



Determinants of Microfinance Performances in Bangladesh: The Case Study of Rural Development Scheme and Muslim Aid Bangladesh

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ABSTRACT

Microfinance programs have been designed for the poor people to access the formal financial system easily without any collateral. From the beginning, microfinance programs are trying to reach the poor people to improve their living standard through income generating activities. Following this objective, Rural Development Scheme (RDS) and Muslim Aid Bangladesh (MAB) is working with poor vulnerable people to improve their socioeconomic standard through delivering interest-free microfinance in Bangladesh. This study is, therefore, aims to examine the determinants of microfinance performance in Bangladesh. Towards the achievement of its objective, this study used qualitative techniques. To assess the determinants, primary data were collected from 192 borrowers from Chittagong district of Bangladesh. The quota sampling method was followed to select the clients. The findings revealed that RDS and MAB have been trying to provide the handsome amount of loan, training, to the clients to run their business though the amount of loan and training was not sufficient. Determinants, time duration with microfinance, client's age and education level was found in the acceptable range but there are some issues need to be considered according to client's needs.

Keywords: Determinants, Microfinance, Amount of Loan, Time duration, Training, Bangladesh

1. INTRODUCTION

Microfinance model is a group based model which process of opportunity for peer lending, peer monitoring, homogenous matching, and joint liability with credit risk between the group members. It is formed by five members in a group and with five to eight groups forming a center. It has been recognized as an effective model over the world. Microfinance programs provide a loan to the poor with reasonable services. According to Microcredit Summit (2004), microfinance is a “program that extends small loans to very poor people for self-

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employment projects that generate income in allowing them to take care of themselves and their families”. The World Bank has recognized microfinance program as an approach to address income inequalities and poverty.

The microfinance industry has been able to provide access to credit, currently, to nearly 18.89 million poor households in Bangladesh is truly remarkable (BER, 2012). According to Credit and Development Forum (CDF) annual report (2014), more than seven hundred Microfinance-Non-Government Organization (MF-NGO) at present working in Bangladesh. 30 institutions are in control of over 80 percent of the market share in but the industry is dominated by four large MFIs—Bangladesh Rural Advancement Committee (BRAC), Grameen Bank, ASA (Association for Social Advancement), and Proshika—that serve around 11.5 million, or 90 percent of all MFI clients. After the “big four,” the next largest NGO, Swarnivar Bangladesh, has 0.7 million clients, and then there are probably only ten NGOs that have more than 100,000 clients. Almost all of them provide a loan to the clients based on interest except Rural Development Scheme (RDS) of Islami Bank Bangladesh Ltd (IBBL) and Muslim Aid-Bangladesh (MAB). RDS and MAB providing financial services based on profit and loss sharing (PLS) with Shariah principles. However, the RDS and MAB operating their programs for the poor peoples to reduce the poverty and improve the socioeconomic status from year 1993.

Therefore, the literature shows that microfinance studies in Bangladesh conducted to uncover the performance of big four and the largest institutions from different views. Despite, these studies were not resistant of criticisms. First, almost all of the studies conducted by the same largest institutions where other reported microfinance institutes overlooked to study. Second, majority of those studies has paid considerable attention to the effect on borrowers’ economic and social performances where determinants of microfinance study did not get more consideration. Consequently, to solve the problem which mentioned above and in order to fill those gaps, this study set the objectives is the qualitative analysis of microfinance determinants.

Therefore, this article is organized as follows: first, Section 1; explains briefly the background of the study as an introduction. Then in Section 2; presents previous study as literature review, in Section 3; methodology of the study, in Section 4; results and discussion, in Section 5; the conclusion and recommendations and finally in Section 6; limitations and suggestion for future research.

2. LITERATURE REVIEW

Poor people have limited access to traditional credit facilities. However, it is very important to get enough money from the loan provider to run a project successfully (Rahman and Khan, 2013). Hamdan et. All (2012) found in their

study on AIM in Malaysia that the fund size is the main factor which influences the level of income that can be generated by poor people. Saad and Duasa (2010) measured the economic performance of clients participating in the MF program of Amanah Ikhtiar Malaysia (AIM). The author found that a number of loan borrowings from AIM positively and significantly increased borrowers' per capita income and consumption. Rahman and Khan (2013) conducted a study to examining the effectiveness of the ASA microcredit programs. The study revealed that loan sufficiency is found to have a positive significant effect on beneficiaries' improvement. It means that those who are granted a sufficient loan found to have a higher likelihood of improving their livelihood as compared to those who do not get a sufficient ASA loan.

Mawa (2008) mentioned that the range of loan size varied depending on their needs. The researcher found in his study that small amount of money creates lots of income opportunities' in the rural area. Rahman and Ahmad (2010) studied the impact of microcredit clients of Rural Development Scheme of Islami Bank Bangladesh Ltd. The authors found that loan size was positively and significantly related to household welfare. Further, the authors suggested that size of investment has to be optimum and timely.

The longer of the work experience of the clients, tend to generate higher business income (Hamdan et All, 2012). In Indonesia studies, Rulindo and Pramanik (2013) found that clients having a longer duration of Islamic microfinancing have a greater possibility of having better business and having a higher income as well as life in better economic condition. Rahman and Ahmad (2010) studied the impact of microcredit clients of RDS of Islami Bank Bangladesh Ltd. The authors found that time duration with RDS significantly contributed on clients' well-being. The findings revealed that borrowers are able to improve their socioeconomic status through long time involvement with the Islamic microfinance program. Khan and Osman (2010) and Ullah (2011) found in Pakistan that clients who avail the facility of microfinance for more time they have been able to increase his/her welfare.

In microfinance program those who are involved for 3–5 years were found to have a lower chance of improving their livelihood as compared to those who were involved for nine years or more (Rahman and Khan, 2013). It means that borrowers are able to improve their socioeconomic status through prolonged involvement with the microcredit program. Rahman and Khan (2013) conducted a study to examining the effectiveness of the ASA microcredit programs. The authors found their study that the duration with ASA is found to be significant and positively related to the borrowers' income, consumption.

Training helps the people to become more efficient. Normally clients are able to show better business knowledge after receiving training (Karlan and Validivia, 2011). Sameer et all (2015) found in Malaysia that access to business training has

a positive impact on women household income. Rahman and Khan (2013) conducted a study to examining the effectiveness of the ASA microcredit programs. The study revealed that training has a significant positive effect on a beneficiary's improvement. This means that those who have ASA training are likely to have a higher chance of being improving livelihood.

Morshid and Abdullah (2013) mentioned that the clients are interested in learning more about their business field by training. Ameer (2013), Chowdhury and Mukhopadhaya (2012) suggested in their study that microfinance institution should provide some training to the layman so that they must be able to use the loan in more efficient manner. Rahman and Ahmad (2010) studied the impact of microcredit clients of Rural Development Scheme of Islami Bank Bangladesh Ltd. The authors found that training is important for ensuring the borrowers income generating activities and welfare.

Age of a person is a vital factor of the ability to perform a job. A young person can better apply his or her eagerness, dedication, consciousness and motivation towards achieving a target successfully (Uddin, 2008). So age structure of the members is very important in the context of their ability to get out of poverty. Saad and Duasa (2010) measured the economic performance of clients participating in the MF program of Amanah Ikhtiar Malaysia (AIM). The authors found that with regards to age, older respondents tend to earn higher per capita incomes from the AIM program. Further, the author indicated that it is expected that experience comes into play to help older respondents earn more.

Giris and Mehta (2003) detected in his study that age of the family head and family size were an important factor in the economic decision. Rahman and Ahmad (2010) studied the impact of microcredit clients of Rural Development Scheme of Islami Bank Bangladesh Ltd. The authors found that the borrowers' age was positively and significantly related to household income. Further, they mentioned that as age increases, borrowers acquire more experiences which would ultimately assist them to increase their household income level.

Education is a very important factor for an individual to achieve better alternatives available in rural areas in which he/ she can invest the fund profitably and efficiently. Education is the foundation in which human qualities are built. It is the key variable to develop group conciseness and community awareness of the target group members. The education level was determined in terms of the highest class passed by him/her. Saad and Duasa (2010) measured the economic performance of clients participating in the MF program of Amanah Ikhtiar Malaysia (AIM). The author found that the study found that higher levels of education correlated with higher levels of per capita income after respondents participated in AIM activities. The authors indicated that it is expected that more educated respondents are more knowledgeable in handling projects.

Asanoy (2004) pointed out that educated borrowers had a higher level of knowledge and skills as compared to less-educated borrowers in case of performing their economic activities. Rahman and Ahmad (2010) studied the impact of microcredit clients of Rural Development Scheme of Islami Bank Bangladesh Ltd. The authors found that education level of borrowers had a positive sign which indicates that education might influence their income level but it required more time and more educational facilities for the borrowers to realize the effect of education on income.

Marital status is an important variable to form a group interaction. Saad and Duasa (2010) measured the economic performance of clients participating in the MF program of Amanah Ikhtiar Malaysia (AIM). The author found that married respondents are more likely to own assets of greater value than unmarried respondents. Uddin (2008) conducted a study to examine the impact of Rural Development Scheme (RDS) of IBBL on the socio-economic development of its member/borrowers. In this study, the researcher found that no unmarried person was joined the RDS. In respect of marital condition, the study exposed that 96% of the members are married and 4% are a widow. Further, the author mentioned that it is clear that unmarried women are restricted by social customs to go outside and undertaken public activities freely.

3. DATA AND METHODS

To analyze the determinants of microfinance, primary data were collected from a rural area of south-easternmost parts of the country Chittagong, Bangladesh. The survey was undertaken in May 2015. This study includes a sample size of 192 respondents. According to Roscoe's (1975) rules of thumb, a sample size larger than 30 and less than 500 are appropriate for most studies. Respondents were selected using quota sampling in order to get information from RDS and MAB microfinance institutions. 97 respondents from RDS and 95 respondents from MAB were included.

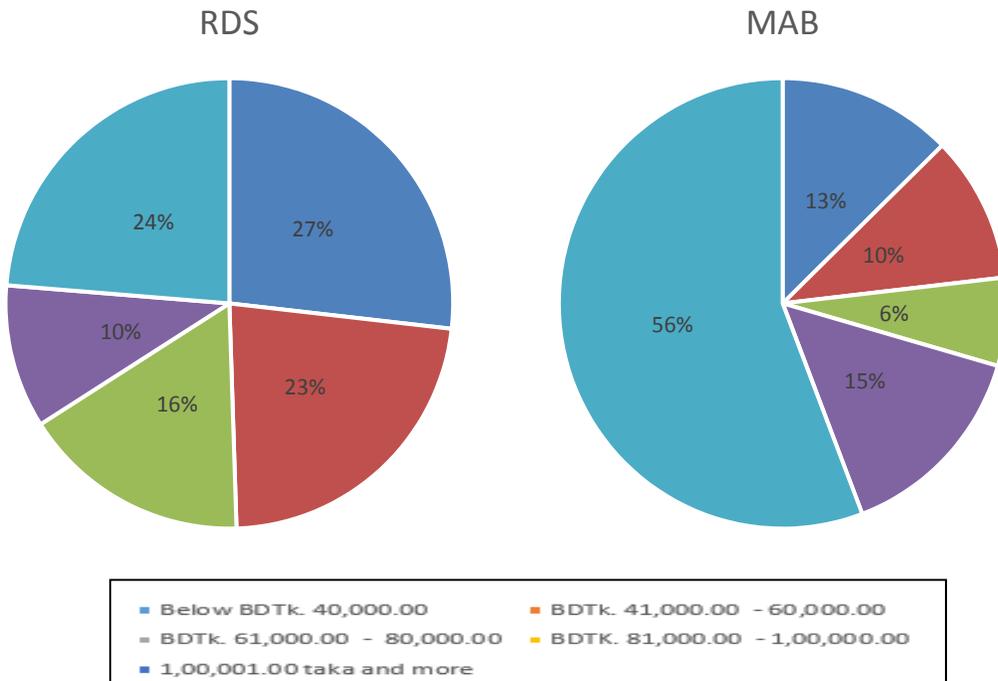
Data were collected through interviews. The interviews were face to face with the beneficiaries who were involved with RDS and MAB microfinance institute. The questionnaire design includes categorical and close-ended which was used to explore the client's attitudes under RDS and MAB microfinance program. Based on the previous study, explained in section two, this study focused on the determinants of clients success include clients age, education level, marital status, amount of loan, training provided by RDS and MAB.

4. RESULTS AND DISCUSSION

Determinants of microfinance were analyzed using the qualitative method. The qualitative method used to see the clients perceptions who experienced with RDS and MAB program. The findings are described as follows:

4.1 Amount of Loan

The amount of loan is the most important to increase income and business expansion. Researchers such as Saad and Dusa (2010), Rahman and Ahamad (2010), Rahman and Khan (2013) argued that income is directly related to the amount of loan. On the other word, income increased based on the size of the loan. In our study, respondents were asked to indicate the amount of loan they received from microfinance institutes. Five option have given to choose. The options included: Below BDTk. 40,000.00, BDTk. 41,000.00 -60,000.00, BDTk. 61,000.00 -80,000.00, BDTk. 81,000.00 -1,00,100.00, and BDTk. 1,00,100.00 and more. From the Graph 1 and 2, the result shows that 27 % RDS clients received below BDTk. 40,000.00 where 24% clients received more than BDTk. 1, 00,000.00. In the case of MAB microfinance, 56% clients received below BDTk. 40,000.00 where only 13% clients received more than BDTk. 1, 00,000.00. These results indicated that to run a business successfully, the amount of loan provided by microfinance programs are not enormous as expected.

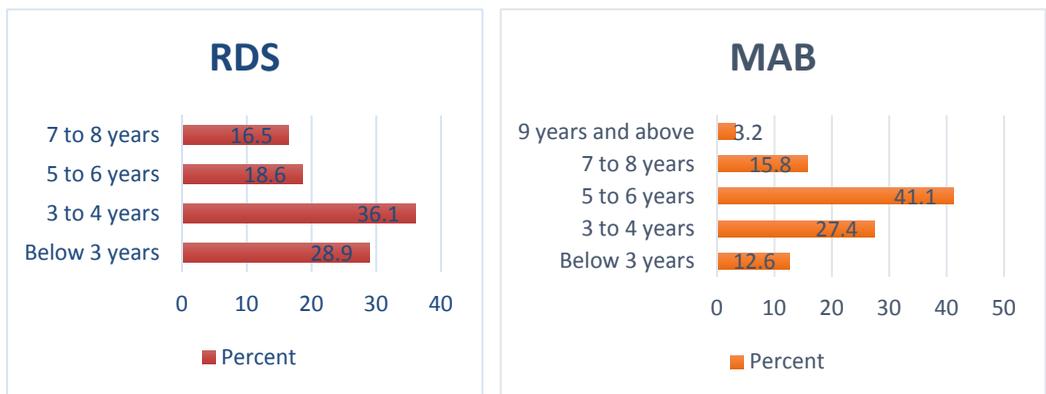


Graph 1: Percentages of RDS loan

Graph 2: Percentages of MAB loan

4.2 Time Duration with Microfinance

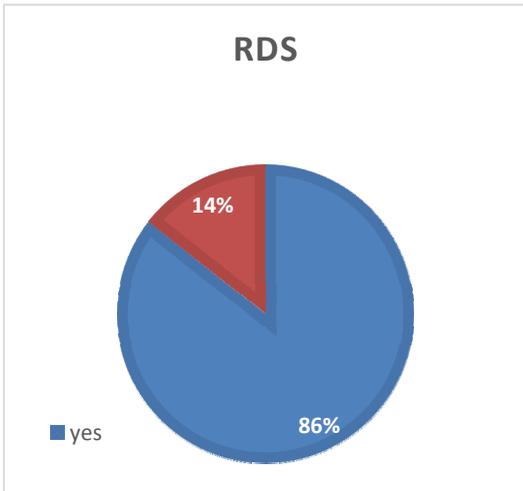
The longer of the work experience of the clients tend to generate higher business income (Hamdan, 2012). Clients having a longer duration of microfinancing have a greater possibility of having better business and having a higher income as well as life in better economic condition (Rulindo and Pramanik (2013). In our study, It can be seen from the graph 3 and 4 that majority (36.1%) of the clients involved with RDS 3 to 4 years. In the case of MAB, 41.1% clients involved 5 to 6 years. Very few clients are over 6 years. The trend of time duration with both of microfinance revealed that most of the clients continue their involvement 5 to 6 years. According to previous research, longer experience helps the clients to income more. These results exposed that a number of clients cannot stay with both of microfinance program for long.



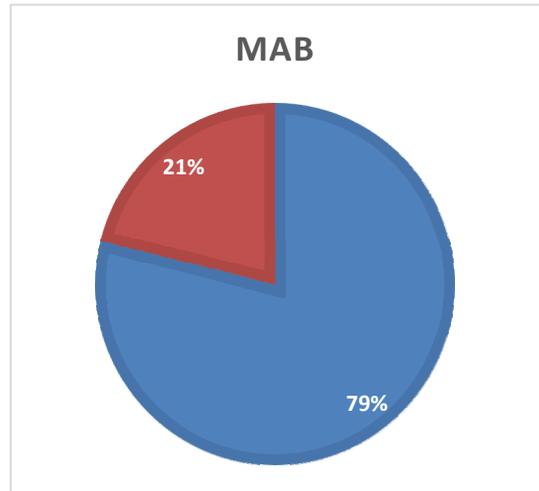
Graph 3: Percentages of RDS time Graph 4: Percentages of MAB time

4.3 Training Provided by Microfinance

Training helps people to become more efficient. Generally, clients are able to show better business knowledge after receiving training (Karlan and Validivia, 2011). In our study, respondents were asked to indicate the joining the training provided by microfinance institutes and its effectiveness on their business. It can be seen from graph 5 and 6, 86% RDS clients reported that they joined the RDS training and it was helpful to improve the business where only 14% reported, they joined but it was not effective. In the case of MAB, 86% reported they joined the training and it was effective where 21% reported that they joined but it was not effective for them. It can be said from these results that though all members joined the training program and majority of them benefited from the training, therefore, training was not effective for all members.



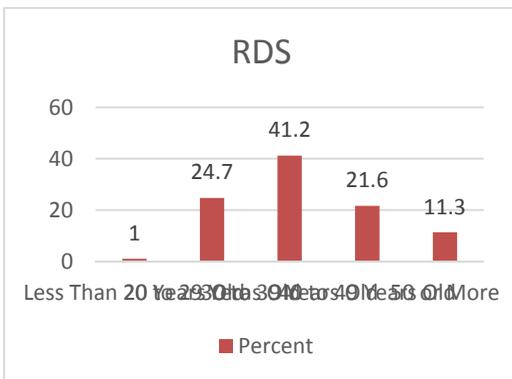
Graph 5: Percentages of RDS training



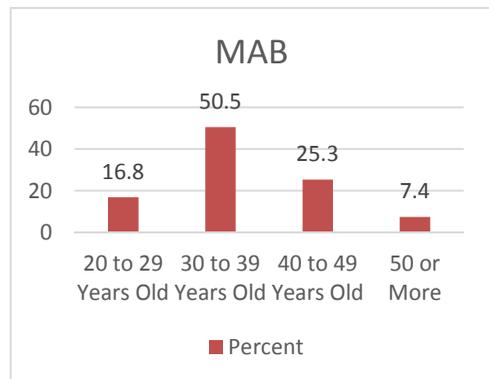
Graph 6: Percentages of MAB training

4.4 Age of Clients

Age is related to the experience. To perform a job, the age of an individual is a vital factor. Uddin, (2008) argued that comparatively, young age persons are better to put dedication, willingness, and importance to be a success in business. Aged people are experiencing and they can help business more to increase their household income.



Graph 7: Percentages of age



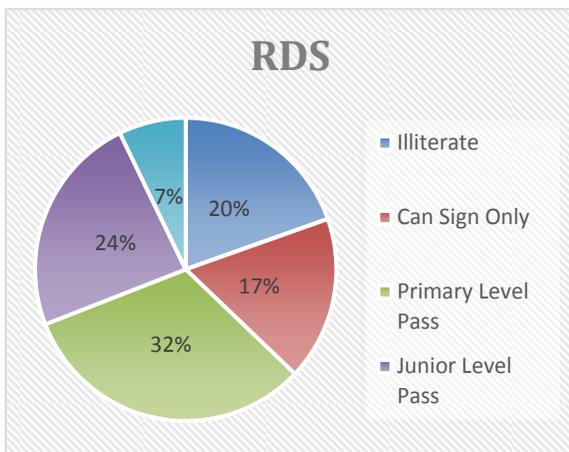
Graph 8: Percentages of age

Graph 7 and 8 reflects the RDS and MAB clients' age structure. The high percentage (41.2% and 50.5%) of age group was 30 to 39 years of both

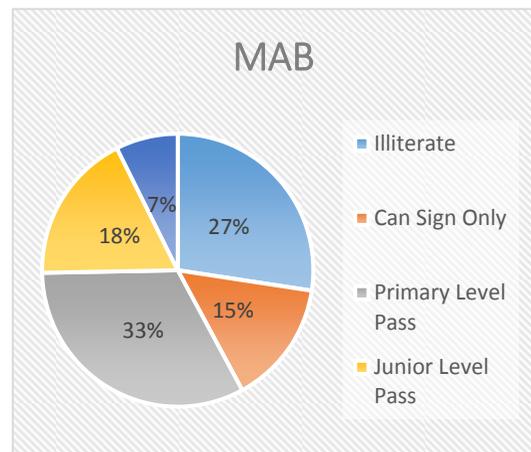
microfinance programs. It is a good sign that most of the clients are middle age group (30 to 39). The young age percentages (20 to 29) were 24.7% and 16.8%. These results indicated that RDS and MAB have given priority to middle age and above aged group to the entry in their programs for better performance.

4.5 Education

Education is the essential element for reducing poverty and wealth creation. Education background can help the poor people to invest their fund efficiently and profitably. It is a vital factor for poor people to gain better outputs in rural areas.



Graph 9: Percentages of education



Graph 10: Percentages of education

From the graph 9 and 10, it is clear that a significant number of both microfinance institutes clients are illiterate. Therefore, the majority, 32% and 33% of RDS and MAB clients are a primary level pass. It is good to see that most of the clients can sign and primary level pass and above.

4.6 Marital Status

Marital status is an important variable to form a group interaction. Saad and Duasa (2010) measured the economic performance of clients participating in the MF program of Amanah Ikhtiar Malaysia (AIM). The author found that married respondents are more likely to own assets of greater value than unmarried respondents. In this study, the researcher found that no unmarried person was joined the RDS and MAB. This result is similar to Uddin (2008). This result indicated, it is clear that unmarried women are restricted by social customs to go outside and undertaken public activities freely.

5. CONCLUSION AND RECOMMENDATIONS

Rural Development Scheme (RDS) and Muslim Aid Bangladesh (MAB) started microfinance program with the following Grameen Bank microcredit model. One of the most important purposes of RDS and MAB is to improve the living standard of poor peoples through a microfinance loan. This research was initiated to examine the determinants of RDS and MAB microfinance loans performance on clients. The findings demonstrated that RDS and MAB have been trying to provide the handsome amount of loan to the clients to run their business but not sufficient. So, the amount of loan should be increased. Most of the clients involved with microfinance in a certain period of time. According to previous research, longer experience helps the clients to income more. So, microfinance institutions should give attention on this issue. The clients are joining the training program however; the training program should be designed according to clients need.

RDS and MAB have given priority to middle age and above aged group to the entry in their programs for better performance. Still, young age persons are better to put dedication, willingness, and importance to be a success in business. RDS and MAB success in the case of involving primary and secondary educated people. Therefore, illiterate people should focus as it is one of the microfinance objectives is to provide service to backward and illiterate people. In case marital status, it is found that all the clients are married. Microfinance also should expand their service to the unmarried clients.

6. LIMITATIONS AND FUTURE RESEARCH

Despite the useful findings, this study is obviously not without its limitations. This study focused on qualitative analysis based on client's perceptions. Quantitative analysis can be the field to identify the significant effects of determinants of microfinance on client's wellbeing's. RDS and MAB's institutional operation related perspective and its effects on the clients can be another field of future study.

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