

Assessing the Factors that Led to the Success of Microfinance in Bangladesh: A Case Study on Grameen Bank

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This paper analyses the factors that led to the success of microfinance, in particular, Grameen Bank 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 GB especially in Bangladesh. The specific period of this study was 6 months, as the researcher started in conducting observation in May 2009 and ended in October 2009.

Keywords: Microfinance, Grameen Bank, NGOs, MFI, Poverty Alleviation, Economic Development.

JEL Classifications: D31, G21, I30, L31, O10, O16

1. Introduction

Micro-finance has been an important tool for the economic growth and poverty alleviation, as it has reached out in many different countries around the world. (Wilkes, 2005). That is why, more than ninety two million borrowers are from different developing countries and it is very common that micro finance institution has originated from with the Grameen Bank which has dispersed across the world. (Hulme and Moore,2006). According to Nyariki and Wiggins (1997), a poverty society relies on farming, fishing and livestock keeping activities which all are associated with micro-enterprises. Besides, Micro-finance refers to small scale finance which is provided to micro enterprises. (Choudhury, *et al*, 2008).

Micro enterprises are business enterprises which are operated at family level in the informal sector amongst the numbers of workers. (Mwenda and Muuka, 2004). In the earlier period, informal sector like NGO-MFI's provided micro-credit, but very recently, it has been going to be emerged in the commercial sector, as government and policy makers initiated providing the micro-financial service in the formal sector.(Hulme and Moore,2006).

The ultimate aim of this research is to explore the factors that contributed to the success of micro-finance especially Grameen Bank in Bangladesh. The objectives of this study are comprised the following;

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- ❖ To investigate the innovation, design and implementation of GB in Bangladesh.
- ❖ To examine the adaptation and learning practise of GB in Bangladesh.
- ❖ To study the motivation and contribution of GB in Bangladesh.
- ❖ To observe the environment factors that favoured GB in Bangladesh.

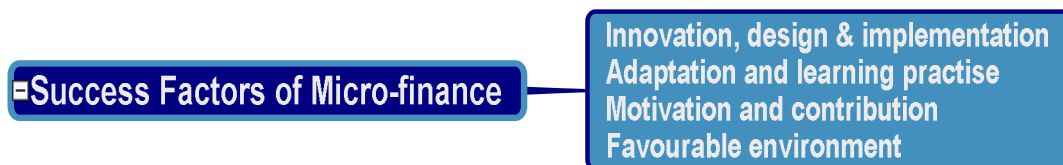
The first chapter is Introduction which discusses Background knowledge of microfinance and Grameen Bank. For this study, it also deals with aim and objectives. Another most important chapter Literature Review discuss the critical success factors that led to the success of microfinance, impact of microfinance on women borrowers, different financial problems of microfinance such as higher interest rate, creating pressure of GB's borrower's for loan repayment etc. For this study, methodological has been discussed. It illustrates different perception and approach. Moreover, it demonstrates designs of the research, methods of data collection and considers sampling and population of this research, designs of the questionnaire as well as the selected data analysis technique has been described. Discussion of findings analyses the obtainable data and discusses in relation to the findings of this analysing data and literature revealed in the part of literature review. Conclusion and Policy implication has been drawn as the final chapter. It illustrates a variety of detailed information about this research and the recommendations and observation regarding success factors of micro-finance, especially GB in Bangladesh.

2. Literature Review

2.1 Examining the Success of Micro-Finance

How has Micro-finance been success? Different types of theoretical literature are critically explained regarding the success of micro-finance. The structure of McCourt and Babington's has been revealed to recognise and discover the major factors of microfinance.(Hulme and Moore,2006).

Figure1: Research Model



Above this model will be applied in conducting this research. On the basis of theoretical literature, there have been different kinds of success factors of micro-finance observed in this paper. Several processes are implemented to develop the service of micro-finance effectively which contributed to the success of micro-finance.(Hulme and Moore,2006).

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Grameen Bank examined its product that assembled the borrower's requirements and built up the delivery methods or systems reasonably at a lower cost and produced resources, thus led to the expansion of micro-finance.(Korten,2006).To achieve success on a small amount in almost any area, high levels of enthusiasm and resources can assist to get the success, but innovation provides the ideas and knowledge that help to achieve service-delivery on a large scale.(Hulme and Moore,2006). Firstly, Grameen bank started in increasing the method of innovations, as it taken necessary steps to make standard to its models such as twelve month loans and standard loan repayments procedures etc.

Many researchers has resounded the innovation as a critical success factor (CSF) in directing microfinance.(Gallardo,2000; cited in Hartungi,2007). Nugroho & Miles (2009) has argued that microfinance has been an innovation and design of product which assist to provide new financial service to the poorest people. For example, group based lending; collateral free lending system and group monitoring system etc. are the innovation and designs of Grameen Bank.(ibid). GB offers new information technology, a technological innovation, which has extended the effectiveness and feature of micro-financial service. It has adopted Automated Tellers Machines (ATMs) and computerized administering system which make easy the transaction such as loan payment, money transfer, saving account controlling etc and help to obtain information quickly .(ibid).

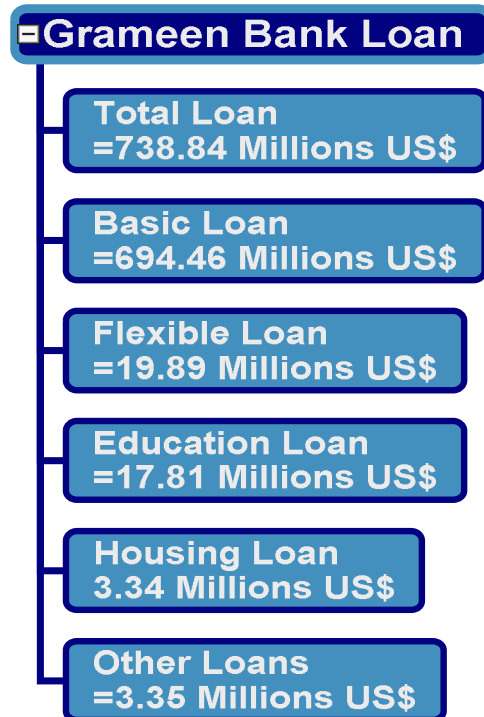
Moreover, Hassan (2002) has depicted an innovation of GB which is group-based lending has contributed a key success of micro-finance in Bangladesh. GB introduced an exclusive group lending technique through offering the basic and flexible loan, hence increased flexibility for its borrowers and eased peer pressure among the groups.(Busse & Victoria Noelle, 2008). It also integrated the benefits of group lending, thereby having an attempt to minimize the restrictions and disadvantages of micro-finance.(Hulme and Moore,2006). Likewise, Bancsol replicated the Grameen group lending system.(ibid). As a consequence, they depicted that group lending could be one the success factors of micro-finance which permitted GB to implement the management of the particular tasks such as screening and group monitoring for loan repayment from borrowers, thereby assisting the GB to enable for allocating the micro-credit.(ibid).

The key implementation has been a well designed strict administrative structure of GB, thus contributing to expand micro-finance especially in Bangladesh. (Hulme and Moore, 2006). Due to the effectiveness and efficiency of MFI, it was able to increase the service delivery of micro-finance.(ibid).Grameen Bank ,a renowned micro-finance provider, commenced to create a well-designed human resource development structure for the training and development programme of staff in order to generate effective field workers and field level managers.(ibid). Hulme and Moore (2006) also have indicated that GB supervises its clientele's by field staff that assisted to ensure the repayment of loan. Similarly, BRI in Indonesia has also been replicating Grameen Bank. It started and innovated the staff training for the period of two months, staff promotion training to a high rank, training for refresher or application trainings for at least two times annually and initiated for new rules and regulations.(Hartungi,2007). Another critical success factor of Grameen Bank is adaptation and learning practise. GB, the most famous and successful micro-finance institution, has started innovating, adapting and learning

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practise over the 1990s and early 2000s.(Hulme and Moore, 2006). Between the year of 2001 and 2002, Grameen Bank instigated to change its service and named as Grameen Two(2) which pledged to remodel its product to customers, as it started the latest and innovative, much more flexible financial and administrative procedure.

Figure 2: The amount of different types of GB Loan

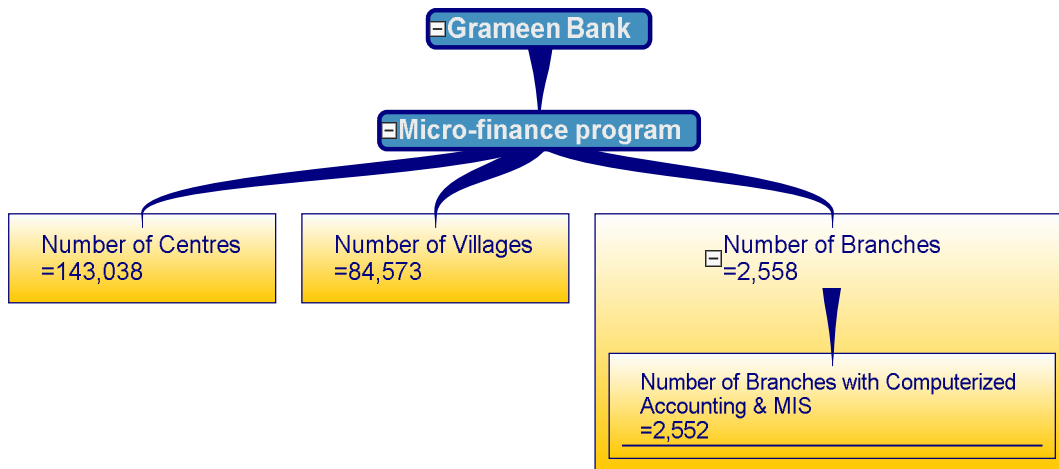


Source: Grameen Bank Monthly Report, July (2009)

Grameen Generalised System has been regarded as Grameen two (2) which provided basic loans, housing loan, higher education loan and interest free beggar loan. It also facilitated for larger small enterprise loans.(Hulme and Moore, 2006).GB has adapted through introducing new products such as flexible loans, voluntary savings and mandatory savings etc. (Home and Moore, 2006). They also mentioned that it has adapted micro pension, micro insurance etc. which also contributed to the success of microfinance. Likewise, GB also has computerised Accounting and monitoring system with its 2552 branches out of 2558. (Grameen Bank,2009).In the perspective with this, numerous business management experts have recommended that learning and adaptation practice are required for any kinds of organisations through adopting new methods.(Senge,1990;Drucker, 1999). For instance, adaptation practise with required transformation, one of the major successes of GB, has been a model in Philippines. (ibid).

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Figure 3: The Number of Centres, Villages and Branches of GB's Micro Finance programme



Source: Adopted from Grameen Bank Monthly Report, July (2009).

Besides, other MFI's such as ASA, BRAC etc have also innovated out of the Grameen model, as they have also brought to offer the clients some new products which further fulfil their needs effectively in comparison with Grameen Model, whilst emphasizing on savings, group based techniques in place of individual and having access to savings.(Hulme and Moore,2006).Due to the considerable level success of GB, other different institutions influenced significantly to discover superior by conducting their own investigations.(ibid).

Moreover, incentive is a leading motivational factor to conduct the behaviour of people in a particular way.(Hartungi,2007) argued that a well design incentive system is a critical success component of GB. Grameen Bank offered a reward package or promotion based on merit and the active promotion on the basis of an institutional legend. (Hulme and Moore, 2006). In line with this, BRI designed a distinctive incentive scheme to its staff and clients, as its staff gets a bonus on the basis of the profit and performance of the unit desa where staff works and provides services.(Hartungi,2007). Kaplan and Norton (2009; cited in ibid) depicted that incentive system has been utilized and proved as a successful element in countless business organization in order to get better performance of the organization and to reduce the turnover of well-trained staff. McKim and Hughart (2005; cited in ibid) made an argument that staff incentive systems have been implemented very speedily through many successful MFI's almost all over the world, especially between the year of 1999 and 2002. The incentive design of staffs has been constructive and functional to employ and control the well-trained staff. (Braverman and Guasch,1986; Khandker,1998; cited in ibid). Besides it also has indicated that MFI's loan officers will raise their effectiveness and lessen the earnings of the trained staffs due to the financial incentive designs.(ibid).

Hartungi (2007) has indicated that the decisive success factor, as GB's carried out financial risk management through using different types of financial methods, as the

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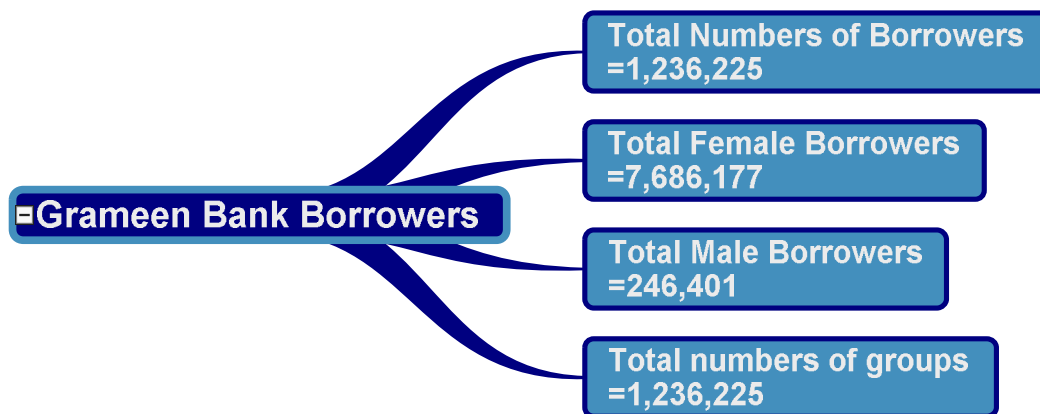
lending system of microfinance are different from the conventional banking system. The fact is that the clientele's of GB have lower defaulting through combined group based system.(Wyman,2008). It takes financial risk due to fulfil the clientele's wants. As a consequence, they are able to differentiate the stage of the customers. For instance, they also have individual lending to sustain the ongoing competition and borrower's demand, thereby expanding to the micro-finance.(ibid). Another critical success of GB provides transferring cost to clients efficiently which has led to create a sound administrative and financial system. Besides, GB supervises the clients intensively by field staffs which have contributed to ensure loan repayment.(ibid).

Additionally, some environmental factors have favoured for the success of micro-finance especially GB in Bangladesh. The fact is that country's huge population density living in rural areas led to the growth of microcredit almost all rural areas in Bangladesh.(Hulme and Moore, 2006).The fundamental infrastructure communication and transportation systems for financial services are available, but most of the Financial Institutions are remote city areas thereby creating disadvantage rural people.Besides,the foreign aid and donor organisations intended to provide large budget for the expansion of GB, as they observed as a favourable environment for some viable projects of micro-finance.(ibid).

2.2 The impact of Microfinance on women borrower's: Evidence from GB

Founder of Grameen Bank, Professor Yunus pointed out that, "*The least you have the highest you have the priority to receive a loan*". (Bornstein, 1995; cited in Hassan, et al.,2001).

Figure 4: The Borrowers of GB



Source: Adopted from Grameen Bank Monthly report, July (2009)

- ❖ To be ensured that the GB offers micro-credit to the poorest, landless, and disadvantaged peasants. Moreover, it starts giving top priority and providing loan for the target population, approximately ninety four percent of the borrowers are women peasants who have no access to micro-credit.(ibid). It confronted fewer barriers to help women, because the micro-products are designed for solely the poorest women.(Busse & Victoria Noelle, 2008). It provides loans without security

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and clienteles are consisted into small groups, as it has established the group monitoring process, thereby creating solidarity and reciprocal relationship among the group of borrowers.(Hossain, *et al.*,2001). However, the criteria for obtaining the loan will not require the resources of clientele which are a piece of land, cash, property etc. So they are ineligible to get the loan from Grameen bank. (ibid). Wahid,(1994) argued that Grameen Bank offers no collateral from disadvantaged borrowers, but it has high interest rates and strict rules for ensuring loan repayment.

- ❖ Conditional loans, which are particularly suitable for the poor. First of all, collateral-free loan which is very small amount of loans and a borrower is to repay in weekly instalments which arrange over a year.(Hossain, *et al.*,2001). Secondly, one of the most important conditions for getting a subsequent loan is the repayment of the first loan and at the same time, it also has been watched to make certain jointly by the group and the bank staff.(ibid).
- ❖ However, Grameen Bank started offering the housing credit which has very rigorous criteria to obtain loan.(Hassan and Rental Guerreo,1997).Whilst the country confronts natural calamity, GB offers the housing loan for those who lost their houses and properties with lower interest rates.(ibid).

In addition, Grameen bank recognized that offering loan is not enough to face technology, GB concerned to invest the more money to establish two technological companies such as Grameen Telecom and Grameen Phone indicated by Lawson and Meyenn(2000; cited in ibid,2007).

So GB provides loans to the poor women for buying mobile from these companies and women do business by offering mobile services in the rural areas that have not been linked to the nationwide telecommunication schemes, as so the poorest women are able to raise income and savings.(Mair and Schoen,2007).

GB also motivates the borrowers to mobilise resources (savings) and allocate resources (loans), thus contributing to the development of rural economy.(Mayoux,2000). For instance, Some mandatory saving schemes which are the emergency fund, children's fund and special savings provided by Grameen Bank.(Hassan and Renteria,,1997). They also mentioned that Grameen Bank has contributed and encouraged the poorest women in rural economy, as it has been worked by its micro-credit schemes, thereby helping to increase per capita consumption, women assets and labour supply to cash income activities.(ibid).Besides,GB's microfinance program has encouraged women to be financially independence, thus contributing them in the considerable housing decision.(Costanza *et al.*,2003).

As the clienteles are from the impoverished part of society, Grameen intends to provide training on health and nourishment and create consciousness among its borrowers regarding the plantations and clean environments. (Hossain,*et al.*,2001). As a consequence, Grameen offers seeds of vegetables and fruits to its borrowers and motivates the borrowers for making and developing a kitchen garden in order to increase the daily basis income of borrowers.(ibid). Side by side, it provides ideas and knowledge in a better way for cultivating, cooking and eating them.(ibid).It also gives

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advice for drinking pure and clean water and creates awareness for preserving hygiene in food and daily life.(Hossain, *et al.*,2001).

2.3 Financial problems of Micro-finance:

Higher interest rate is a financial disadvantage of micro- finance. Due to higher interest rate charges, Grameen Bank has criticized, as the interest rate is roughly 31% (The New Nation,2010), whilst the interest of conventional banking is 10-15% in Bangladesh. (Hossain, *et al.*,2001). In the perspectives of this, Fernando (2006) has argued that there have been existing borrowers of Grameen Bank who face obstacles to pay the loan on particular time for having higher interest charges. Besides, Borrowers only get the advantages of using the loan for their survival and at the same time, they do not involve in generating income (profit), so they fails to pay higher interest rate on their loan. (Hossain, *et al.*,2001). Another problem for the borrowers of MFI's has been depicted by Westley (2005) who mentioned that high interest rates are likely to cause to be unwary and bitter for borrowers, thus creating macro-economic instability in the developing economies like Bangladesh. Besides, the lenders mobilise savings, but the higher interest rate of micro-finance are likely to force them to lower their savings. As the maximum interest rate of micro-finance lower the affluence and feasibility of MFI, savers may be unenthusiastic to put savings in them.(Fernando,2006).

From the previous studies, it is also found that media has criticized the bad practice of GB massively. It is expressed in the Financial Express (2011) that “*Dr. Yunus who is the only nobel Laureate of this country and also is considered a great source of inspiration. However, what has he shown us? He transferred fund from Grameen Bank to another sector.*” A Mafia nexus has been formed by Grameen Bank and some other big NGO,s. They apply a variety of systems of repressions to raise the loan repayment.(ibid). As observed, according to news media, for having failed to repay loan of TK.1800, two borrowers of Grameen Bank Jailed four years back. Dr. Qazi Kholoquzzman Ahmed who is an imminent economist has underlined the unethical practise of NGO's. However, no punishable measures were taken against these NGO's.Besides, Grameen Bank having a charge of highest interest rate is over forty percent. This figure has been supported by the findings of Dr. Ziaul Haq of Monash University, Australia.(Ibid).

3. The Methodology and Research Design

The researcher carried out the positivism methods in conjunction with inductive and quantitative approach. The questionnaire survey was applied and distributed in the fifteen different branches of GB. For this research, three hundreds interviewees/respondents were taken. The purposive sampling technique applied to choose the sample populace. As a consequence, questionnaire had been administered particularly in GB where the respondents are knowledgeable regarding Micro-finance. In this research, the close-structured questionnaire has been formulated by 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

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likert scales, the respondents have a preference.(ibid). 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 analyse very simply and effectively.(ibid). Meanwhile, this research was carried out from the few branches of GB, so this is not feasible to depict the whole scenario of MF's in Bangladesh.

4. Discussion of Findings

In findings, the researcher has indicated the major success factors of microfinance in Bangladesh and accomplished a wide-ranging re-evaluation of literature for ascertaining the structure on the basis of this investigation.

4.1 Discussion of Finding Regarding Innovation, Design and Implementation

Group based lending of MFI in place of individual lending is one the leading success factors of micro-finance			
	Frequency	Percent	Cumulative Percent
Fully Disagree	1	.7	.7
Disagree	2	1.3	2.0
Agree	50	33.1	35.1
Fully Agree	98	64.9	100.0
Total	151	100.0	

It has been studied from questionnaire that 64.9% fully agree with Group based lending is the major leading success factor of microfinance that has raised the flexibility among the clients and reduced the peer pressure among the groups.(Busse and Victoria Noelle,2008).

The collateral free lending system of MFI is a success factor of micro-finance			
	Frequency	Percent	Cumulative Percent
Agree	48	31.8	31.8
Fully Agree	103	68.2	100.0
Total	151	100.0	

This research discovered that 68.2% respondents fully agree with the collateral free lending system of GB is the most significant success factor of microfinance which suited for the poor without no collateral. However, the borrowers must repay the loan on a weekly instalment basis over a year. (Hossain,*et al.*,2001).

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Peer group monitoring system of MFI is one of the major success factors of micro-finance			
	Frequency	Percent	Cumulative Percent
Neither Agree nor Disagree	11	7.3	7.3
Agree	56	37.1	44.4
Fully Agree	84	55.6	100.0
Total	151	100.0	

55.6 % fully agree with Questionnaire based on peer group monitoring system is the most effective innovative design of GB in motivating repayment through the form of group solidarity and mutual relationship among the borrowers.(ibid).

The well-trained and dedicated training staff of MFI have contributed to the success of micro-finance			
	Frequency	Percent	Cumulative Percent
Neither Agree nor Disagree	9	6.0	6.0
Agree	44	29.1	35.1
Fully Agree	98	64.9	100.0
Total	151	100.0	

The majority of 64.9% respondents fully agree with Question stated in regards as the well-trained and dedicated training staff is one of the most vital innovations and designs which introduced a well-designed human resource development system for providing training for their staff such as promotion training, training for refreshers, applications training etc, thereby building effective human resource and leading to the success of microfinance. (Hartungi,2007).

4.2 Discussion of Findings from Adaptation and Learning Practise

Flexible procedure of obtaining a loan is a leading success factor micro-finance			
	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	

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51.0% respondents fully agree with the survey regarded as flexible procedure of obtaining a loan contributed to the success of microfinance, as it reduced pressure among the borrowers.(Hulme and Moore,2006). Question has been cited as a housing loan for the poor households at lower interest rates through GB has led to the success of microfinance during the emergency period such as the natural calamity, whilst poor people lose their home. (Hassan and Rental Guerreo, 1997). This research also found through the survey that voluntary and mandatory savings have played a significant contribution which raise income and savings for its borrowers.(Mayoux, 2000).

4.3 Discussion of Findings from the Motivation

A well designed incentive system to clients of MFI 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	45.0	100.0
Total	151	100.0	

This study also found that 67.7% respondents full agree survey with a well design incentive system to staff of GB which is critical motivational success factor of Microfinance, as it provides incentives such as a reward package or bonus and promotion on the basis of merit and the active promotion of an institutional legend, hence lead for the successful performance of micro-finance.(Hurtungi,2007).

Encouragement to be financially independent by borrowers of MFI is a major success factor of micro-finance			
	Frequency	Percent	Cumulative Percent
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	

51.0% respondents fully agree with Question as Encouragement to be financially independent to be borrowers of GB is a success factor which argued by Hulme and Moore, 2006), thus alleviating their poverty and enhancing the country's economic development.(Costanza *et al.*,2003). Question stated as Microfinance program has motivated borrowers to allocate and mobilise resources, as it assisted to expand the

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small business and at the same time, to alleviate the poverty from the rural economy. (Hassan and Rental Guerreo,1997). Here, 64.2 % respondents fully agree with this statement.

4.4 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	47.0	100.0
Total	151	100.0	

This research examined that the majority of 68.2 % respondents fully agree as regards contribution of GB's microfinance program on women's the greater control over resources and their lives also studied by 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	

Besides. 68.2 % respondents fully agree with Questionnaire mentioned as microfinance program of GB has played major role to establish women's control in family decision making.(Mizan,1993, cited in Sarker, 2001).

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4.5 Discussion of Findings from Environmental Factors

The country's ongoing population growth is a favourable success factor of micro-finance			
	Frequency	Percent	Cumulative Percent
Disagree	3	2.0	2.0
Neither Agree nor Disagree	7	4.6	6.6
Agree	57	37.7	44.4
Fully Agree	84	55.6	100.0
Total	151	100.0	

This research also revealed the environmental factors that favoured GB in Bangladesh. 55.6 % respondents fully agree with Question regards as the country's ongoing population growth is a favourable success factor of microfinance. The previous study did by Hulme and Moore (2006) indicated that Microfinance has been growing successfully due to the high density population especially in Bangladesh.

Unavailability of financial service delivery in rural areas is one the favourable 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	

55.6 % respondents fully agree with the question as unavailability of financial service delivery in rural areas. Most of the financial industries do not deliver the financial service in the rural areas especially for the vulnerable poorest people, whilst Grameen Bank provides micro-financial services for the disadvantaged poorest people, thereby contributing to the success of micro-finance in the rural areas, particularly in Bangladesh. (Hulme and Moore,2006).

5. Conclusion and Policy Implications

This research was assessed in the perspectives of the findings. As observed in the research, the highest proportions of the respondents have opined regarding the innovation, design and implementation of GB such as group-based lending, the collateral free lending system, 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 practise as well as

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contributed tremendously by providing training and development programme 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 mobilising 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 favoured 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 organisational 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 utilised for the benefits of the poorer section of society with gender balance as well as rural and urban equality.

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