



## AN ASSESSMENT OF THE SUCCESS FACTORS OF MICRO FINANCE OF GRAMEEN BANK IN BANGLADESH

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### ABSTRACT

This paper analyses the factors that led to the success of micro finance, in particular, Grameen Bank (GB) in Bangladesh. The study covers different critical success factors such as the innovation, design and implementation of GB, the adaptation and learning practice of GB, the motivation and contribution of GB and some environmental factors that supported Micro finance success in GB especially in Bangladesh. The contribution of microfinance in Bangladesh economy is also identified in the study. The positivist viewpoints along with inductive approach are followed as a research philosophy. The positivism methods in conjunction with inductive and quantitative approach have applied to find out the key factors that aided micro finance of GB. The qualitative approach has selected for the purpose of identifying the role of micro finance at different sectors in Bangladesh economy. It has been found that all factors in the model adopted in the conceptual framework have contributed to the success of microfinance of GB. The micro finance also helps to the sustainable development of Bangladesh economy especially in rural areas.

**Keywords:** Grameen Bank, Micro-finance, Bangladesh, Economy, Implementation of Micro-finance.

### INTRODUCTION

It has been proven that micro-finance is one of the important economic factors that help economic growth and poverty alleviation. As a result, many countries has followed and implemented it in the world (Wilkie, 2005). Micro-finance is so successful that it has now global outreach across the world with ninety two million borrowers in developing countries. According to Nyariki and Wiggins (1997), farming, fishing and livestock are the main activities of a poverty society for their living and all these are associated with micro enterprises. The operation of these micro enterprises are at family level in the informal sector (Mwenda and Muuka, 2004). These micro enterprises are initially provided micro finance services by informal sector like non-government organizations (NGOs) and micro finance institutions (MFIs), but recently, government, policy makers and commercial sector start providing micro finance services in the formal sector (Hulme and Moore, 2006). It is very difficult to find an economic

development paper in rural area that does not include the micro-finance as one of the main elements to address sustainable growth and poverty.

If we go back to 1970s, there had been a severe policy failure in rural and farmer credit. During that period, it was generally agreed that it had been a disastrous policy to provide loan to the poor people. (Adams et al 1984 von Pishcke etc). The policy failed to reach poor people to get loan and contributed little to improve agriculture yields. Micro-finance was introduced as a tool to overcome these problems.

The farmers had lacked the access to credit. It was identified as a main problem for rural developments in the developing countries after the post-war periods. Subsidized government lending scheme and rural cooperatives were established to overcome the obstacles. But, these steps were not sufficient enough to address the problems of screening, monitoring and enforcement.

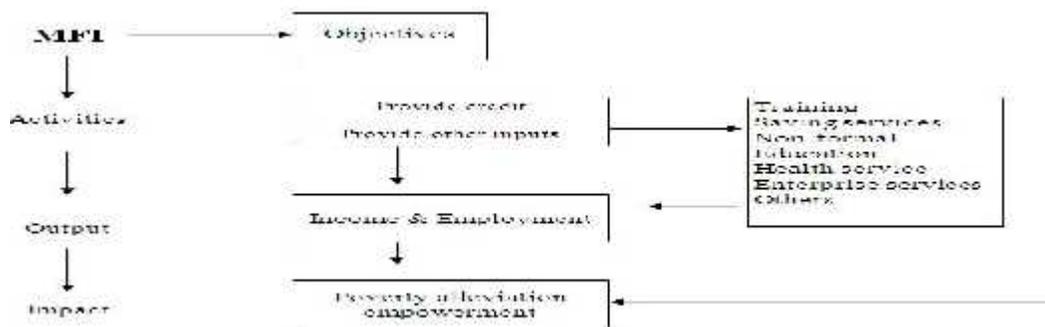


Figure 1

The root of micro finance has been in Bangladesh by the Grameen Bank (GB hereafter). The study has also been conducted on GB. The success and innovations of micro-finance have been demonstrated through credit-focused peer-monitoring model developed by the GB in Bangladesh. This model was adapted by the micro-finance services providers or microfinance institutions (MFIs) throughout the low-income and marginalised groups in the world. The study will identify the factors that lead to the efficient and efficient operations of the micro-finance management of GB.

There are numerous numbers of theoretical literatures that critically identify and analyze the success factors of micro-Finance. McCourt and Babington's have developed structure to recognise and find out the major factors of micro-finance (Hulme and Moore, 2006). Researchers have found several success factors of micro-finance (Hulme and Moore, 2006).

GB is successful in developing and assembling the products of micro-finance in terms of borrower's requirement and their delivery methods and systems are at the lowest possible cost (Korten, 2006). The achievement of large scale service delivery is possible by the innovation of GB that generates the ideas and knowledge (Hulme& Moore, 2006). There are two other components that have also helped GB to flourish the micro-finance in rural areas to assist rural development. These are increased methods of innovations and necessary steps taken to standardize its model.

## **RATIONALE OF THE STUDY**

Micro finance has been termed as the main tool for eradicating poverty now a day. It has been found by various studies that micro finance contributes substantially to the economic development of a country, especially rural development. According to a study by United Nations Capital Development Fund in 2004, micro finance plays a very important role for the economic development of a nation. The role that micro finance provide for development are:

- A. The basic needs of poor households are met.
- B. The poor households have been protected against risks that would have been impossible without micro finance.
- C. The economic welfare of the poor households has been improved by micro finance.
- D. Women empowerment is achieved through economic participation that in turn helps promoting gender equality.

Other than those mentioned above, it provides access to productive capital to the poor people. The services of micro finance does not limit itself not only providing all kinds of financial needs to the poor, it also extends it's boundary in providing education, training and other social needs to the poor. So, it helps to strengthen the sense of dignity of the poor through social and economic participation. The delivery of financial services to the poor people who are ignored by formal financial institutions has uplifted the living standard in all aspects of their life. These seem impossible without the introduction of micro finance.

Since Grameen Bank begins the journey of microfinance and the model of their micro finance has been tested and proven over time, it has been spread all over the world. It is now the largest micro finance institutions in the world. The repayment rates rate of Grameen Bank is 97% and its members have 25% higher income than the non members. The most members of their micro finance services are not currently living below the poverty line. The landless are the most benefited one from their microfinance followed by marginal landowners. The group lending and group savings have been successful as well. Thus success factors of the Grameen Bank micro finance need to be identified, analyzed and examined. These success factors will further provide a guideline to the micro finance industry, regulatory body, government and non government organizations to strengthen the structure of the micro finance services around the world.

## **Literature Review**

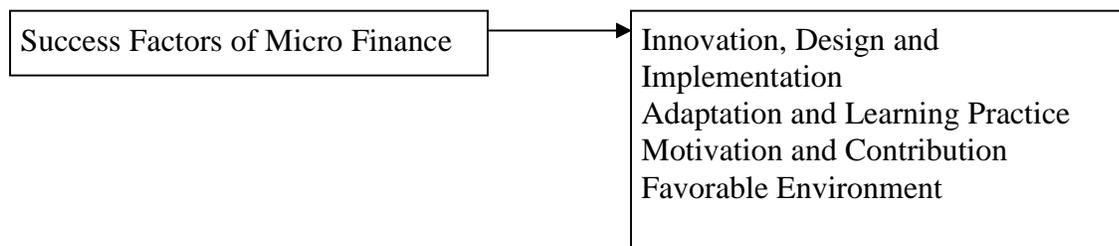
Different scholars have defined micro finance in many different ways. Baten in 2009 has described it as wide arrays of financial services to poor and low income people and their micro-enterprises. Microfinance Information Exchange (MIX, 2010) has defined it as financial services that are provided to low income group especially women. Small scale financial services in the form of credit and savings are the definition provided by Robinson (Imran, Usman & Iftikhar, 2001).

Subsidized government lending schemes and rural cooperatives were established to provide rural and farmer credit. But, the policy had a severe failure to address the credit issue to the poor. It had been observed that providing small loans to the poor people was a catastrophic policy. Poor people were seen not bankable. As a result, sustainable rural economic development was not achieved for this problem. Micro finance services were introduced to overcome this problem (Adams et al, 1984).

The existence of micro finance has been practiced in various forms informally around the world for centuries. The informal lending and borrowing of micro finance in Asia has its foundation for several hundred years. However, the modern micro finance has begun its journey in the mid 1970s in Bangladesh. The concept and model have been initiated by Dr Muhammad Yunus-professor at the University of Chittagong and founder of Grameen Bank. The model of Grameen Bank is so successful in addressing the sustainable growth and poverty reduction issue that it is followed and practiced by many developed and developing nations in Asia, Africa and Americas. The nature of simplicity of the products, unchanging interest rates, group guarantees, frequent and fixed installments, as well as high touch relationships between loan officers and clients are few of the unique features of micro finance that help grow micro finance across the globe in such a short time (Hulme and Moore, 2006).

The success of micro finance has been studied by different scholars, academicians, consultants and researchers who critically examined the success factors of micro finance. McCourt and Babington have developed a structure to identify and examine the major components of micro finance success (Hulme and Moore,2006). The model below has been adopted to conduct this study.

#### Model of the Research



The theoretical literature has identified several factors that contribute to the success of micro finance. According to Hulme&Moore(2006), there are several processes that are applied to effectively develop the service of microfinance and the development of these Processes have contributed to the success of micro finance. The borrower's requirements are examined by GrameenBank(GB) to assemble their products and their delivery methods or systems are produced at a reduced cost (Korten, 2006). The enthusiasm and resources help aiding the success on a small scale achievement and innovation generates the ideas and knowledge in helping achievement on a large scale service delivery (Hulme and Moore).

The innovation has been recognized as a critical success factor (CSF) in micro finance services industry (Hartungi, 2007). Nugroho&Miles(2007) has stated that the innovation in designing the products to deliver new financial services to the targeted people is one of the main success factors that help GB micro finance to expand at today's level. Hasan (2002) has cited the innovation of group-based lending system by GB as one of the major success factors of micro finance in Bangladesh. The group-based lending system features basic and flexible loan and relaxed peer pressure among the group (Busses & Noelle,2008). The restrictions and disadvantages have been reduced in micro finance by this group-based lending (Hulme& Moore, 2006).

The design of administrative structure of GB has been identified as another key success factor that helps micro finance to expand in Bangladesh (Hulme& Moore, 2006). The training and

development program developed by Human Resource Department of GB has also aided the success of micro finance. Hartungi(2007) has identified adaptation and learning practice as another critical success factor that contributed the expansion of micro finance of GB as well as in Bangladesh. The success of any organization is heavily depended on the leaning and adaptation practice by introducing new methods (Senge, 1990).

The development of incentive system that works as a motivational factor is another critical success factor that helps the micro finance of GB. According to Kaplan & Norton (2009), the better performance and reduced turnover can be achieved through introducing a well designed incentive system by any organization (Kaplan & Norton, 2009). The successful MFIs in the world have practiced a well designed incentive system between the period of 1999 and 2002 (McKim & Hughart, 2005). The staff can be controlled by a well designed incentive system (Braverman & Guasch, 1986).

The risk management is a distinct factor of GB that helps to spread the micro finance in Bangladesh. The risk is uniquely managed in terms of each clients needs and different financial methods are followed to combat the risk (Wyman, 2008).

The environment of Bangladesh also favors the micro finance to spread speedily in Bangladesh. Most of the financial institutions are located in the city area in a huge density of population of Bangladesh. Thus, the need of financial services by rural people is not addressed by the formal financial institutions. The support of foreign and donor organizations helps the micro finance institutions to spread rapidly especially GB.

According to Beggington and McCourt(2005), the ‘development policy success’ is defined as the tangible improvement of the human capabilities. The improvement of human capabilities has to be targeted towards a significant population of otherwise disadvantages people. It can be achieved through direct investments, assets improvement and environmental improvement. It is evident now that the boundary of micro finance has reached these otherwise disadvantages population in Bangladesh. It includes those people who have low and instable incomes, are landless or asset less and to those who have low social status (Beggington and McCourt, 2005).

To give an overall picture of the achievement of micro finance in Bangladesh, four dimensions are presented below to show how it helps the otherwise disadvantages people in Bangladesh and boost the economic development of rural area.

#### **A. STATISTICS**

There are lots of statistical data that shows the achievement of micro finance in Bangladesh. According to a study conducted by Credit and Development Forum (CDF) in 2002, the total number of MFIs that are currently operating in Bangladesh is about 1,500. The repayment rate of these MFIs is 98%. There are roughly 13 million households who have facilities of credit and other financial services through 1,500 MFIs. The three million borrowers of Grameen Bank are excluded from this estimation. There might be an overestimation of total number of household borrowers because some households have micro finance access from more than one source. Among the micro finance clients from different MFIs, 75% belongs to poor and micro finance services are provided to 80% of them. Moreover, 90% of the borrowers are from Grameen Bank, BRAC, ASA and Proshika( Ahmed, 2009 ).

## **B. ECONOMIC IMPACTS**

According to Zeller et al (1997), the household's well being and food security are improved by the different microfinance services through three different pathways (Zeller et al,1997). These three pathways are found prominently in the case of Bangladesh (Zeller et al,1997).

Researches have undertaken by professionals, academicians, consultants village level ethnographies, journalists and anecdotal field levels over the last 15 years on how and at what level micro finance has done so far in Bangladesh. It is clear that micro finance has a positive economic effect on the well being of households even though the contribution is small (Mayoux, 1995). The research of Khandker in 2003 reports that the consumption smoothing and assets building are helped by micro finance programs of different institutions. The report indicates that microfinance leads to raise the per capita consumption of the poor especially for nonfood items and for households with no assets. (Khandker, 2003).

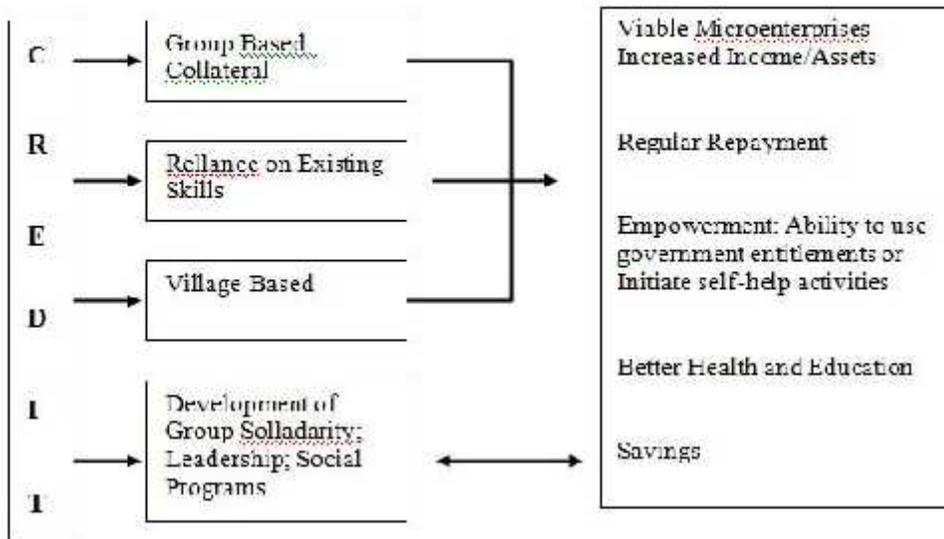
The invention of micro finance by DrMuhammedYunus and the effort of other NGOs make Bangladesh famous globally as it helps poverty alleviation, to reduce the gender gaps in economic participation and to improve the education and health of the poor. Employment creation is another important factor that accelerates the economic growth of Bangladesh. It has been estimated there has been at least 50,000 credit-officer type positions that the operation of MFIs has created. The Palli Karma Sahayak Foundation (PKSF) (Rural Employment Support Foundation) was established by the Government of Bangladesh. The purpose of this organization is to collect the funds from donors and channel it to its partner organizations (POs) for lending as micro-credit. UD\$58 million had been disbursed to 206 POs by PKSF in fiscal year 2003-2004. In 2002, it had been calculated that 15% of the total micro finance industry in Bangladesh was funded by PKSF whereas Grmeen Bank alone had funded 37% of the micro finance industry.

## **THE MODEL OF GRAMEEN BANK**

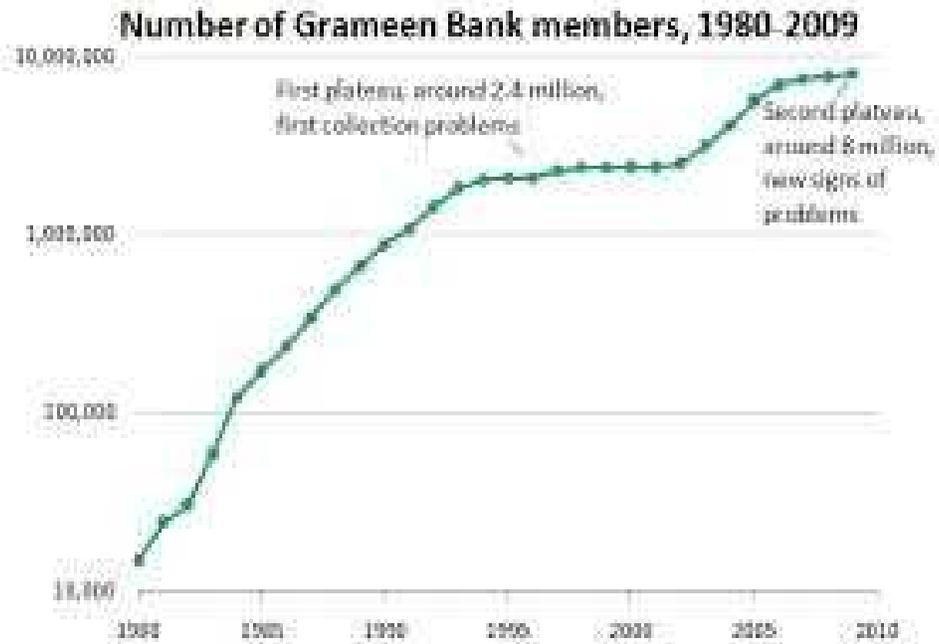
GB is a kind of financial institution that offers financial services only to the poor. The credit is made available to invest in economically viable productive resources. This credit facility helps poor to involve themselves in investing agriculture, manufacturing, services and trade sector. The ownership of GB is structured in way where the government owns 10% with three nominated members in the board of directors and the rest is owned by the borrowers. It is an autonomous body enjoying full authority in making its policies and operational procedures. In a study by Hossain (1988) and Todd (1996), it has been identified that GB members have more than 50% contribution to their household income and also majority of the women members have taken their family out of poverty (Hossain, 1988 & Todd, 1996).

GB follows such a completely decentralized management policy that a field officer can send his/her reports directly to managing director. The managing director always reviews all the issues that are recognized by the field officers. These are published monthly and distributed to all the branches of GB to officials and workers. As such, the bottom up management system is followed and practiced by the management of GB (Auwal, 1996). Figure 2 below shows the credit model of GB.

**Grameen Bank Credit Model**



**Figure 2**



**Figure 3**

**Figure 3 above shows increase in member of Grameen Bank between the periods from 1980 to 2009**



**Figure 4**

**Figure 4 above shows the outstanding deposits and loans of Grameen Bank between the periods from June 2002 to February 2011.**

### **OBJECTIVE OF THE STUDY**

The research objectives are the significant elements of any research since these objectives determine the directions of the study. As a result, it is critical that these objectives are set carefully in accordance with the methodology and design applied. These objectives also direct what data needs to be collected, organized and analysed, what the population and sample will be and what the findings will be in the study.

As such, the objectives of the study are comprised below:

1. To identify critically the role of micro finance in different sectors in the economy of Bangladesh.
2. To identify the factors that aid success of micro finance in Grameen Bank
3. To provide recommendations to overcome the issues in micro finance in Grameen Bank.

### **RESEARCH AIM**

The main aim of the research is to identify the key factors of micro finance of GB that contributes to its success.

### **RESEARCH QUESTIONS AND ASSUMPTIONS**

The research questions help to inform the reader of the study in building what the existing papers tell about the topic of interest. It also allows the reader to learn specifically what new things that they are going to learn about. The questions that are addressed through this research are mentioned below.

1. What are the achievements of micro finance in Bangladesh?
2. What are the main aspects of micro finance in Grameen Bank?

3. What are the main factors of micro finance in Grameen Bank that aid the success of it?

### **ASSUMPTIONS OF THE STUDY**

The researcher makes the following assumptions regarding this study:

1. The first assumption is that the answers of the survey question of the respondents about the factors and impacts of microfinance in Grameen Bank will be truthfully.
2. The respondents have the in depth knowledge and familiarity with the micro finance operations of GB in Bangladesh.
3. The entire data collection process will move on smoothly with maximum cooperation of all those who will be involved.

### **RESEARCH METHODOLOGY AND DESIGN**

There are two ontological and epistemological dimensions in a research paradigm. They are positivism and interpretivism. The study has been carried out with positivist viewpoints. The positivist approach has been taken as the study will reveal the factual knowledge through observations.

The study aims mainly to identify and analyse the key factors that aided the success factors of micro finance of GB which belongs to social economy. The construction of theory is based on the uses of empirical data that is in accordance with inductive approach. Thus, the study follows the inductive approach.

The main objectives of the study are to identify the role of micro finance to different sectors in Bangladesh and to identify and analyze the success factors of micro finance of GB. The data has to be collected through secondary sources. The collected information will be analysed by document review process. The review are analysed critically to present the results and construct a relationship. Thus, the positivist along with inductive approach is best suited for the study.

### **RESEARCH DESIGN**

The positivism methods in conjunction with inductive and quantitative approach have applied to find out the fey factors that aided micro finance of GB. The qualitative approach has selected for the purpose of identifying the role of micro finance at different sectors in Bangladesh economy. Different theories, articles and studies have found that questionnaire survey is applied and distributed in different branches of GB. Interviewees/respondents are taken for the survey. The purposive sampling technique applied to choose the sample population. As a consequence, questionnaire has been administered particularly in GB where the respondents are knowledgeable regarding micro finance. The close-structured questionnaire has been formulated by almost all the researcher. There are some multiple-choice presented to collect answer from the respondents. Besides, researcher also applied the 'Likert' scale which is one of the most applicable designs. (Saunders, *et al*, 2007).The 'likert' scale is basically the level of agreement (Fully Agree, Agree, Neither agree nor disagree, Disagree, Fully Disagree). From these 'likert' scales, the respondents have a preference. The fact is that the likert scale has the advantages, as it presents a load of data for conducting the research in a limited time and is able to analyze very simply and effectively. Meanwhile, this research is carried out from the few branches of GB, so this is not feasible to depict the whole scenario of MF's in Bangladesh. It shows the level of agreement. The preference of the respondents will easily be justified by the 'Likert' scale.

To identify the role of micro finance at different sectors in Bangladesh, the data are collected from secondary sources as well. These secondary data are mainly gathered from Asian Development Bank (ADB), Bangladesh Institute of Development Studies (BIDS), Palli Karma Sahayak Foundation (PKSF), Grameen Bank (GB), World Bank (WB) and Proshika. A mail has been send to the respective authorities of the above mentioned organization to request the required document. The information that is provided by them are critically reviewed and analyzed. Qualitative research techniques and processes are taken to review, analyze and interpret the data. After reviewing and analyzing, the sector wise contributions of micro finance in Bangladesh are presented in words that completely align with the nature of qualitative research.

### **RESEARCH PURPOSE AND STRATEGY**

The purpose of the research can be exploratory or analytical. The theory and idea are developed from the initial research in an exploratory research. This constructs the base for future studies. The idea is first generated to the researcher and he/she starts observations to understand the phenomena. The phenomena in a study are explained in detail rather than simply describing it, it is called explanatory research. The nature of it is quantitative and the analysis needs statistical tools. It does not provide any conclusive answer because invention of new ideas and thoughts will change the direction of old ones. Descriptive or analytical research is defined as exploring and explaining the phenomena and adding new information to the phenomena. The study of identifying the role of micro finance in Bangladesh and identifying the success factors of GB micro finance is a descriptive or analytical research. The study will explore and explain the role of micro finance and success factors of micro finance of GB while the new factors and role of microfinance will also be added by different studies as well. This applies to the study because the researcher does not have any control over the variables which is a prominent characteristic of descriptive method. The case study strategies are taken to conduct the study. The phenomena are observed on the basis of real life context, empirical studies and secondary data. The factors are justified in context of Bangladesh and GB operates in there. The respondent's views are taken collected from different studies to identify the key factors of GB micro finance success. All the respondents in all the studies are GB employees.

### **Data Collection Methods and Tools**

The data collection method has such an influence in the research outcome that the researcher should carefully choose it. An inappropriate method of data collection will lead to unaccepted or invalid results. Thus, it is important to choose an appropriate method for data collection. It also directs the tools to be used to conduct the study. There are qualitative and quantitative methods that are used for collection of data in a research. The study considers both the qualitative and quantitative methods in accordance with the objectives of the study. There are also different tools or techniques that need to implemented to collect the data depending on the methods adopted in the study. In qualitative methods, the common tools are in depth interview, observation methods and document review. On the other hand, the tools that are generally used in quantitative methods are surveys, questionnaire, interviews and experiments/clinical trials.

### **Secondary Data**

The basis of the study is depended solely on secondary data. Identification of the role of micro finance at different sectors in Bangladesh economy is performed by requesting required information to Asian Development Bank, Grameen Bank, Proshika, Palli Karma Sahayak Foundation and World Bank. Various publications by these organizations are also reviewed

thoroughly by critical reading that is accessed by internet. The annual reports of Grameen Bank and Proshika are considered as a source of data for the same purpose.

The articles and journals by academicians, professionals and consultants are the main sources of secondary data to identify and examine the factors that lead to success of GB micro finance. After going through these sources of information, it has been found that all the studies regarding these phenomena have adapted almost the same tools and techniques to facilitate the research. The newspaper and online articles have been considered to demonstrate the criticism and recommendations part of this study.

## **SCOPE AND LIMITATIONS OF THE RESEARCH**

### **Scope of the Research**

Since the invention and introduction of modern micro finance are initiated through GB and the research is conducted on that organization, the study opens up immense opportunities to learn the success tools from the root of that industry in Bangladesh. The quantitative tools through using the questionnaire survey methods to the knowledgeable respondents also enable the study to be more focused, enhanced and enriched to critically identify the key factors of the micro finance success of GB.

### **Limitations of the Research**

According to a study conducted by Credit and Development Forum (CDF) in 2002, the total number of MFIs that are currently operating in Bangladesh is about 1,500. There are also 200 MFIs that are in process of commencing their operations. It is extremely difficult to include all the organizations involved in the industry in Bangladesh to conduct the study in such a short time. There were definitely some unique factors by other large and small organizations in MFIs in Bangladesh if the study would have been conducted to all the organizations. The sample size does not even cover all the centers, branches and zonal offices of GB because of the same time constrain. The inadequate measures of variables, loss or lack of participants, small sample sizes, errors in measurement, and other factors typically related to data collection and analysis and limited financial resources are some of the other major limitations identified in the research.

### **The Population**

It is very important to select a population carefully since the entire analysis and findings with the adapted research design will be based upon the selection of the population. Among the numerous numbers of organizations involved in the industry of micro finance in Bangladesh, the Grameen Bank is selected as the population in this study. It is necessary to mention that all the participants in the micro finance operation in GB are not included in the population. The employee of GB who deal with micro finance activities and have the knowledge about micro finance has been selected as population for the study. The study is definite to give a rational success because the population is willingly available in GB in Bangladesh.

### **Sample Selection**

Bangladesh has many multi finance institutions. In a study conducted by CDF in 2002, there are 1,500 MFI organizations that are active in micro finance industry in Bangladesh. But, the researcher has only selected the micro finance in GB employees since it is hard to include such a big sample in such a limited time. The questionnaire will be distributed to fifteen different branches of GB. Three hounded interviewers or respondents will be taken. The researcher

initially decides to use the simple random sampling techniques in selecting the sample of respondents who took part in the study. But, after going through different literatures, the researcher has applied purposive sampling technique for the selection of sample population. As such, questionnaire will be distributed among those employees of GB who are knowledgeable about micro-finance.

## **DISCUSSION OF THE FINDINGS**

Identification of Different Sectors That Micro Finance Contributes in Bangladesh Economy:

### **Sector wise Contribution of Micro Finance in Bangladesh Economy**

According to a study, it has been observed that the contribution of micro finance by small business is the largest. It accounts for 43.2%. The contribution of livestock, agriculture, fisheries, food processing and cottage industries are 18.11%, 12.23%, 4.91% 3.78% and 3.03% respectively. Among the self employment activities created by the micro finance operations, most of the self employed activities have been the result of the poultry and fisheries industry. As a result, the economic activities by the poor in the rural sector have observed a substantial amount of transformation.

The average income of the households who is actively involved in micro finance activities has been higher than that of those who do not participate in micro finance program. The contribution to the household's income by the involved micro finance participants who is self employed is 50% higher than the non participants who has 43% contribution. The household income has nominally increased to 19% for those in micro finance program as compared to 13.5% for the non participants. The micro finance has made the participants better cope with their food. Their income is sustainable and able to purchase and consume more than those who do not participate in micro finance program.

The BIDS study reports that the food security of program participants was more because they had superior sharecropping access. The after sale rice consumption is 26% as they produce their own rice. This figure is higher than the non participants. The contribution of wage earning to the annual income by households who do not have any land is 23%. The earning of the participants of microfinance program is 8% more compared to the income earned by the non participants. Households of micro finance program have the admittance to the rental market of land. This entrance into the rental market of land has created an opportunity of more employment on their own farms. The non agriculture sector has also shown a higher rate in terms of wage and self-employment because of involvement in micro finance program. Micro finance participants hold on average 91 decimals of land compared to 149 decimals by non participants. This factor shows a lower number for participants. However, the participants are eligible to rent-in or mortgage land than the non participants that give them better operational holding.

The percentile operational involvement in poultry, goat/sheep and cows by the participants is higher compared to non-participants. It is also evident that bicycles, boat, irrigation equipment, radio and rickshaw/van are owned in higher percentage by the participants than that of non participants. Thus the ownership of assets is more for participants. There is positive effect on nutrition once one is involved in micro finance program. There is also a small positive effect of micro finance program on waste disposal and use of sanitary toilets among the participants who are poor in terms of owning land. There is no clear evidence that shows any effect of micro finance on hand washing. All the participants use the hand tube well for getting pure drinking

water. Substantial higher adult literacy rate is shown by all the eligible participants. The children of participant's boys and girls both have shown more possibilities to be admitted into the schools for education. The empowerment of women is absolutely helped by the micro finance program. The increased self-confidence and self-esteem are the strong evidence of women empowerment by the program. Another evidence is that the decision making of women has increased in the areas of family planning, children's marriage, properties buying and selling and enrolling daughter into school.

Some evidences suggest that domestic violence has been stopped by the micro finance program participants of different MFIs because of personal empowerment and group action. The women have shown an increased participation in the local government activities. There are currently numerous numbers of women Chairpersons and Members of Union Parisads who have been elected. The community activities for social change are organized by women members of micro finance program.

### **Contribution of Micro Finance to Bangladesh Economy-A Glance**

The Poverty Assessment report of World Bank in 2008 had two findings in the context of what micro finance had contributed to the impressive performance in economic growth and poverty reduction in Bangladesh.

The first findings were from the coverage data of PKSF programme. It showed that the coverage of microfinance was expanded more in the poorer area since 2000. The reason behind this was the fact that the better off geographical areas were covered previously. The second finding was that the poverty reductions were mainly found in the upazilas in the rural area. The increase in micro finance membership had also found to be more prominent in the upazillas in rural areas. Other than these two findings, there were other contributing factors of micro finance than geographical variation that helped poverty reduction and economic growth in rural areas in Bangladesh.

The short and medium term impacts of micro finance had been assessed by two well known studies. The impact assessment study was conducted by surveying borrowers. Thus, the short and medium term affect was mainly reflected the point of view of the borrowers. The households were surveyed repeatedly in the rural areas of Bangladesh who were active participant members of micro finance. The findings of the survey study had indicated that 1.6 percentages of the borrowers who were active participants of micro finance membership had been out of their poverty per year. The study used the nationally representative data. In contrary, 0.3 percentage points of the non borrowers who were not involved micro finance activities had been out of the poverty per year. Thus, the study was clear evidence that micro finance helped poverty reduction in a more quick way.

Other than income gains, microfinance services provide other benefits to the poor. It helps them to survive in the event of income and non income shocks. The shocks may result from economic crisis due to death of a member who is earning, a hampering of an assets or natural disaster. Moreover, the poor cannot keep their consumption smoothing in those crisis events because almost all of them do not have any form of private or public insurance. Thus, the expenditures on essential food and non food items have been consumed less during that period.

### Discussion of Finding Regarding Innovation, Design and Implementation

The innovation, design and implementation of microfinance of GB have been the most important success factors if prioritization has been put in the model. According to a study, it has been found that 64.9% of the respondents fully agree on group based lending as a leading innovation which plays a vital success factor of GB microfinance. The introduction of group based lending has made the loan more flexible to the member participants of microfinance of GB. The group based lending also lessens the peer pressure. (Busse and Victoria Noelle, 2008).

The table below shows the result of the respondents on group based lending and finds it an important success factor of microfinance of GB as innovation

	Frequency	Percent	Cumulative Percent
Fully Disagree	1	0.7	0.7
Disagree	2	1.3	2
Agree	50	33.1	35.1
Fully Agree	98	64.9	100.0
Total	151	100.0	

**Table 1**

### Findings on the collateral free lending system of GB

Another leading innovation and design of microfinance of GB is the collateral free lending system. It is literally impossible to provide loan to the poor by the formal financial institutions mainly because they are not able to support their borrowings with collateral. But, the microfinance of GB has innovated and designed their micro financial services not only to the poor but without any collateral. It is merely a rare scenario for formal private and public financial sectors.

	Frequency	Percent	Cumulative Percent
Agree	48	31.8	31.8
Fully Agree	103	68.2	100.0
Total	151		

**Table 2**

The table above shows the findings of a study on how collateral free lending system becomes a leading success factors for microfinance of GB. The study asks the respondents who are fully familiar with the knowledge of microfinance that if collateral free lending help to grow microfinance of GB. It has been reported that there are 68.2% participants who fully agree that the introduction of collateral free lending system is a leading success factor for microfinance of GB. Since, the microfinance of GB is tailored to give access to credit to the poor who does not have any collateral; the innovation exactly suits the need of them. The only obligation of the

microfinance borrowers is that they must make the weekly installment payment on due time to continue their collateral free loan (Hossain,*et al.*,2001).

### Findings on peer group monitoring system of GB

The peer group monitoring system of GB is another innovative design of their microfinance product that contributes as a success factor. There are ingredients in this system that makes the design of peer monitoring system successful. Motivation in the form of incentives is provided to the members so that he/she checks on peers. The model of GB suggests that members in a group of borrowers are jointly liable in loan repayment. As a result, none of the members will be able to get credit facility until all the borrowing amount by the groups has been paid off. This factor helps to reduce the default rate of GB microfinance.

	Frequency	Percent	Cumulative Percent
Neither Agree norDisagree	11	7.3	7.3
Agree	56	37.1	44.4
Fully Agree	84	55.6	100.0
Total	151	100.0	

**Table 3**

The table 3 above shows the result of a study. It reveals that 55.6% of the respondents of the questionnaire survey say that the repayment of GB microfinance has controlled and increased by the innovative design of peer group monitoring. It works as a motivational factor by building solidarity and relationship among group members.

### The well-trained and dedicated training staff of GB microfinance

The management system of GB is such that the operations are run from grassroots level. Thus, all the staffs of GB are so well trained that the top management needs to worry little about the activities of workers at all level. The GB periodically sends their staffs for training and development. The human resources department develops, organizes and conducts the training.

	Frequency	Percent	Cumulative Percent
Neither Agree norDisagree	9	6.0	6.0
Agree	44	29.1	39.1
Fully Agree	98	64.9	100.0
Total	151	100.0	

**Table 4**

The table 4 above shows the result of a study. It indicates that 64.9% of the respondents have fully agreed on well trained and dedication of the staff as an important determining factor for the success of microfinance of GB. Both staff and clients are provided effective training by the

human resources department at the field level. The promotion, motivation and other necessary incentives developed by the human resources department increases the dedication of staffs at all level of GB (Hartungi,2007).

### Discussion of Findings from Adaptation and Learning Practice

Flexible procedure of obtaining a loan is leading success factor

	Frequency	Percent	Cumulative Percent
Neither Agree nor Disagree	6	4.0	4.0
Agree	68	45.0	49.0
Fully Agree	77	51.0	100.0
Total	151	100.0	

**Table 5**

Most of the loan both in formal and informal sector is very difficult to obtain because of various procedures that have to be followed and completed by the loan takers. Moreover, access to loan both by the poor and extreme poor is impossible until the introduction of microfinance initially by GB followed by other MFIs. One of the most important factors that contribute to the success of microfinance of GB is flexibility of getting loans. All the members of GB microfinance participants are facilitated by flexible basic loan provisions. The loan period is initially for 12 months. In case of successful repayment, this feature is extended to more standardized loan. The loan can be repaid in 36 months if needed. The members can negotiate the period of time for repaying the loan. The loan type determines the interest rate to be charged. It depends on size, length and grace period.

The questionnaire survey results of a case study shows that there are 51.0% respondents who has fully agreed flexible loan procedures as a contributing success factor of GB microfinance. This provision makes the pressure low to the borrowers (Hulme and Moore, 2006). Hassan and Rental Guerreo (1997) has identified that providing housing loan at lower interest rate to the households leads to success of GB microfinance.

### Discussion of Findings from the Motivation

A well designed incentive system to staffs of GB is a success factor micro-finance

	Frequency	Percent	Cumulative Percent
Disagree	3	2.0	2.0
Neither Agree nor Disagree	18	11.9	13.9
Agree	62	41.1	55.0
Fully Agree	68	45.	100.0
Total	151	100	

**Table 6**

The incentives to the GB staffs are developed by the human resources department in such a manner that it works as a contributing component for success of microfinance. Thus, the policies motivate and retain the staffs. GB management continuously recognizes the achievements of staff and focuses on development of professional attitude at all levels. Two best staff members have received a cash award and certificates in every six months. All the staffs are entitled for promotion once they complete their services between three to five years. The staffs are provided a star award system. There are between 3% to 5% amount that is given to the staffs who recovers bad debt. The staffs feel secured that works as major motivational incentives as they get pension & gratuity, provident fund, insurance policy and welfare fund. The salary is at national level and loans are given for various purposes.

There are 67.7% respondents in a study who has fully agreed that the incentive system of GB contributes to the success of microfinance operation (Hurtungi, 2007).

**Encouragement to be financially independent by borrowers of GB is a major success factor of micro-finance has been shown in the following page:**

	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Neither Agree nor Disagree	10	6.6	6.6
Agree	64	42.4	49.0
Fully Agree	77	51.0	100.0
Total	151	100.0	

**Table 7**

The mission statement of GB clearly states that poverty can be alleviated by microfinance or micro credit. Thus, it truly encourages all its borrower members to be financially independent. The GB shapes the borrowers believe that the personnel, social and economic well being of them can only be attained when they will be financially independent. The survey study in a case study indicates that 51.0% of the respondents have fully agreed regarding the encouragement of financial independent question as a major success factor for microfinance of GB. The encouragement to be financially dependent to the borrower members of GB helps to alleviate poverty and boost the economic development (Hulme and Moore, 2006).

### **Discussion of Findings from the Contribution**

**Micro-finance programme has contributed women's the greater control over resources and their lives**

	Frequency	Percent	Cumulative Percent
Disagree	4	2.6	2.6
Neither Agree nor Disagree	14	9.3	11.9
Agree	62	41.1	53.0
Fully Agree	71	47	100.0
Total	151	100	

**Table 8**

Women are heavily neglected especially in the developing country like Bangladesh in all aspects of life for centuries. The decision making in the family matter, accessing and controlling of resources, self image, knowledge and awareness level, cohesiveness in the group & the society and leadership control are all absolutely dominated by men in Bangladesh before the introduction of microfinance. But, the vision of GB strongly focuses on women. There are certain services that are specially tailored for women in GB. Thus, the microfinance of GB helps women to take greater control over the aspects that are mentioned above. The entrepreneurial activities of women are well supported and developed because of the access to loan by microfinance services of GB. A study indicates that 68.2% of the respondents have fully agreed regarding the question whether GB microfinance program contributes to take greater control on resources and lives. (Hulme and Moore, 2006)

#### **Micro-finance programme has led women's decision making at household level**

	Frequency	Percent	Cumulative Percent
Agree	48	31.8	31.8
Fully Agree	103	68.2	100.0
Total	151	100.0	

**Table 9**

The table above shows the result of a study on a question if the decision making of women has increased as a result of microfinance program of GB. There are 68.2% respondents who have agreed fully on that question (Sarker, 2001).

### Discussion of Findings from Environmental Factors

The country's ongoing population growth is a favorable success factor of micro-finance

	Frequency	Percent	Cumulative Percent
Disagree	4	2.6	2.6
Neither Agree nor Disagree	14	9.3	11.9
Agree	62	41.1	53.0
Fully Agree	71	47	100.0
Total	151	100	

**Table 10**

Al most all the articles related to population growth aspect of Bangladesh suggests that the country is negatively affected due to high population growth. As a result, the government of Bangladesh strongly encourages having small family. But, the microfinance services have a positive relation to the population growth of Bangladesh. As an initial and pioneered microfinance organization, GB capitalizes more from these components. The survey study reveals that 55.6% of the respondents have fully agreed on this fact. The current population growth of Bangladesh rigorously favors the success of microfinance of GB as one of the environmental factor. According to Hulme and Moore (2006) the growth of microfinance is heavily supported by the high population growth in Bangladesh.

### Unavailability of financial service delivery in rural areas is one the favorable success factors of micro-finance

	Frequency	Percent	Cumulative Percent
Neither Agree nor Disagree	38	25.2	25.2
Agree	30	19.9	45.0
Fully Agree	83	55.0	100.0
Total	151	100.0	

**Table 11**

As mentioned in the literature review, the poor is normally seen as not bankable at all by the formal financial sector. Thus, the poor are never targeted to the products and services offered by those financial institutions. Moreover, all the financial institutions are established in the urban areas in Bangladesh. The unavailability of financial services delivery to rural areas works as a favorable factor for the success of microfinance of GB. The survey study shows that 55.6 % respondents fully agree on this issue (Hulme and Moore, 2006).

## CONCLUSION AND RECOMMENDATIONS

This research was assessed in the perspectives of the findings. As observed in the research, the highest proportions of the respondents in all the conducted studies have opined regarding the innovation, design and implementation of GB such as group-based lending, the collateral free lending system, and peer group monitoring system, the well-training and dedicated staffs of GB are the significant success factors of micro-finance. Besides, GB has succeeded through initiating the adaptation and learning practice as well as contributed tremendously by providing training and development programmed on health and nourishment for its borrowers. In addition, GB motivates to its staffs and borrowers through providing a well-designed incentive system for staff, allocating and mobilizing resources and encouragement to be financial independence for borrowers etc.

Moreover, it is also found that some environmental issues such as ongoing population growth and unavailability of the financial service have favored to the success of GB in Bangladesh. However, GB has played a tremendous role for the poorest community. It has been recommended by researcher that GB is required to expand the organizational capability for identifying and utilizing the appropriate innovation and design for the betterment of its clients as well as create cultural innovation that will provide the transforming requirements of the marketplace. It should take sustainable development programme in accordance with demands and problems of the borrowers to ensure the rural economic growth.

Grameen Bank also should come forward voluntarily with micro-credit schemes charging interest rate of a maximum eight to ten percent per annum. Besides, Microcredit must be properly utilized for the benefits of the poorer section of society with gender balance as well as rural and urban equality.

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