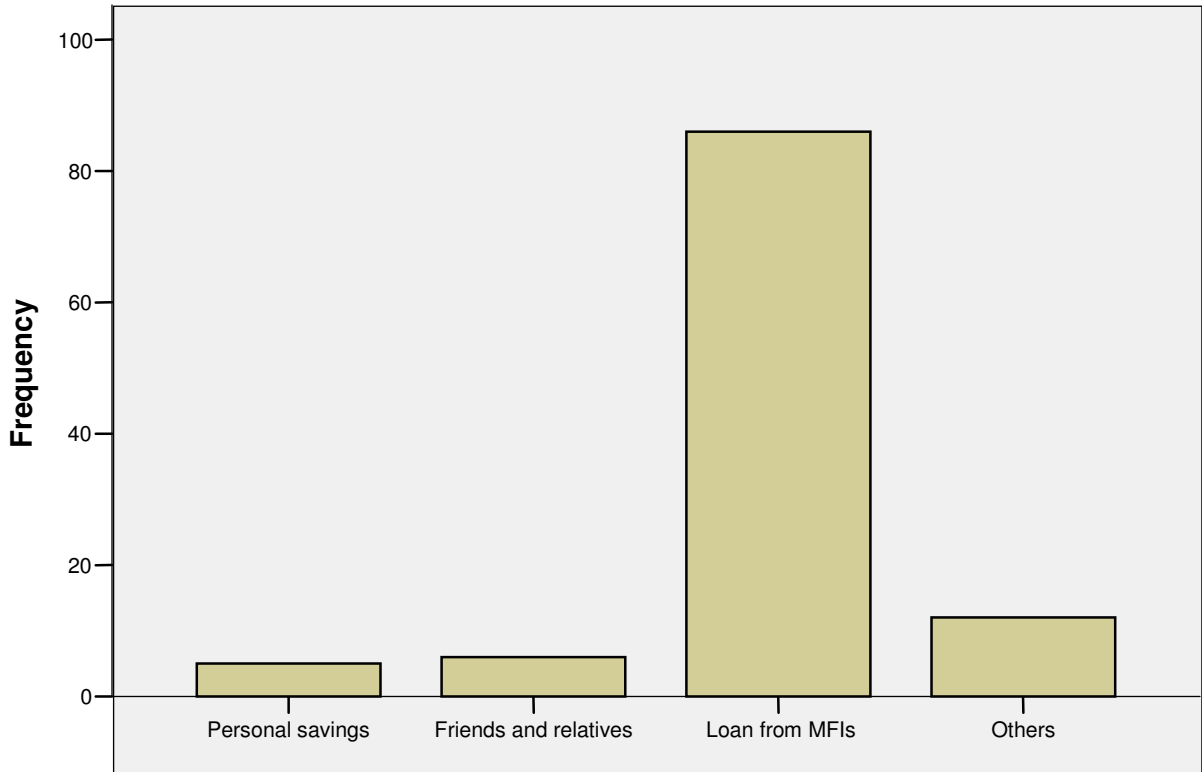
## **5.2 SOURCE OF START UP CAPITAL OF THE RESPONDENTS**

Table 6 and figure 2, shows the source of start up capital of the respondents. 78.9% of total respondents have taken their loan from MFIs. Rest of them have either borrowed money from friends and relatives or have started business from their personal savings. It implies that MFIs is the major source of initial capital and is playing a significant role in helping poor people to start their own business. It is also visible clearly in figure 2.

<b>Variables</b>	<b>Measuring Group</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Source of Start up capital</b>	Personal Savings	5	4.6
	Friends or Relatives	6	5.5
	Loan from MFIs	86	78.9
	Other Sources	12	11
	<b>Total</b>	<b>109</b>	<b>100</b>

*Table 6: Information regarding source of start-up capital*

### Source of initial capital



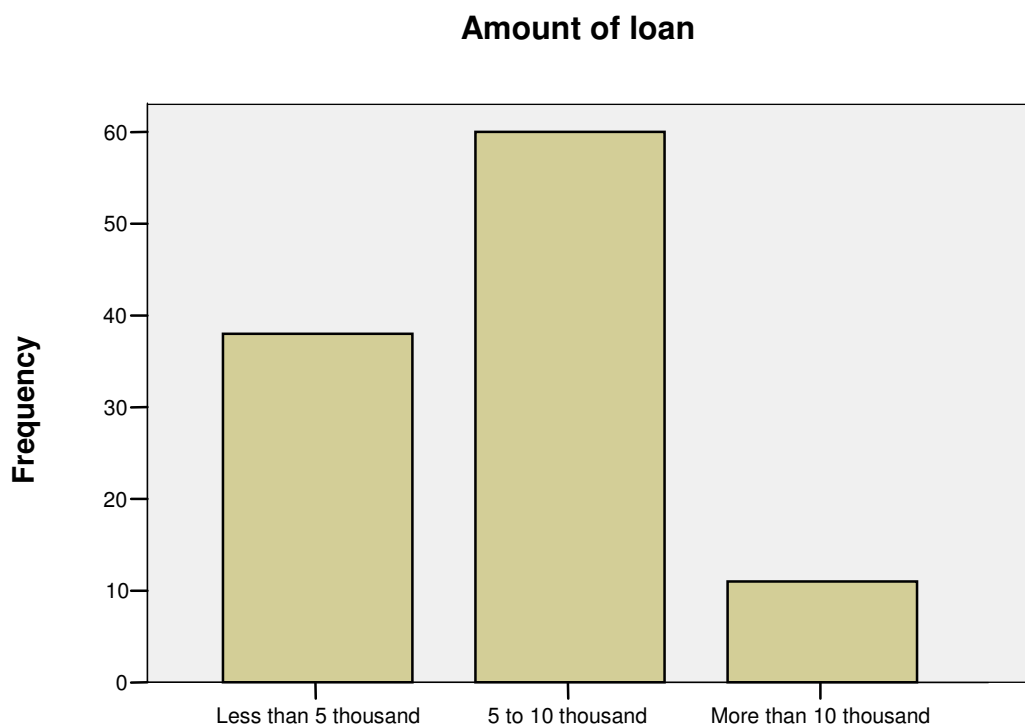
**Figure 2:** Source of start-up capital

### 5.3 AMOUNT OF LOAN TAKEN FROM MFIs

In the table 7 and figure 3, we analyzed the loans granted to individuals on three different scales, less than 5 thousand Taka, 5 to 10 thousand Taka and more than 10 thousand Taka. Majority of granted loans, around 90% are within 10000 Taka, which implies that MFIs, basically emphasize on micro-credit. Few of respondents also got loan above 10,000 Taka, which goes into another criteria of loan offered by MFIs. Indirectly, the result shows the lack of sufficient capital to start up a medium-scale business due to less amount loan offered by MFIs.

Characteristics	Measuring Group	Frequency	Percentage (%)
<b>Amount of Loan Received from MFIs (in thousand Taka)</b>	<5	38	34.9
	5 – 10	60	55
	>10	11	10.1
	<b>Total</b>	<b>109</b>	<b>100</b>

*Table 7: Amount of loan granted by MFIs*



*Figure 3: Amount of loan taken from MFIs*

#### 5.4 ONE SAMPLE STATISTICS AND T-TEST OF DIFFERENT VARIABLES

The following table (8) displays the mean, standard deviation and standard error mean for four variables, procedure of loan taking, operational assistance, employment opportunity and reasonability of interest rate of micro credit. All the variables show the satisfaction level to be more than average level of satisfaction (2.5).

<b>Variables</b>	<b>N</b>	<b>Mean</b>	<b>Standard Deviation</b>	<b>Standard Error Mean</b>
<b>Reasonability of Interest Rate of Micro-Credit</b>	109	2.96	1.009	0.097
<b>Procedure of Loan Taking</b>	109	4.01	0.726	0.070
<b>Operational Assistance</b>	109	3.39	0.891	0.085
<b>Employment Opportunity</b>	109	2.86	0.938	0.090

*Table 8: General Descriptive Statistics*

To examine the statement, interest rate of micro-credit is reasonable or not, we developed hypotheses and agreed upon the level of significance for rejecting/accepting the hypothesis. Survey respondents indicated their perceptions using the scale, with 5 = strongly agree and 1 = strongly disagree. We took the null hypothesis to be, borrowers are less satisfied than the average level of satisfaction (2.5), in terms of the interest rate of micro credit. Therefore, the alternative hypothesis is the borrowers are satisfied more than the average satisfaction level. The analysis in the table 9 demonstrates that the null hypothesis is rejected and it is strongly significant. So our results are in favor of alternative hypotheses. This means that the satisfaction level of the respondents, about the interest rate of micro-credit, is more than average satisfaction level. From this study, we can conclude that the level of average satisfaction is quite high.

Characteristics	Test Value	t-statistics	Degrees of Freedom	Significance Level	Mean Difference	95% Confidence Interval	
						Lower	Upper
<b>Reasonability of Interest Rate of Micro-Credit</b>	2	9.972	0.000	0.000	0.963	0.77	1.15
<b>Procedure of Loan Taking</b>	3	14.504	108	0.000	1.009	0.87	1.15
<b>Operational Assistance</b>	3	4.513	108	0.000	0.385	0.22	0.55
<b>Employment Opportunity</b>	2	9.603	108	0.000	0.862	0.68	1.04

*Table 9: One-Sample t-Test*

To examine the statement ‘the procedure of obtaining loans from MFIs is easier or not than conventional banking’. We developed statistical test to check the comfort level of the people in obtaining the loans from MFIs in comparison to the traditional banking. We took null hypothesis considering the procedure of obtaining loans from MFIs, is not easier than conventional banking. The alternative hypothesis is the procedure of obtaining loans is easier than conventional banking. From the above table we can draw conclusion that our null hypotheses will be rejected because the mean level of obtaining loan procedure compared to conventional banking is above 4 and it is statistically strongly significant. So our decision will go in favor of alternative hypotheses Which indicates that people think loan taking procedure from MFIs is more easier than traditional banking.

However, the mean level of operational assistance from respondents according to degree of satisfaction with five-scale ranking is 3.39. We assumed that our null hypothesis is the mean response to operational assistance is 3. The t-test statistics for operational assistance is 4.513 and the significance level is 0.000. This means that the null hypothesis is rejected and the alternative hypotheses accepted with a high level of confidence. From a practical standpoint, the result of the univariate hypothesis test indicates that respondents felt operational assistance from MFIs was helpful to run the business.

Table 8, shows mean and standard deviation for the satisfaction level for employment opportunity, here we can see that the mean value is little above the mid point of scale of satisfaction. We took the null hypothesis to be equal to 2 (i.e. people on average are less than satisfied). The t-test statistics for the statement “employment opportunity has increased” is 9.603 and the significance level 0.000. This means that null hypotheses is rejected and the alternative hypotheses is accepted significantly. We can conclude our decision from the analysis that due to the microfinance activities people feel that the employment opportunity of borrower has increased but not so highly, which is also indicated in table 8.

### 5.5 RELATIONSHIP BETWEEN THE INCREASE OF INCOME AND THE INCREASE OF SAVINGS

		Increase of income	Increase of savings
Increase of income	Pearson Correlation	1	0.600(**)
	Sig. (1-tailed)		0.000
	N	109	109
Increase of savings	Pearson Correlation	0.600(**)	1
	Sig. (1-tailed)	0.000	
	N	109	109

\*\* Correlation is significant at the 0.01 level (1-tailed).

**Table 10:** Correlation test between the income and saving

Generally, People take the loan to change their economic condition by operating business or investing in other activities. After maintaining expenditure, they try their best to save because they think savings would be their future hope to improve their financial status as well as improve their living standard. Therefore, we tried to find out the relationship between increase of income and increase of saving using the Pearson correlation test. With SPSS, we computed a Pearson correlation test between two variables increase of income and increase of savings. In this regard, our null hypothesis is that no relationship exists between the level of income increase and the level of savings increase. In contrast, the alternative hypothesis is relationship exist between increase of income and increase of savings. The above table demonstrated that our null hypothesis is rejected and it is statistically significant and the relation between these two variables is strongly positive. We can conclude that people, who were able to increase their income by taking loan from MFIs, also were able to increase their savings.

## 5.6 REGRESSION ANALYSIS BETWEEN INCREASE OF INCOME AND ROLE IN DECISION MAKING PROCESS

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.342(a)	0.117	0.109	0.783

a) Predictors: (Constant), increase of income

b) Dependent Variable: Role in decision-making process

*Table 11: Regression Analysis between increase of income and role in decision-making process (model summary)*

### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.704	1	8.704	14.191	0.000(a)
	Residual	65.626	107	0.613		
	Total	74.330	108			

a) Predictors: (Constant), increase of income

b) Dependent Variable: Role in decision-making process

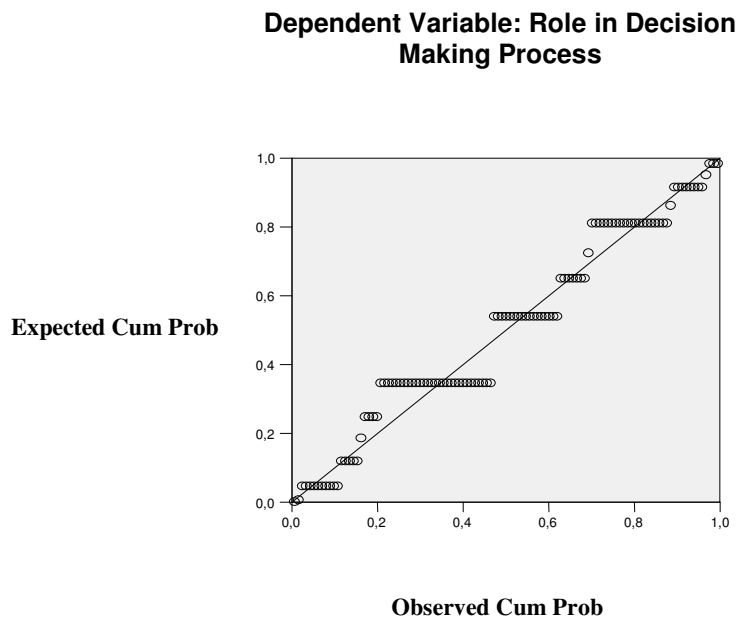
*Table 12: Regression Analysis between increase of income and role in decision-making process (ANOVA)*

### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Err.	Beta		
1	(Constant)	1.755	0.386		4.542	0.000
	Increase of income	1.388	0.103	0.342	3.767	0.000

a) Dependent Variable: Role in decision-making process

*Table 13: Regression Analysis between increase of income and role in decision-making process (coefficient values)*



**Normal P-P Plot of Regression Standardized Residual**

*Figure 4: Regression analysis between increasing income and role in decision-making process*

From the above regression analysis, we tried to find out the impact of increase of income on the role of decision-making process in a family. Here our null hypotheses is that there is no relationship between the increase of income and the role in decision making process in a family and the alternative hypothesis states that there is a relation between the increase of income and the increase of role in decision making process. We used the SPSS software to obtain the calculations. The results of bivariate regression analysis are shown in the above table 13. The table labeled Model summary shows that R square for the regression model is 0.117. R square shows the amount of variation in one variable that is accounted for by another variable. In this case respondents perceptions of income increase account for 11.7 percent of the total variation in the increase role in decision-making process in the family. The ANNOVA table shows the F ratio for the regression models. This statistics assesses the statistical significance of the overall regression models. Larger the F ratio, the more variance in the dependent variable is explained by

the independent variable. The F ratio 14.191 indicates the model is highly significant at the 0.000 level.

From the regression coefficient table, the column labeled “Unstandardized Coefficients” reveals the unstandardized regression coefficient for increase of income, as 0.388. The t-test tells us whether the regression coefficient is different enough from zero to be statistically significant at the level (0.000).

According to above analysis, our null hypothesis is rejected, which indicates that the relationship exists between these two variables that can be seen in the above observed cumulative probability curve, (fig.4).

### 5.7 MULTIPLE REGRESSION ANALYSIS BETWEEN DIFFERENT VARIABLES RELATED TO STANDARDS OF LIVING

	N	Mean
Improvement in living standard	109	4.22
Better access to education	109	4.27
Better access to healthcare	109	4.31
Better financial situation	109	3.08
Valid N (listwise)	109	

*Table 14: Descriptive Statistics of different variables related to living standards*

In table 14, the descriptive statistics shows the means of the variables in the regression analysis. It can be noticed that the means for Independent variables excess, to education (4.27), excess to health care (4.31) and better financial situation (3.08), all are above the mid-point of the 5-points satisfaction scale and therefore it shows the positive perceptions of the people about these attributes.

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.655(a)	0.429	0.413	0.565

Predictors: (Constant), better financial situation, better access to healthcare, better access to education

*Table 15: Regression analysis between improvement of living standards and different variables (model summary)*

Information in the Model summary table indicates that the value of R-square for the model is 0.429. This means that 42.9 percent of the variation in the improvement of living standards of family (dependent variable) can be explained from the three independent variables. In general, R square always increases as independent variables are added to a multiple regression model. To avoid overestimating the impact of adding an independent variable to the model, some analysts prefer to use the adjusted R-square value (it recalculates the R-square value based on the number of predictor variables in the model). This makes it easy to compare the explanatory power of regression models with different numbers of independent variables. The adjusted R-square for the model is 0.413, which indicates only a slight overestimate with the model.

### ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	25.183	3	8.394	26.285	0.000(a)
	Residual	33.532	105	0.319		
	Total	58.716	108			

a) Predictors: (Constant), better financial situation, better access to healthcare, better access to education; and b) Dependent Variable: Improvement in living standard

*Table 16: Regression analysis between improvement of living standards and different variables (ANOVA)*

The overall regression results are shown in the ANOVA table (15). The regression model is statistically significant (F ratio=26.285, probability level 0.000). The probability level 0.000 means that the chances are almost zero that the results of regression model are due to random events instead of a true relationship.

**Coefficients**

Model	Unstandardized Coefficients		Standard coefficients		
	B	Std. error	Beta	t	Sig.
1 (Constant)	1.299	0.364		3.564	0.001
Better access to education	0.262	0.103	0.240	2.553	0.012
Better access to healthcare	0.192	0.082	0.218	2.354	0.020
Better financial situation	0.316	0.069	0.369	4.546	0.000

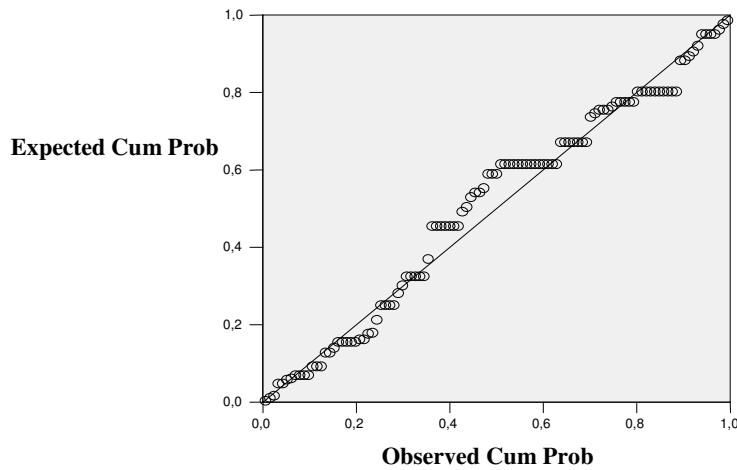
a) Dependent Variable: Improvement in living standard

*Table 17: Regression analysis between improvement of living standards and different variables (coefficients)*

In the above table, we consider improvement in the living standard of family as dependent variable and better access to education, better access to healthcare, better financial situation of the family as independent variables. Here is our null hypothesis state that there is no relationship between improvement in the living standard of family and better access to education, better access to healthcare and better financial situation of the family. Where are the alternative hypothesis states that better access to education,

better access to healthcare and better financial situation in the family are related to the improvement in the living standard of the family.

**Dependent Variable: Improvement in living standard**



**Normal P-P Plot of Regression Standardized Residual**

*Figure 5: Multiple Regressions between different variables related to living standards*

Information provided in the Coefficients table tells us, which of the independent variables are significant predictors of improvement in the living standard of family. In the significance column, we have noticed that beta coefficients for access to education, access to health care and better financial situation in the family are all significant. Using the beta coefficient for better financial situation in family, for example, we can conclude that every time the financial situation in the family increase by 1 unit, improvement in the living standard of family will increase on average by 0.369 units, when the other variables are held constant. Information in the coefficients tables reveals that better financial situation in the family is the most significant predictor of improvement in the living standard of family, with a high beta coefficient 0.369 (probability of 0.000).

## **CHAPTER SIX**

### **PREVIOUS STUDY, CONCLUSIONS AND SCOPE FOR FURTHER STUDIES**

#### **6.1 PREVIOUS STUDY/EMPIRICAL EVIDENCE**

Since the beginning of its activities in early 70's, initiated by one person to help a couple of bamboo weavers, MFIs have covered a long distance of success by reaching millions of households and needy people not only in their country of origin, but also around the developing and underdeveloped world with thousands of branches serving worldwide. This exponential and spectacular growth by the microfinance industry is just not because of any market force but it has the dedication, service and hard work of many people and organizations. Through their commitment and will for the noble cause to help the needy people, they brought the forces together and gave the momentum to this cause, so that everyone can live a life worth living as a human being and get the opportunity to have something in life which they have not even thought of. Today the success of the activities of MFIs needs no reference or introduction, as the lives of millions of unprivileged people around the world explains and speaks for itself. Therefore, for the sake of our study results, some previous studies have been referred to, as empirical piece of evidence.

Zeller and Meyer have concluded their study that savings and credit facilities help individuals or households build up or acquire funds for all kinds of investments<sup>98</sup>. When using the data from 87 villages in Bangladesh in 1991-92, Pitt and Khandker (1996, 1998) estimated the margin of credit on a number of welfare indicators. Their study showed that household income increases by 18 taka for every 100 taka lent to woman. They also found net positive impacts of credit programs on both human and their physical assets. They have found mixed results when measuring the impact of credit programs on education. The education of boys increased irrespective of whether the borrower was

---

<sup>98</sup> Zeller, M.; Meyer, Richard L. (2002), *"The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact"* p. 223

male or female; but the education of girls have increased only when women borrow from the Grameen Bank.<sup>99</sup>

Mosely and Hulme (1998) estimated the impact of 13 microfinance intermediaries in seven developing countries and the study was one of earlier done across the international boundaries. Their study revealed that for each of the intermediaries, the impact of lending on the recipient household's income increases with the debtor's income and asset position improved.<sup>100</sup>

Several studies have been undertaken to measure the effect of participation in credit programs on food security and nutrition specifically. Zeller and Sharma (1998) reported that, in many countries, the poor spend as much as 91 percent of their income on food. Furthermore, most loans, especially in the informal sector, are used for financing consumption-related expenditure.<sup>101</sup>

By targeting the women in the gender-biased society, MFIs directly and indirectly had more impact and bit higher implications. The first implication is that by providing credit to women gives them additional power in household decision-making. Without this empowerment, women would not have got the saying in the matter regarding the expenditure of the capital. The second implication is that women's preferences are not the same as men's. So it is very natural that women's share of benefit would always be lower.

Impact of Gender-biased has been studied by numerous other people. Hashemi, Schuler, and Riley (1996), reported in their work that the Grameen Bank and BRAC in Bangladesh had a positive effect on numerous other aspects of life of women besides their economic and social empowerment. Osmani (1998) also observed improvement in the bargaining power of women in the family because of their access to credit.<sup>102</sup>

---

<sup>99</sup> Zeller, M.; Meyer, Richard L. (2002), "*The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact*" pp. 226-227

<sup>100</sup> Ibid, p. 227

<sup>101</sup> Ibid, P. 228

<sup>102</sup> Ibid, p. 229

Gender effects may depend on the prevailing socioeconomic and cultural environment. All the studies discussed above refer to the particular socioeconomic context of Bangladesh. Results may be differing in other cultural and socioeconomic context.<sup>103</sup>

## 6.2 DISCUSSION AND CONCLUSIONS

In this chapter, key findings of our work and study have been discussed. The goal of this research was to study the impact of microfinance on reduction of poverty through improvement of living standards and increasing empowerment of poor and marginalized quarter of the society.

The analysis of data using the survey we had done, demonstrates that almost 84% clients of MFIs are women and most of them just had primary education. Most of the women started their business by taking loan from MFIs as compared to other sources. They were able to increase their income and provided not only with the financial help to their families but also had positive impact on other factors of daily life. These poor women brought about a positive change to their financial and social situation and started taking active part in the decision making process of the family and society. The results obtained from our analysis regarding the success of increasing role in decision making process in the family, reveals that microfinance schemes are highly associated to build up of social and economic empowerment.

In addition, the analysis of the data obtained in this study indicates that the procedure of obtaining loans from MFIs is easier than conventional banking. Based on our first hand experience of society back home and from our observation it can be no requirement of collateral to take the loan from MFIs have made it possible for everyone to join the formal monetary process. It is one of the most propitious reasons to take loan from MFIs unlike the conventional banking where collateral was the first and foremost requirement.

Furthermore, results of this research portray that a significant portion of the respondents deem the interest rate of micro-credit is reasonable despite the fact that the interest rate

---

<sup>103</sup> Zeller, M.; Meyer, Richard L. (2002), *“The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact”*, p. 230

of micro-credit is higher than commercial banking which we discussed in our chapter about the theoretical framework and this idea was supported by the information we gathered, back home. Yet microfinance is becoming popular day by day among the poor people. There are few reasons, which we can present here based on the experience we gather while conducting this study. Firstly, all poor people can get loan from MFIs without any collateral. Secondly, the loan taking procedure is less complex than that of commercial banks. Thirdly, according to our findings most of the respondents were not aware of the interest rate of traditional banking system owing to not having easy access to information. What's more! They cannot compare the interest rates between the MFIs and conventional banks because of lack of education. Another underlying reason is that the services of conventional banking are not available in the villages.

As was explained in the analysis section, correlation analysis states that income and savings are positively correlated which implies that if income increases, the client's ability for savings also increases. If the savings increase, then there will be a positive impact on financial situation of the family. Henceforth, increase in income as well as savings is mostly associated with the establishment of economic empowerment because income, savings and employment opportunities are interrelated. The linear relationship among these economic components was also found in our study.

The study also established the conception about operational assistance of MFIs that affect positively to run the business successfully. This is also one of the reasons of micro-credit scheme being popular. It is an effective mechanism, which assists both lenders and borrowers. The borrowers get the guidelines from the MFI's workers to develop or to run the small business, which can hardly be expected from conventional banks. This is another reason of poor people to become MFIs oriented.

Another impact of MFIs that was found to be important is the creation of employment opportunity. From the study, it can be interpreted that MFIs affect the creation of employment. It was found from our observation that most of the family members of borrowers contributed to run the business directly or indirectly, unrelated to the matter that which member was sanctioned the loan.

To sum up, it can be noticed from our overall analysis that there is significant impact of microfinance activities on improvement of the living standard of the family not only in economic term but also in social term. Amazingly, the relation between different factors of society and family became evident and clear, which were being neglected and not thought about during the period of existence of only conventional banking system. From our study and research, we have come to the conclusions that there is a noticeable and positive impact of microfinance activities on the living standards, empowerment and poverty alleviation among the poor people in the society.

If one can help, a poor person to stand on his own that cannot only bring about a revolution in their lives but also in the society. The dream of a healthy and educated society with no discrimination and biased can be achieved through this simple thought, the dream which seems to be coming true and becoming practical. The simple vision of one man, Muhammad Yunus has taken the shape of the revolution and has shown the ray of hope in the path of life to every human, irrespective of his background or status or position. The hope of a life that no one will sleep hungry, no one will die due to lack of medication, our children can read and write on their own and everyone will be the pillar of the society.

### **6.3 SCOPE FOR FURTHER RESEARCH**

The current study was based on small sample size taken from only few villages of Chittagong district of Bangladesh. Therefore, the results cannot be generalized to other district of Bangladesh especially in the analytical terms. Further research done on a bigger scale with large sample size could shed light on how microfinance activities affect the average living standard of poor people of Bangladesh, analytically.

The current study did not consider the reasons of motivation to join the microfinance program. Another area that has not been investigated is the difficulties that the borrowers face to repay the loan. These areas deserve to be studied by future researchers in the field.

There is also another field, which is neglected in our study that the supply gap of MFIs. Actually, to what extent the MFIs are capable to deliver their service to the poor people. Further research could be conducted in this area and for finding the reasons for the gap between demand and supply in terms of microfinance services.

## **CHAPTER SEVEN**

### **CREDIBILITY CRITERIA**

The credibility of research findings is a very important element of a research. For this reason, it is important to do a good research design from the beginning<sup>104</sup>. Credibility criteria include validity, reliability, generalization and transferability, which are discussing below.

#### **7.1 VALIDITY**

*Validity is concern with whether the findings are really about what they appear to be about*<sup>105</sup>. Thus, validity is highly linked with the credibility of a research<sup>106</sup>. It also refers to how well the result of a research can give the right answer to the research question<sup>107</sup>. In our study, we collected information from the previous studies and different literatures, which cover all the areas of our study. The theoretical framework is the reflection of these previous studies and we have made our questionnaire based on the theoretical framework in order to get the right result for our research question.

We think the choice of statistical analysis, which was used to analyze the data, was the most appropriate one. To understand the impact of microfinance, the concrete figure will fail to reveal the actual scenario of the work. So, we made our questionnaire with 'Likert Scale' and as well as some multiple-choice and dichotomous questions. We think Likert Scale, which is based on the satisfaction level of the different variables related to living standards, will give the better result than other measurement. The testing of hypotheses, co-relations and regression analysis are the appropriate choice for the variables that we have used, since the result from analysis supports the answer for research question and supports research objective as well.

---

<sup>104</sup> Saunders et al. (2007), "*Research Methods for Business Students*", p. 150

<sup>105</sup> Ibid, p. 150

<sup>106</sup> Silverman, D. (1997), "*Qualitative Research: Theory, Method and Practice*", SAGE Publications Limited, London, UK, pp. 207-208

<sup>107</sup> Remenyi et al. (1998), "*Doing Research in Business and Management: An Introduction to Process and Method*"

## 7.2 RELIABILITY

Reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent findings. It can be assessed by posing the following three questions<sup>108</sup>:

1. Will the measures yield the same result on the other occasions?
2. Will similar observations be reached by other observations?
3. In there a transparency in how raw data have been used to draw conclusions?

We believe that the result of this study is reliable and carefully determines the criterion for the sample. We have already mentioned that we have selected the sample randomly with the help of local branches of MFIs and the local people of the specific area. We interviewed the people who are already involved in microfinance activities. We pointed out all the questions very carefully and wrote the response of the respondents from their verbal expressions. One may think that this process can affect the reliability of the data collection. The reason, we have applied this method because most of the people, who are involved in microfinance program, are not literate and they were unable to write down. We have used our local languages and repeated the questions in order to get the correct answer and avoid any kind of confusions. We believe that, the data we collected is authentic and based on this data we got the results, which reflects most of the previous studies. Moreover, the way we have analyzed and interpreted the data, based on theoretical framework and always tried to relate it back to reliable literature as well.

---

<sup>108</sup> Easterby et al. (2002, p. 53); cited by Sanders et al. (2007), p. 149

### 7.3 GENERALIZATION AND TRANSFERABILITY

Transferability refers to the generalization of practical and possible applicability of a study in a different context from the one already investigated. It is vital to point out different specifications related to the observable fact taken into consideration for the research, in order to be able to define under which context the study can be generalized<sup>109</sup>. In general, one can do the research about microfinance in different contexts, like as from the client context or from the MFIs context or from both contexts. This research is mainly focused on the clients' perspective of microfinance and its influence on their living standards, based on the fact that we have only interviewed the clients of microfinance.

The best option for generalization would have been to interview everyone in the population, but it is not possible and feasible to study whole of the population. Therefore, we have chosen the random sampling technique, from one district (Chittagong), for our study, keeping in mind the availability of limited resources and time constraint. Moreover, we have only targeted the poor people in Bangladesh, not the medium and upper class people, already connected to MFIs. If somebody do the same research on the poor class in other country, may be the result of the research will be different. Different cultures, social system can show different results. If the purpose of the study needs to compare the result between different countries, this will make the results more generalized over national borders, giving different viewpoint.

---

<sup>109</sup> Remenyi et al. (1998), "*Doing Research in Business and Management: An Introduction to Process and Method*"

# List of References

## Books

Bryman, A.; Bell, E. (2003), "*Business Research Methods*", Oxford University Press, Oxford, UK

Cooper, Donald R.; Schindler, Pamela S. (2003), "*Business Research Method*", 8<sup>th</sup> Edition, McGraw-Hill Higher Education, Boston, USA

Easterby-Smith, M.; Thorpe, R.; Lowe, A. (2002), "*Management Research – An Introduction*", 2<sup>nd</sup> Edition, Sage Publication Ltd., UK

Ghuri P.; Gronhaug, K. (2002), "*Research Methods in Business Studies – A Practical Guide*", Pearson Education Limited, UK

Graziano, Anthony M.; Raulin, Michael L. (2004), "*Research Methods: A Process of Inquiry*", 5<sup>th</sup> Edition, Pearson Publication, USA

Hantrais, L.; Mangen, S. (1996), "*Cross-National Research Methods in the Social Sciences*", A Cassell Imprint Wellington House, London, UK

Harper, M. (2003), "*Microfinance – Evolution, Achievements and Challenges*", ITDG Publishing, UK

Kirkpatrick, Colin H.; Clarke, R.; Charles, P. (2002), "*Handbook on Development Policy and Management*" Edward Elgar Publishing

Lundahl, Ulf; Skärvad; Per-Hugo (1999), "*Utredningsmetodik för samhällsvetare och ekonomer*", Studentlitteratur, Lund, Sweden

Maj-Britt; Johansson; Lindfors (1993), "*Att Utveckla kunskap – Om metodologiska och andra vägval vid samhällsvetenskaplig kunskapsbildning*", studentlitteratur, Lund, Sweden

Remenyi, D.; Williams, B.; Money, A.; Swartz, E. (1998), "*Doing Research in Business and Management: An Introduction to Process and Method*", SAGE Publications Limited, London, UK

Saunders M.; Lewis, P.; Tronhill, A. (2007), "*Research Methods for Business Students*", Fourth Edition, Pearson Education Ltd., p. 32

Silverman, D. (1997), "*Qualitative Research: Theory, Method and Practice*", SAGE Publications Limited, London, UK

Yunus, Muhammad (1999), *“Banker to the Poor: Micro-lending and the Battle Against World Poverty”*, New York: Public Affairs

Zeller, M.; Meyer, Richard L. (2002), *“The Triangle of Microfinance – Financial Sustainability, Outreach, and Impact”*, Published for the International Food Policy Research Institute, The Johns Hopkins University Press, Baltimore and London

### **Research Papers, Articles and Journals**

Agion, Beatriz A. de; Morduch, J. (2003), *“Microfinance, Where do we Stand?”*, the British Association for the Advancement of Science Meetings, University of Salford, UK

Aryeetey, E. (Summer 2005), *“Informal Finance for Private Sector Development in Sub-Saharan Africa”*, Journal of Microfinance, Vol. 7, No. 1

Barr, Michael S. (2005), *“Microfinance and Financial Development”*, The John M. Olin Centre for Law & Economics Working Paper Series, University of Michigan Law School

Cheston, S.; Kuhn, L. (2002), *“Empowering Women through Microfinance”*, Draft Publication Sponsored by UNIFEM

Elser, L.; Hannig, A.; Wisniwski, S. (1999), *“Comparative Analysis of Savings Mobilization Strategies”*, Consultative Group to Assist the Poorest (CGAP), Working Group on Savings Mobilization

Fallavier, P. (1998), *“Developing Micro-Finance institutions in Vietnam”*, Thesis (Msc.), University of British Columbia, Vancouver, Canada

Fiebig, M.; Hannig, A.; Wisniwski, S. (1999), *“Savings in the Context of Microfinance – State of Knowledge”*, Working Group on Savings Mobilization, Consultative Group to Assist the Poorest (CGAP), Eschborn, p. 1

Fotabong, Leonard A.; Kedju, Akanga F. (2005), *“The Impact of Microfinance Institutions on Poverty Reduction in the South-East Province of Cameroon”*, Masters Thesis, Umeå Business School (USB), Sweden

Ghalib, Asad K. (2007), *“Measuring the Impact of Microfinance Intervention: A Conceptual Framework of Social Impact Assessment”*, The Singapore Economic Review Conference

Goldberg, Nathanael (December 2005), *“[Measuring the Impact of Microfinance: Taking Stock of What We Know](#)”*, Grammen Foundation USA Publications Series

Hubka, A.; Zaidi, R. (2005), “*Impact of Government Regulation on Microfinance*”, World Development Report: Improving the Investment Climate for Growth and Poverty Reduction

Khan, Penn F. (2005), “*Microfinance and Development*”, Masters Thesis, Umeå School and Business and Economics (USBE), Sweden

Mia, Md. B., “*ICT in Microfinance: A Bangladesh Perspective*”.

Mohindra, Katherine S.; Haddad S. (November 2005), “*Women’s Interlaced Freedoms: A Framework Linking Micro credit Participation and Health*” Journal of Human Development, Vol. 6, No. 3

Montgomery, R. (1996), “*Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressures in Micro-credit Schemes*”, Journal of International Development, 8(2)

Murray, U.; Boros, R. (2002), “*A Guide to Gender Sensitive Microfinance*”, the Socio-Economic and Gender Analysis (SEAGA) Programme, FAO

Roy, Mark A. (March 2003), “*Microfinance as a Tool for Development*”, BSUS 6900

Ryan, P., “*The Limitations of the ‘One Size Fits All’ Microfinance Lending Model: An Analysis of the Liquidity Problems of Microenterprises in Uganda*”, Bradford Centre for International Development – University of Bradford

Seibel, Hans D. (October 2005), “*Does history matter? The old and new World of Microfinance in Europe and Asia*”, Paper presented at: From Moneylenders to Microfinance: Southeast Asia's credit revolution in institutional, economic and cultural perspective, An interdisciplinary workshop, Asia Research Institute, Department of Economics and Department of Sociology, National University of Singapore.

### **Other Sources**

Annual Report (2005), ASA

Annual Report (2005), Bangladesh Rural Advancement Committee (BRAC)

Annual Report (2005), Grameen Bank

Annual Report (2005), PROSHIKA

Annual Report (2006), UNESCO

[Bangladesh Bureau of Statistics](#)

CIA World Fact Book

CIDA and Microfinance: A Poverty Reduction Approach, Policy Branch, October 2002

Ministry of Education, Government of the People's Republic of Bangladesh

The World Bank Economic Review, Vol. 19, No. 2

UNDP Figures, 2003

World Gazetteer, “[Bangladesh: largest cities and towns and statistics of their population](#)”

### **Web Sources**

ASA official website ([www.asabd.org](http://www.asabd.org))

BRAC official website ([www.brac.net](http://www.brac.net))

Grameen Bank official website ([www.grameen-info.org/](http://www.grameen-info.org/))

PROSHIKA official website ([www.proshika.org/](http://www.proshika.org/))

Ministry of Education, Bangladesh website ([www.moedu.gov.bd/](http://www.moedu.gov.bd/))

<http://203.112.193.71/grameen/gc/gfly.htm>

[www.grameen-info.org/](http://www.grameen-info.org/)

[www.planetfinance.org/](http://www.planetfinance.org/)

[www.cgap.org](http://www.cgap.org)

[www.gdrc.org/icm/model/grameen.html-2k](http://www.gdrc.org/icm/model/grameen.html-2k)

[www.cia.gov/library/publications/the-world-factbook/index.html](http://www.cia.gov/library/publications/the-world-factbook/index.html)

# Appendix

## Appendix-A

Field Questionnaire for the interview.

### QUESTIONNAIRE

We are studying Masters Program at Umeå School of Business (USB), Umeå University, Sweden. We have designed the following questionnaire for the study of the impact of Microfinance on the marginalized and unprivileged section of the society in Bangladesh and further scope of development, which required for our thesis work as an integral part of our study.

We would highly appreciate if you fill this **two-page** questionnaire. It will take approximately 10-15 minutes. We expect your kind cooperation in this respect.

---

#### **1. What is your gender?**

Male     Female

#### **2. What is your age?**

Less than 25 years     (25-40) years     40 and above

#### **3. Do you have any educational experience?**

Not at all     (1-5) Years     (6-10) Years     More than 10 Years

#### **4. How many family members do you have?**

Less than 2 members     (2-5) Members     More than 5 Members

#### **5. Did you have any business experience before entering this program?**

Yes     No

**6. What is the source of your initial capital?**

Personal Savings    Friends and relatives    Loan from MFIs    Others

**7. What amount of loan you have received as a help from any of the MFIs in Bangladesh (Amount in Bangladeshi Taka)?**

Less than 5 thousand    (5-10) thousand    More than 10 thousand

**8. The numbers of following table indicates the degree of satisfaction or agreement level (on a scale of 1-5\*) of the household or a person after he or she has received loan from a microfinance institution. Please circle the number, which accurately reflects your opinion.**

The rate of interest of micro credit is reasonable	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The procedure of obtaining loans from MFIs is easier than conventional banking	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The income has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
The savings has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better access to education	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better access to healthcare	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Better Financial situation of the family	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Role in decision making process has increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Operational assistance received from MFIs was helpful to run the business	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Employment opportunities have increased	Strongly disagree ←————→ Strongly agree 1            2            3            4            5
Improvement in the living standard of the family	Strongly disagree ←————→ Strongly agree 1            2            3            4            5

\* ‘1’ represents the lowest level of satisfaction or high disagreement, whereas ‘5’ represents the highest level of satisfaction or high agreement

**Thank you very much for your cooperation!**

