The Effectiveness of Microcredit Programs and Prospects of Islamic Microfinance Institutes (IMFIs) in Muslim Countries: A Case Study in Bangladesh[1]

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Abstract

Microcredit initiative is widely acclaimed as an approach to alleviate poverty and bring about development, but recently the effectiveness of the Microcredit programs has been appeared to be a focus of debate in finance and economics literature. The controversy surrounds mainly on the impact of these programs on poverty, ultra-poverty and further overall socioeconomic development. An exploratory survey was conducted to analyze the microfinance members' evaluation about the microfinance schemes adopted by different microfinance institutes (MFIs) in Bangladesh. The study also explores the possibility of establishing IMFIs as an alternative to the conventional MFIs. This study covered only three MFIs such as Grameen Bank (GB), Bangladesh Rural Advancement Committee (BRAC) and Association for Social Advancement (ASA). The data were collected from Gazipur, Savar and Narayanganj located around Dhaka city. The respondents (members of those three MFIs) were asked to evaluate their judgments on different objects selected in the questionnaire. The result of this study indicated that overall poverty was not alleviated and the factors such as membership criteria, costs of credit, income and living standard, religious restrictions and risk of loans are not on a satisfactory level.

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I. Introduction

Panel survey data indicate that in 1998/99, about 53 percent of total land-poor (defined as household owning less than half an acre of land) rural household participated in microcredit programs (Khandker, 2006). Available assessments of microfinance institutions' (MFIs') peer-monitoring model in Bangladesh emphasized the lack of physical, human and social capital as key access barriers to micro-entrepreneurship (Zeller et al., 2001). This has led some to argue that microcredit is perhaps not suitable for many of the poor and that expanding coverage of social safety nets notably as foreseen by many organizations may not represent a better avenue for poverty and ultra-poverty reduction (NFPCSP, 2007). However, there has been a large volume of literatures which show that MFIs are effective in raising income and living standard as well as reducing poverty in the society.

Fernando (2006) maintains that income is the simplest variable used in measuring the impact of microenterprises. There are many studies on the impact of microcredit on income and many ways to measure them. Primarily, there is the borrowers' recall of the income in the "before-after" situation. Using this method, Hossain (1984) concluded that both per capita income and household income are positively associated with the amount of credit borrowed from the GB.

More recent researches use income as dependent variable for the assessment of the impact of the MFIs. Using this approach, most authors conclude that MFIs can have a positive influence on poverty alleviation. Khandker and Chowdhury (1996) investigate the impact of GB and BRAC on poverty level of the participants and nonparticipants of the microcredit programs. They find that for both MFIs, a larger number of loans mean a lower rate of poverty for all program participants. In the GB areas, 76 percent of participants who have taken one loan are below the poverty line, compared with 57 percent of those who have taken five or more loans.

Khandker (1999) found that the rate of poverty reduction appears to decline with increasing duration of membership. For households that have been members for more than five years, moderate poverty fell by 9 percent and ultra-poverty by 18 percent. These figures are considerably lower than for household that have been members for three years or fewer. They estimate that for every TK. 100 lent to a female member of BRAC, household consumption increases by TK. 18. For men, this figure is TK. 11. These results indicate that poverty decreases as the borrowed amount increases. The study further shows that the poverty rate of BRAC members falls by around 15 percent for the moderate poor and by 25 percent for the ultra-poor when borrowers have a loan for up to three years.

Chowdhury et al. (2005) examines empirically the impact of micro-credit on poverty in Bangladesh. A household-level survey (N = 954) was carried out, collecting information about micro-credit recipients from Grameen Bank (GB), the Bangladesh

Rural Advancement Committee (BRAC) and the Association of Social Advancement (ASA). Their two main findings are, first, micro-credit is associated with both lower objective and subjective poverty and, secondly, the impact of micro-credit on poverty is particularly strong for about six years with some leveling off after that point.

Some raise the question of problems that are inherent with the microenterprises but not the microcredit program itself (Karnani, 2006). In a recent paper, he concludes that most studies suggest that microcredit is beneficial but only to a limited extent. The problem lies not with microcredit but rather with microenterprises. With low skills, little capital and no scale economies, these businesses have low productivity and lead to meager earnings that cannot lift their owners out of poverty.

Dichter (1996), Hulme and Mosley (1996) and Montgomery (1996) report that MFIs do not serve the poorest, who are either not given loans or drop out of the credit schemes. Karim and Osada (1998) observe that there is a steady increase in dropout rate from the Grameen Bank (GB) (15 percent in 1994) and that 88 percent of the total drop outs did not graduate to the status of non-poor. Assaduzzaman (1997) finds that current operations of MFIs are not very effective in improving the lives of the extreme poor.

Develtere and Huybrechts (2005) have brought forth that there is no consensus about whether these MFIs reduce the poverty. Similarly, Ullah and Routray (2007) went further and revealed that the economic condition of the poor in the study areas has not improved much when judged against some selected indicators, namely, family income, food, and non-food expenditure, productive and non-productive asset, food security and employment creation. The Foster Greer Thorbecke index shows that the majority of them remained below the poverty line in terms of income and the overwhelming majority of them remained below underemployment line (less than 260 days of work in a year). The regression analysis shows that the income of the households is determined by landholding size, family labor, days suffered from morbidities and employment opportunities. These findings that MFIs have not been successful to bring about the wellbeing of the rural poor explicitly support the Develtere and Huybrechts thesis.

Similar findings are also evident in the article of Kingsbury (2007, p. 43) that says, “Fighting poverty with small loans is hot, but microcredit is not a magic bullet for underdevelopment.” Today about 10,000 MFIs hold more than $7 billion in outstanding loans. As Yunus told The Time, last October 2006, “At the rate we’re heading, we’ll halve total poverty by 2015.” Yet, there’s surprisingly little evidence that promise can be met (Kingsbury, 2007, p. 43). No long-term study has measured how often borrowers graduate to the middle class. Dyal-Chand (2007) raised an immensely insightful question in terms of collateral hinged on the GB microfinance process that imposed human worth as collateral. By the term human worth means family status, honor and respect, this, in local word, is called ‘ijjat’. Examples are

there that many a debtor committed suicide in the extreme cases (Rahman, 1999). Dyal-Chand (2007) reported such an incident in Bangladesh where a woman captive in a house of the GB compound used her 'sari' to hang herself from the ceiling fan having faced with the loss of honor to her family as a result to her failure to repay the loans. The GB is enforcing this collateral by group lending or group solidarity. Dyal-Chand (2005), asked the question whether microcredit is a cure for entrenched poverty or not. She herself answered based on the information available to her, "There aren't the statistics to prove that yet" (Kingsbury, 2007, p. 43).

Against this background, further empirical assessment is, thus, heavily warranted to seek further for the evaluation of the impacts of microcredit initiatives on poverty reduction in Bangladesh. In particular, it would contribute to address the issue such as to whether microcredit organizations have helped the poor and ultra-poor recipients make sustainable livelihoods. The present study is a humble attempt of inquiry in that concern. This investigation has, therefore, made an opinion survey among the microfinance recipients to evaluate their overall opinion out of the microcredit programs in which they are currently participating. In the end, prospects of Islamic microfinance programs are discussed as a potential alternative in order to achieve their desired objectives of poverty eradication and rural development.

II. Methodology

As any subjective evaluation is contingent on several numerous socioeconomic factors, the study endeavors to identify the key factors that are responsible for determining the overall level of opinion on credit use-satisfaction of the microcredit recipients or members of the MFIs in Bangladesh. The MFIs, which are included in the investigation, are the Grameen Bank (GB), Bangladesh Rural Advancement committee (BRAC) and ASA (Association for Social Advancement). Among these MFIs, the loan recipients or members were surveyed from the areas of Gazipur, Savar and Narayanganj – in Bangladesh. The survey was done based on pre-set questionnaire consisting of seven main factors or controlled variables such as Household Income and Living Standard, Cost of Credit, Loan Repayment Policy, Loan Utilization Opportunities, Membership Criteria, Religious Restrictions and Risk Using Loan. Under these seven factors there have been twenty eight structured questions. Altogether 300 members were surveyed and out of this, 210 were complete and usable for data analysis. Sample includes 70 from each of the three MFIs. The data were collected during May to September 2007. A structured questionnaire in a 5-point scale was used in the survey. In the measurement, scale 1 indicates "strongly disagree", scale 5 indicates "strongly agree" and scale 3 indicates "neutral". The reliability test has been performed to verify the internal consistency of the variables obtained in the sample. The Cronbach's alpha (α) coefficient value is found 0.9237, which is much higher than minimum acceptable level (+/-.5 or +/-.6) suggested by Nunnally (1978). Several analytical techniques such as Factor Analyses, Descriptive

Statistics and Correlation Analyses have been used to measure the level of microcredit users' opinion of the afore-mentioned MFIs in Bangladesh.

III. Conceptual Framework

This study investigated the factors affecting microcredit beneficiaries' opinion of the measured variables and the cause and effect relationship among the variables, which in turn reflect the poor microcredit members' evaluation for the effectiveness of the different microfinance organizations. There have been identified seven socioeconomic factors which affect the microcredit beneficiaries' opinion to find out the effectiveness of the aforementioned microcredit organizations.

Income and living standard is the most important socioeconomic factor for the poor beneficiaries of the microcredit institutions (Doeringer, 1980) in the context of a developing country such as Bangladesh. Living standard of the rural poor would only be uplifted when the income received from the economic activities of micro entrepreneurships could be augmented. The activities of generating income of the beneficiaries of the microcredit institutions of Bangladesh include domestic animal rearing, fish farming, poultry farming carpentry, tailoring, petty business, k*antha* stitching, paddy husking, rickshaw-van driving and nursery. The expected benefits from these activities are to increase income, increase employment and raising living standard of the beneficiaries (Ullah and Routray, 2007). [put Figure 1 here]

Cost of credit is another important dimension for considering effectiveness of the microcredit organizations. The costs include interest charged by the institutions, service charges, forced pension fund charge, emergency fund charge and others, which cost as high as 60 percent on a cumulative basis (Kingsbury, 2007). Undoubtedly, this is extremely high cost that leads the microenterprises to the high risk of losses in the business. If the internal rate of return cannot reach as much as 60 percent overall cost of credit, the risk factor would be higher that could put the small business in losing concern. This fact of losing concern would adversely affect the loan repayment, which is due on weekly basis. Owing to this reason, about 24 percent beneficiaries reported that half of their first loan was repaid by the respective microcredit institutions themselves by deducting the outstanding from the principal amount of the second and third loan when they expressed their inability to repay it. About 12 percent members complained of misbehavior and threat from the officials of microcredit organizations. About 28.4 percent sold out valuables and 26.8 percent borrowed from different sources of fund for repaying the loan (Ullah and Routray, 2007). Thus, cost of credit, risk of loan and loan repayment policy are interrelated and play crucial role to determine the opinion measure of the microcredit beneficiaries.

Most of the microcredit organizations put disciplinary obligations which include the training program among other components such as physical exercise, queuing for getting loan and weekly meetings. As most of the clients of microcredit organizations

are female, all these obligations could spark the religious sentiments in the households of the beneficiaries. Religious principles put bar to the interest element as well as free movement without the *purdah* (cover-up) for the female members of the microcredit institutions. These factors are necessarily correlated with the satisfaction measure of the microcredit beneficiaries. Loan utilizing opportunities are also an important dimension for which the business success depends on. Without proper marketing strategy applicable to a particular location, the businesses could be in failure status. Hence, all these seven factors are identified as the determining variables to affect the opinion scale of satisfaction level of the microcredit beneficiaries in order to prove the effectiveness of the microfinance institutions in Bangladesh.

IV. Data Analyses

Principal Factor Analysis

Factor analysis of 28 variables in the instrument formed seven main factors with eigenvalues greater than one, which are provided in the parentheses under the factors in the first column of the Table 1. The eigenvalue of last factor (loan use opportunity) contains a value of 0.914, which is accepted as it is close to one. These 7 factors account for 63.58% of the variance in the data on attitudes toward credit use in microenterprises. The first factor, membership criteria that accounts for the most variance (16.03%) consists of eight variables. Eigenvalue for this factor is 8.812, which indicates that this factor contains more information than the other factors. This factor provides the maximum insights of credit use opinion of loan recipients of the MFIs in Bangladesh. It broadly includes the areas of membership criteria such as, group membership, weekly meeting, physical exercise practices, and amount of loan. This caveat is also supported by Bornstein (1997) who criticized it as a measure of social control and disciplinary imperatives, which many members do not like to follow. Thus, the result of this study is consistent with the previous empirical outcome.

The second most important factor is the cost of credit, which accounts for 12.257% of variance. This factor includes interest and other charges that absorb most part of the loans out of its principal amount. This result has been an issue for attacking MFIs from numerous researchers and academia. Ullah and Routray (2007), Hashemi (1997), Murdoch (1998), Evans et al. (1999) support this evidence saying that when they take loan, they can get into trouble if the returns from investment fall short of the cost of borrowing. This gap is then filled by one of five options, depending on the pre-loan endowment of the borrower**:** Borrowing from moneylenders, using saving or selling assets, reducing existing consumption levels, negotiating to rescheduling loans or simply defaulting. As Banerjee (1999) says, some defaults, in turn, energize a

demonstration of spiral and many households practice self-exclusion. The net result is that the poorest fall through the net. [Table 1]

The third factor is household income and living standard that explains the variation by 11.32%. Most of the criticisms are concentrating around this factor that income of the members of the MFIs is not increased. Research results of Assaduzzaman (1997), Ullah and Routray (2007), Hulme and Mosley (1999), Murdoch (1999) show that the impact of credit on members' monthly income has been limited. Particularly when inflation is taken into account, income increases of members are negligible.

The factors of religious restriction and the risk of using loan are also remarkable to take into the consideration. It implies that the people are religiously somewhat conservative in Bangladesh. There are evidence, such as Hashemi and Schuler (1992) and the *Economist* (2000) show that the people of Bangladesh are sensitive to interest charge which is castigated by the Scripture of Islam and women-participation is also discouraged in the religion of Islam. At the same time, risk of using loan is also another concern to think of using loan by the members of the GB, BRAC and ASA.

Descriptive Statistics and Correlation Analyses

Table 2 presents the means, standard deviations and correlations between all the controlled variables concerned in the study. The Table shows that all the correlation coefficients exhibit positive statistical significance. In the 5-point scale, these mean values represent somewhat high level of overall opinion on satisfaction from the microcredit beneficiaries' point of view. Among all the factors the loan use opportunity has got the highest mean value of 2.6032 (ð=.7227). This implies that the members of the MFIs are somewhat neutral about the factor of loan utilization opportunity (LUP) available to their locality. The notable point is that even though higher mean value, loan utilization opportunity has the lowest correlation with the overall satisfaction level. From the characteristics of the data it is observed that religious restriction (RR) (μ=2.5175, ð=1.0187) has moderately high deviation from the mean among all other factors. The questions are pertained here to the level of satisfaction related to interest-based loan system, male-female interaction and female membership. A large deviation shows that the opinions differ greatly among the beneficiaries. Similar implications are also applicable in the cases of income and living standard (ILS) (μ =2.2413, ð =.8091). For the factor of ILS, a test of mean is conducted to see whether it is 2 or less and it is confirmed that beneficiaries are not satisfied with the existing programs in terms of improving their income and living standards.

In the table, a significantly positive and strong correlation was found for microcredit customers' satisfaction with income and living standard ($r = .654$, $p < .01$), with cost of credit (CC) ($r = .561$, $p < .01$) with membership criteria ($r = .671$, $p < .01$), with RR ($r = .601$, $p < .01$), and also with risk of loan($r = .445$, $p < .01$). Such significant

correlations indicate that these factors have strong influence on microcredit consumers' (members) opinion of overall satisfaction. Moreover, a positive but significantly low correlation was found among loan repayment policy and loan use opportunity, which implies that the MFIs should develop and adopt a policy that have synchronization among those factors. [Table 2]

Only one association of religious restriction and loan use opportunity has the lowest but positive significance. The relationships of the overall opinion of microcredit customers' satisfaction with income and living standard, membership criteria and religious restrictions are relatively stronger. Among others, membership criteria and income and living standards; religious restrictions and income and living standards; cost of credit and income and living standards show significantly higher correlation coefficients. These imply that membership criteria, religious restrictions, cost of credit, and income and living standards are the key factors to consider the overall opinion on satisfaction of microcredit use in Bangladesh. The mean scores have been computed based on weighted average method. In the 5-point scale, these mean values represent somewhat negative level of loan using opinion of satisfaction from the loan recipients' point of view, because 3 indicates the neutral position and less than 3 weighted average implies negative satisfaction.

V. Prospects of IMFIs

Microcredit organizations including the GB have been working in Bangladesh since its inception in 1976 in order to eradicate rural poverty in Bangladesh, but until now about 47 percent of the village-poor remain nonmember of the MFIs even though they are eligible for getting into these programs (Khandker, 2006). In addition, there has been no long-term study that has measured how often borrowers graduate to the middle class (Ahmed, 2004). There are many literature focused on the performance and effectiveness of MFIs along with the GB in Bangladesh since its establishment in 1983 as a complete microcredit bank with the mandate from the government of Bangladesh. Amongst such investigations, along with the studies mentioned earlier, Bornstein (1997), Morduch (1998), Hulme and Mosley (1996), Hulme (2000), Rahman (1999), Mathew (2006), Dyal-Chand (2007a; 2007b), Dichter (2007) and Kingsbury (2007) are the most prominent to take into consideration.

Pertinently, as the key findings of this study were to reveal that overall poverty was, based on the respondents' opinion, not alleviated, the exogenous variables such as disciplinary or membership criteria (MC), costs of credit (CC), income and living standard (ILS), religious restrictions (RR) were appeared to be statistically significant to correlate the endogenous variable of opinion scale of overall satisfaction that made the microcredit programs ineffective subsequently to achieve their goals. Among these four factors --- membership criteria, cost of credit and religious restrictions are, in reality, loaded with several Islamic codes which are obligatory (*Fardh)* for the

Muslims to observe as their duties. For example, most of the conventional or secular microcredit programs are incumbent on utmost initiatives of encouraging females to become members of their organizations in the name of women empowerment and liberation that instigate the women-folk to come out of the houses to take up the economic responsibility of the family in parallel to the same accountability of their male partners or husbands. As a part of the membership criteria, all members of the MFIs are required to attend all weekly meetings (Ahmed, 2004). However, such interactions between male and female are actually permitted by Islam contingent on some ethical principles pertaining to the way of coverings and clothing behavior followed particularly by the females. In most of the Muslim countries where the majority of the population is Muslim and spiritually religious, people, as a whole, like to practice Islam in their lives as religion, but when there are no such options are available in the society; they become obliged to go through the existing process of the phenomena. Hence, if any Islamic MFIs those formulate membership criteria according to Islamic principles incorporating Islamic values and obligatory duties and extend microcredit to the poor Muslims in these countries, there has been a big chance of these institutes to be popular and successful.

The variable cost of credit constitutes principally interest (*Riba)* as the price or function of the fund or investment, but in Islam interest is vehemently opposed as *Haram* (forbidden) element (Rahman, 1964; Saleh, 1986; Haq, 1995; Saeed, 1997). The Qur'an, along with the tradition of the Prophet (Hadiths), forbids economic exploitation in no uncertain terms. To encourage economic activity while seeking to keep it from being exploitive or becoming an end in itself, Islam has urged its adherents to refrain from *Riba*, which decodes literally as unlawful or exploitive gains. *Riba* must be equated with economic exploitation (Ibn al Qayyim quoted by Vogel & Hayes, 1998, p.82), and the prohibition against it must not be construed as applying only to transactions involving usury or even interest. The prohibition against *Riba* is intended to promote ethical economic activities that do not exploit other human beings while creating wealth for individuals. The Islamic prohibition against cheating others is grounded in the same spirit as is the Islamic injunction against transactions involving usury. Both would encroach upon the basic right Islam grants to all human beings, namely, the right to be free from economic exploitation (Chapra, 1983).

In place of *Riba*, Islam prescribes the introduction of profit and loss share schemes, which implements different financing products such as Musharakah, Mudarabah, Murabaha and so on. Thus, due to all those religious restrictions, microcredit customers who are predominantly Muslims in the society of Bangladesh contemptuously take part in microcredit programs and expressed mostly dissatisfaction in using the credits from different MFIs in Bangladesh.

On the one hand, due to high costs of credit the microenterprises face economic non-viability, because to ensure profitability the costs have to be kept at the minimum. Questions may arise, despite high cost of fund why at least 53 percent of the rural poor, according to Khandker (2006), choose to take part in microcredit programs and initiate investments in microenterprises. The reason behind this is that the rural poor do not have any access to funds from traditional financial institutions (Ahmed, 2004). This is the only potential source available to them to finance their rural microenterprises in order to get rid of the vicious circle of poverty. Unfortunately, these rural microenterprises used to have no prior business history, which is noted to be the asymmetric information that potentially put barriers on the access to micro-capital-investment from the formal financers in developing countries (Bennett, 1998). A brief discussion of the nature and operating principles of Islamic MFIs are delineated below for a better understanding of this new set of financial intermediation.

Financing Modes of IMFIs

IMFIs are in pipelines in some countries including Bangladesh. These institutions have taken on the group-based or peer monitoring model of financing similar to conventional MFIs, but adapted Islamic financial principles. The financial format of assets and liabilities of the Islamic MFIs are, in fact, different compared to conventional MFIs. One of the special and distinct features of Islamic finance is that "financial capital cannot claim a return on itself and that the transaction must involve a real good or object. Principles of Islamic financing are many and varied. The type of financing instrument will depend on the type of activity for which funds are granted" (Ahmed, 2004, p.10). For the investment in microenterprises, an appropriate Islamic financing dynamics are warranted. As the Qur'an and the tradition of the Prophet suggest that Islam was not content with just exhorting believers to do good and avoid evil, but set up an institution that facilitated the proper behavior suggested by their faith (Chapra, 1983).

Except interest free loans (*Quard-Hasana*), Islamic financing can be broadly classified into two: as partnerships (*Sharikat*) and exchange contracts (*Mu'awadat*). Partnership is based on profit sharing or output sharing. Profit sharing can take two forms: *Musharakah* and *Mudarabah*. While in *Musharakah* more than one party finance and participate in a project and distribute the profit or loss at an agreed ratio, in *mudarabah* one party supplies the capital and other party carries out the project and share the profit at an agreed ratio.

There are different types of exchange contracts. The most favored and practiced principle is deferred-trading. This contract may be either a price-deferred sale (*Bai-mua'jjal)* or an object-deferred sale. For microfinancing, the price-deferred sale is practiced and in this practice the object of sale is delivered at the time of the contract

but the price is paid later. The price can be paid in the future in agreed upon installments. Under this format, one kind of financial transaction is known as mark-up sale (*Murabahah*), in which IMFIs purchase a good or asset and sell it to the client at a mark-up price. The clients can pay for the good or asset at a future date fully in one time or in installments over a specified period of time. Among others *Ijarah* is a leasing contract in which the client uses an asset or property by paying rent to its owner. This contract arrangement can be the hire-purchase scheme or lease-purchase scheme (*Ijarah wa iqitina*), in which the installment includes the rent and a part of the principal amount of the capital. This is also called rent to own leasing contract. When the installments are fully paid up the ownership of the asset or property is transferred to the client.

Besides, there have been some traditional financial instruments for poverty alleviation such as *Zakat, Waqf, Qard Hassan* and *Sadaqaat*. Often *Zakat* is seen as charity, but when one looks at the eight uses that the Qur'an specifies for *Zakat* funds, only two specifically deal with charity. The other uses can be seen as directed towards eliminating conditions that promote economic and social exploitation. The Qur'anic verse dealing with the disbursement and the beneficiaries of *Zakat* reads as follow: "The State revenues are only for the poor (among the Muslims) and the destitute (among the non-Muslims), and those who work for these (revenues), and those whose hearts are to be reconciled, and for freeing the necks (of prisoners and slaves), and those heavily charged, and in the path of God, and for the wayfarers; a duty imposed by Allah, Allah being knower, wise" (9: 60). These eight categories are, in fact, very comprehensive and are seen by a number of contemporary scholars defining the social responsibilities of a Muslim State.

Muslims are religiously obligated to share their wealth with the community. Such sharing is known as *Zakat*. There is some hesitation about calling it a tax as noted by Baydoun and Willet (1997). Nonetheless, it has all the traits that are associated with tax, along with a religious sanction. For a large number of Muslims, it is equated with giving to charity a certain percentage of their wealth every year. But in the Qur'an, in the Hadiths and in the practices of the early days of lslam, *Zakat* (also called *Sadaqat* and *Haqq*) meant all sorts of tax imposed by the Muslim State on its Muslim subjects: tax on agricultural produce, on sub-soil exploitation, on commercial capital, on herds of domesticated animals grazing on public pastures, as well as cash and personal wealth (Baydoun and Willet, 1997). Without any doubt, all these instruments of Islam can be effectively integrated into microfinancing programs to alleviate absolute poverty. Furthermore, the Islamic content of the social development program can build the social capital needed for successful functioning of the MFIs (Ahmed, 2004).

VI. Conclusions

Microfinance initiatives are widely acclaimed as a paradigm for alleviating rural poverty and overall social and economic development in developing countries. Since

its inception in early 1980s in Bangladesh, MFIs have been working in many countries of the world, but there is rare such evidence that how often the poor borrowers graduate to the status of non-poor. Evidently, there may surface a serious question of effectiveness of MFIs in reaching their goals. The present study was conducted to identify the socio-economic factors that are responsible for obstructing in achieving those objectives of MFIs. The result of this study reveals that microcredit clients' opinion on overall satisfaction of loans provided by three MFIs namely the GB, BRAC and ASA invested in different microenterprises in Bangladesh is at negative level exhibiting overall mean value of 2.3810. To make the safety nets of MFIs to be helpful for the rural poor the variables identified in earlier discussion should be reconsidered by the existing microfinance institutes. Otherwise the poverty level would persist rather than coming down and alternative measurement should be in consideration in order to reduce the poverty from its root level of society. In terms of alternative measurement, the prospects of Islamic MFIs are proposed to be potential in the present socio-cultural, religious and people's psychological background of many of the Muslim countries including Bangladesh.

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Figure 1: Conceptual framework for microcredit customers' (beneficiaries) opinion of satisfaction to measure the effectiveness of the microfinance programs.

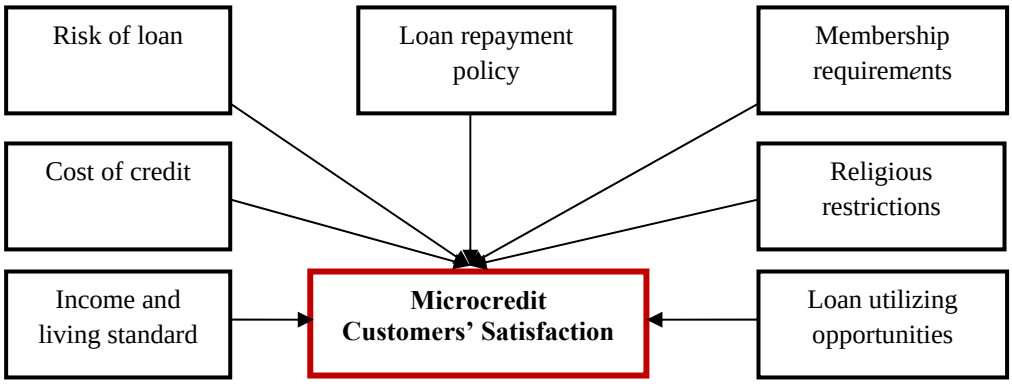

Table 1: Principal Component Factor Analyses:

Factor *	Variables	Factor Loading	Variance % (Cumulative)	Cronbach's Alpha (α)
Membership Criteria (8.812)	17. Satisfied with membership criteria 18. Satisfied with group-membership criteria 19. Satisfied with weekly meeting criteria 20. Satisfied with physical exercise criteria 21. Satisfied with monitoring criteria 22.Satisfied with amount of loan	.635 .793 .704 .480 .548 .771	16.003 (16.003)	.8209
Cost of Credit (2.263)	7.Satisfied with interest rate 8.Satisfied with service charge 9.Satisfied with forced saving rate 10.Satisfied with forced pension saving rate	.782 .738 .533 .618	12.257 (28.259)	.7148
Income & Living Standard (2.165)	1. Household income is higher than before taking loan. 2.Consumption is higher than before loan 3.Health is better than before taking loan 4.Children are going to school after loan 5.Housing condition is better than before taking loan 6.Sanitation awareness is better than before taking loan	.582 .553 .742 .590 .539 .584	11.320 (39.580)	.8421
Religious Restrictions (1.410)	23. Satisfied with interest-based loan system 24. Satisfied with male-female free-mixing environment 25. Satisfied with female membership	.453 .411 .658	7.337 (46.917)	.7668
Risk of Using Loan (1.179)	26. Satisfied with the risk that can affect the family 27. Afraid of risk, because the properties could be seized in case of default 28. Prepared for the risk	.498 .848 .402	6.749 (53.665)	.4984
Loan Repayment Policy (1.06)	11.Satisfied with loan repayment installment 12.Satisfied with weekly payback period 13.Satisfied with loan repayment cycle	.602 .658 .665	6.650 (60.315)	.5570
Loan Use Opportunity (0.914)	14.Have experience in business for loan use 15.Satisfied with business where loan is used 16.Satisfied with profitability of business	.657 .407 .561	3.264 (63.580)	.5648

1. Household income is higher than before taking loan.
2.Consumption is higher than before loan
3.Health is better than before taking loan
4.Children are going to school after loan
5.Housing condition is better than before taking loan
6.Sanitation awareness is better than before taking loan

* Numbers in the parentheses in the first column represent eigen values of the corresponding factors.

Table 2: Mean, Standard Deviation and Correlation Coefficient

Factors	Mean	Std. Dev.	OPS	RL	RR	MC	LUO	LRP	CC	ILS
Income & Living Standard (ILS)	2.2413	.8091	.654**	.514**	.650**	.769**	.444**	.404**	.655**	—
Cost of Credit (CC)	2.2952	.7650	.561**	.449**	.594**	.564**	.320**	.544**	—	—
Loan Repayment Policy (LRP)	2.1683	.7487	.299**	.362**	.269**	.295**	.369**	—	—	—
Loan Use Opp. (LUO)	2.6032	.7227	.266**	.452**	.169*	.420**	—	—	—	—
Membership Criteria (MC)	2.4833	.7926	.671**	.551**	.691**	—	—	—	—	—
Religious Restriction(RR)	2.5175	1.0187	.601**	.347**	—	—	—	—	—	—
Risk of Loan (RL)	2.5587	.7414	.445**	—	—	—	—	—	—	—
Overall Opinion on Satisfaction (OPS)	2.3810	1.0155	.—	—	—	—	—	—	—	—

*P<.05 **p<.01, N=210

Questionnaire on Microcredit Consumer Satisfaction in Bangladesh

You are requested to read each of the statements carefully and tick (√) the best response that is more appropriate to you.

A. Micro Credit Consumer Satisfaction Related Questions:

	INCOME AND LIVING STANDARD	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
01	My household income is higher than before taking loan					
02	My household consumption is higher than before taking loan					
03	My health condition is better than before taking loan					
04	My children are going to school after taking loan					
05	My housing condition is better than before taking loan					
06	Our sanitation awareness is much better than before taking loan					
COSTS OF CREDIT						
07	I am satisfied with interest rate					
08	I am satisfied with the service charge					
09	I am satisfied with the forced savings rate					
10	I am satisfied with the forced pension savings rate					
LOAN REPAYMENT POLICY						
11	I am satisfied with the installment of loan repayment					
12	I am satisfied with the weekly payback period					
13	I am satisfied with loan repayment cycle					
LOAN UTILIZATION OPPORTUNITIES						
14	I have experience in the business where loan is used					
15	I am satisfied with the business where loan is used					
16	I am satisfied with the profitability of the business					
	MEMBERSHIP CRITERIA					
17	I am satisfied with the membership criteria					
18	I am satisfied with group membership criterion					
19	I am satisfied with the weekly meeting criterion					
20	I am satisfied with the physical exercise criterion					
21	I am satisfied with monitoring criterion					
22	I am satisfied with the amount of loan advancement					
RELIGIOUS REGULATIONS						
23	I am satisfied with interest-based loan system					
24	I am satisfied with male-female free-mixing environment					
25	I am satisfied with women-membership					
RISK USING LOAN						
26	I am satisfied with the risk that may affect me					
27	I am afraid of risk, because bank may seize my property if I can't payback loan.					
28	I am prepared for the risk					
	OVERALL SATISFACTION					
29	I am satisfied with the overall prospects of micro credit program					