

A Study on the Factors Affecting the Performance of Microfinance Institutions in Bangladesh

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Abstract

The microfinance institutions (MFIs) have provided financial services to the poor citizens and young entrepreneurs to achieve economic solvency. Microfinance institutions have faced competition and various obstacles for attaining sustainable profitability. This study concerns about key factors that are concerning the performance of microfinance institutions in Bangladesh. Self-administered questionnaire (structured and Unstructured questionnaire) has been used based on a five-point Likert scale. It has selected top five microfinance institutions (Grameen Bank, BRAC, ASA, BURO Bangladesh and TMSS) as a sample. It has surveyed 170 employees who are working in these microfinance institutions in Dhaka city to collect the primary data. It has applied both descriptive statistics and inferential statistical methods to identify the key patterns that are shaping the performance of microfinance institutions. In this study, several hypotheses and conceptual framework have been developed on the base of background literature. It has applied reliability statistics, One-way ANOVA, and Multiple Regression Analysis to test hypotheses. The study finds that loan lending system, motivation of employee, proper management system, effective risk management technique and government regulatory framework have a significant relationship with microfinance institutions' (MFIs) performance. It also represents that innovation and information technology (IT) has an insignificant relationship with the performance of microfinance institutions in Bangladesh. It shows that loan lending system, motivation of employee, proper management system, and government regulatory framework have a positive relationship of MFIs' performance and effective risk management has a negative relationship with the performance of MFIs. It also found that the loan lending system is the most important issue to the performance of MFIs.

Keywords: Microfinance institutions (MFIs), loan lending system, Innovation and IT, motivation of employee, proper management system, effective risk management technique, government regulatory framework, and performance.

Introduction

Microfinance sector is the largest and most efficient sector in the world. Microfinance institutions (MFIs) present credit facility to low-income people in many developing countries. Microfinance institutions are a development mediator for generating employment opportunities in a country (OECD, 1996; Morduch, 1999; and Zohir

and Matin, 2004). Microfinance has been working for resource less and poor people with easy access financial services in Bangladesh. Micro finance institutions are building good environments in which it may flourish with self support (Adms, et al., 1983; and Buss, 1999). MFIs have introduced innovative incentive systems and also non-financial services. It has applied group-based lending techniques and main borrowers are women. It creates employment opportunities for women that increased repayment rates and economic sustainability (Hashemi, 1996; Godquin, 2004; and Weighton 2005).

The success of MFIs depends on their ability and social factors (Anderson et al., 2002). Most of the MFIs have sufficient numbers of professional staffs to perform their regular activities. They have monitoring systems to screen the clients' projects (Schmidt, 1991; and Syukur et al., 1991). MFIs have well-trained and dedicated staff for running their activities. They have organized training program for new recruiting employees as well as existing employees. Employees are receiving training for carrying new position (Steinwand, 2001). Incentives are an extra influential managerial tool to inspire the public to achieve a specific goal. Staffs are influenced by the well planned motivation systems. MFIs depend on the effective financial risk management for sustaining profitability of the organization (Rusdy Hartungi, 2007).

In today's microfinance institutions draw a great attention to academicians, researchers, policy makers, knowledge seekers, and development practitioners. MFIs create credit access to the general people of Bangladesh. MFIs are playing a vital role to achieve economic sustainability. Many researchers have presented the positive impacts on the social and financial perspective of microfinance. This study is going to focus on the different patterns that are influencing the performance of the MFIs, Bangladesh.

Microfinance Institutions in Bangladesh

Through Microfinance institutions (MFIs) have been operating in Bangladesh since 1970. Microfinance institutions are expanding its activities to fulfill customer's requirements. MFIs are launching new products and services according the customer's needs. Bangladesh government established Palli Karma-Sahayak Foundation (PKSF) in 1990. The main vision of PKSF is to alleviate poverty with the creation of employment (Hasan and Ahmed, 2009).

The overall performance of microfinance institutions in Bangladesh at a glance (Table 1) is given below. It shows the name of top five microfinance institutions, no. of branches, active members, loan disbursement, loan outstanding and no. of outstanding borrowers till 2015 in Bangladesh.

Table 1: Microfinance Operations in Bangladesh

Name of the Organization	Number of Branches	Number of Active Members	Loan Disbursed (Tk. In million)	Loan Outstanding (Tk. In million)	Numbers of Outstanding Borrowers
Grameen Bank	2568	880,6779	149,227.30	96,422.30	6,856,448
ASA	2932	690,2024	17,6831.73	109,652.86	5,898,466
BRAC	2083	537,7951	192,982.79	113,106.44	5,298,651
BURO Bangladesh	804	130,5378	32,397.25	23,256.42	873,500
TMSS	622	842,401	24,840.01	15,641.42	717,819

Source: Credit and Development Forum Statistics, 2015.
(http://www.cdfbd.org/new/page.php?scat_id=154,06/06/2017)

The Grameen Bank is the leader of microfinance institutions in Bangladesh. It has 2568 branches while the no. of active members is 880, 6779. The Grameen Bank has been performing very well and having BDT 149,227,30 million loan disbursement, loan outstanding is BDT 96,422.30 million and 6,856,448 no. of outstanding borrowers. ASA is another popular MFI in Bangladesh with 2932 branches and 690, 2024 no. of active members. The total loan disbursement of ASA for the year 2015 is BDT 17, 6831.73 million. ASA has BDT 109,652.86 million total loans outstanding and 5,898,466 no. of outstanding borrowers. BRAC is another most popular microfinance institution. The total no. of branches is 2083 and no. of active members

is 537, 7951. BRAC has BDT 192,982.79 million loan disbursement and BDT 113,106.44 million loan outstanding. The total no. of outstanding borrowers is 5,298,651. BURO Bangladesh is one of the well known microfinance institution. It has 804 branches and 130, 5378 no. of active members. The total loan disbursement is BDT 32,397.25 million, while total outstanding loan BDT 23,256.42 million and outstanding borrowers is 873,500. TMSS is working in this sector and their total branch is 622. The total no. of active members is 842,401 and loan disbursement amount is BDT 24, 8440.01 million. TMSS has BDT 15,641.42 million loans outstanding while total outstanding borrowers is 717,819.

Table 2: Trends and Growth of Microfinance Program in Bangladesh

Indicator	Year 2011			Year 2015			Growth in 2015 over 2011 (%)
	MFIs Reported	No.	Per MFI	MFIs Reported	No.	Per MFI	
Employment Generation (in No.)	695	231,098	333	506	233,503	461	38.58
Members (in No.)	695	33,062,340	47,572	506	36,232,279	71,605	50.52
Borrowers (in No.)	695	33,062.340	39,097	506	36,232,279	58,486	49.59
Members Net Savings (BDT in million)	695	186,152	268	506	270,690	535	99.61
Loan Disbursement (BDT in million)	695	440,288,84	633,51	506	827,768,40	1,635,91	158.23
Outstanding Loan (BDT in million)	695	279,815,51	402,61	506	521,829.36	1,031.28	156.15

Source: Author's Own Calculation Based on CDF Statistics 2015(BDT = Bangladeshi Taka)

Table 2 shows the overall scenario of microfinance institution's performance (2011 and 2015) in Bangladesh. This study is considered different indicators to focus on the trends and growth of MFIs. Employment generation per MFI has increased by 38.58% over a period of five years since 2011. The data shows that the growth of members per MFIs is 50.52% in 2015 compared with 2011. The borrower per MFIs has increased by 49.59% in 2015. The table presents that the growth of members of net savings per MFIs is 99.61% in 2015 which is considered as double growth compared with 2011. The data shows that the growth of loan disbursement and outstanding loan per MFIs respectively is 158.23% and 156.15% over a period of five year since 2011.

Review of Literature

The literature has shown the success of microfinance institutions depend on various factors such as management, leadership, staff training, motivation of employees, information technology, innovation of products or services, loan lending system, government regulatory framework, financial risk management, marketing, corporate governance and auditing system (Mamun, 2012; Woller and Woodworth, 2001; Crabb, 2008; Irene and Albert, 2013; Leonard and Julius, 2016; Chowdhury, 2009; Hulme and Moore, 2006; Chan, 2010; Boating and Agyei, 2013; Ledgerwood and White, 2006; Hassan, 2002).

Loan Lending System

The progress of microfinance institutions requires loan lending systems. MFIs are introduced collateral free and

group lending systems. Collateral free lending systems are creating an opportunity for the poor people to receive credit facility from the MFIs. Group lending systems are another instrument to recover the loan amount. Microfinance institutions are providing a unique loan system that provides financial support to the poor people in the country; these are also providing support for the growth of MFIs (Mamun, 2012; Irene and Albert, 2013; Hassan, 2002).

H1: There is a significant relationship between loan lending system and MFIs performance.

Innovation and Information Technology (IT)

Innovation of products or services and information technology systems has significant impacts on the performance of MFIs (Leonard and Julius, 2016; Irene and Albert, 2013; Chowdhury, 2009; Hassan, 2002). MFIs are continuous providing new products or services to fulfill customers demand. They are serving different types of loan, such as agriculture loan, education loan, entrepreneur's loan, SME loan, and many other voluntary activities. Information technology is helping the MFIs to record all types of information about the clients as well as maintaining regular activities.

H2: There is a significant relationship between innovation and information technology and MFIs performance.

Motivation of Employee

The success of the institution depends on skilled employees and it drives on motivational instruments such as training

and refresher training of employees, employee incentive systems, and promotion and bonus systems. These all factors are fostering the growth of MFIs. Staff training is the primary items to enhance the skill of employees in any institutions and it has a direct relation to the progress of the microfinance sector (Chowdhury, 2009; Mamun, 2012; Leonard and Julius, 2016).

Performance based incentive has a significant relationship with the growth of MFIs (Hulme and Moore, 2006; Hartungi, 2007). Promotion and bonus systems are the most common technique to motivate the employees and these have also influenced the success of MFIs (Kaplan and Norton, 2009; Chowdhury, 2009).

H3: There is a significant relationship between motivation of employee and performance of MFIs.

Proper Management System

Management is the pillar stone for any institution to become success and the sustainability of an organization depends on it. Management is necessary for establishment of organizational structure as well as leadership is an effective technique to achieve the MFIs' goal (Leonard and Julius, 2016; Chan, 2010). Proper management creates a comfortable environment for the employees to become highly committed, highly focused and accountability and it enhances innovation and growth of MFIs (Ledgerwood and White, 2006).

H4: There is a significant relationship between Proper management and MFIs performance.

Effective Risk Management Technique

Effective risk identification techniques, risk measurement, monitoring and management initiatives is essential for each and every MFIs (Leonard and Julius, 2016; Bounoula and Rihance, 2014; Irene and Albert, 2013; Kimando and Kihori, 2012). Effective risk management has an important role to screen and select of the loan clients; it is also required to reduce loan default rate (Pinz and Helming, 2014).

H5: There is a significant relationship between effective risk management technique and performance of MFIs.

Government Regulatory Framework

Literatures show that the growth of microfinance institution performance depends on rules and regulations of the government because effective regulatory structure creates a suitable environment for MFIs (Woller and Woodworth, 2001; Crabb, 2008). Institutional and country regulation is an important factor in the achievement of microfinance institutions. Regulatory framework provides a supportive

environment for the development of MFIs (Boating and Agyei, 2013).

H6: There is a significant relationship between regulatory framework and MFIs performance.

Objectives of the Study

The general objective of this study is to focus on the determinant aspects causing the progress of microfinance institutions in Bangladesh. The specific objectives of this study are:

- To identify whether innovation IT has a significant relationship to MFIs performance.
- To examine whether loan lending system has a significant relationship with the performance of MFIs.
- To show whether the motivation of employee has a significant relationship to the performance of MFIs.
- To surface whether the effective risk management technique has a significant relationship to MFIs performance.
- To examine whether a proper management system has a significant relationship with the performance of MFIs.
- To see whether the government regulatory framework has significant relationship to the performance of MFIs.

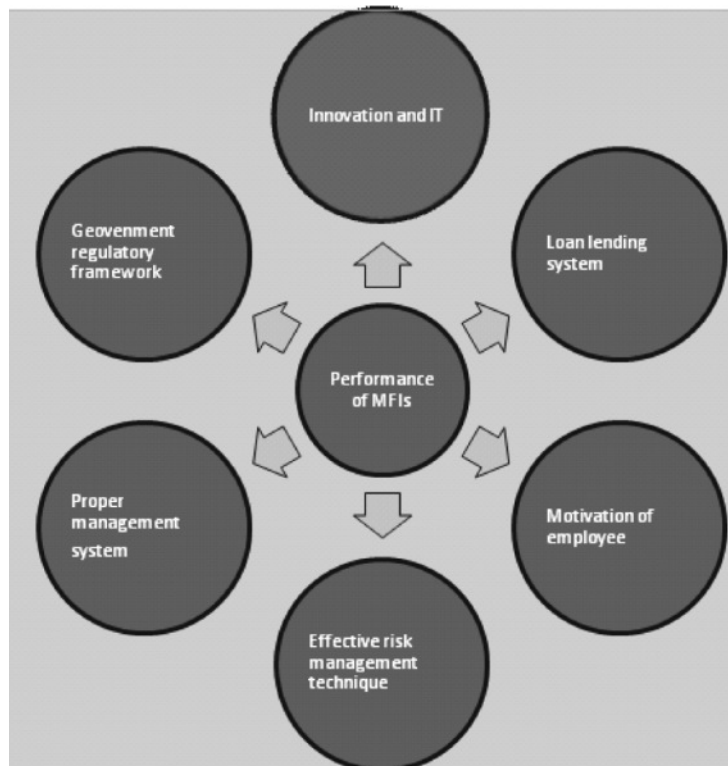
Research Gap

Many studies have concerned about the challenges of microfinance institutions (MFIs) in the world (Fatimah-Salwa, A.H., Mohamad-Azahari, A. & Joni-Tamkin, A., 2013) and main success aspects of the promising markets of Asia, little has been focused on key factors that force the achievement of microfinance institutions in Bangladesh (Mokhtar, S.H., Nartea, G. & Gan, C., 2012; Chan, S.H., 2010; Chowdhury, A.M., 2009). This study tries to seek out the key factors that drive the performance of microfinance institutions in Bangladesh so that this sector can leverage on the factors to foster growth as well as make sure financial sustainability in Bangladesh.

Development of Conceptual Framework

Loan lending system, innovation and IT, motivation of employee, proper management system, effective risk management technique, and government regulatory framework are perhaps the usually used variables in the field of relationship management. A conceptual research model has been developed based on the above review of literature to analyze the relationship among all these variables with MFIs performance.

Figure 1: Conceptual Framework



Source: Researcher Own Point of View

Research Methodology

Sampling Design

The target population is the microfinance institutions (MFIs) in Bangladesh. The sample is taken from the Dhaka city's microfinance institutions (MFIs). Purposive sampling method will be used for selecting the MFIs because it is an effective technique for selecting sample. The researcher has selected top five microfinance institutions (Grameen Bank, BRAC, ASA, BURO Bangladesh, and TMSS) in Dhaka city, the capital city of Bangladesh.

Methods of Data Collection

The study has used both primary and secondary data. Secondary sources of data are gathered by international journals, books, etc. Primary data were collected through questionnaire survey method and using "Likert Scale". Considering the nature of the study structured questionnaire designed with a 5 point Likert scale (Strongly disagree=1, Disagree=2, Neutral=3, Agree=4 and Strongly agree=5). The researcher has decided to survey one hundred seventy (170) individual manager/ assistant managers/ field officers from different MFIs in Bangladesh.

Research Tools

In this study, both descriptive statistics and inferential

analysis methods (multiple regression analysis) from the Statistical Package of the Social Science (SPSS), version 16.00 has been used. This paper applies reliability statistics and multiple regression analysis to prove the hypothesis for determining key dimensions affecting the success of microfinance institutions in Bangladesh.

The relationship between performance of MFIs (S, representing MFIs success), as a dependent variable, and loan lending system (LLS), innovation and IT (IIT), motivation of employee (ME), proper management system (PMS), effective risk management technique (ERMT), government regulatory framework (GRF) as independent variables. The level of significance is 5% and the error term is e. The model is as follows:

$$P = \beta_0 + \beta_1 LLS + \beta_2 IIT + \beta_3 ME + \beta_4 PMS + \beta_5 ERMT + \beta_6 GRF + e$$

Limitation and Scope of the Study

This study has some limitations, these are as follows:

- The data has been gathered through a purposive sampling method that guides to the subject of simplification.
- The sample frame is limited because it was considered of Dhaka city; if these data have been collected from different cities it would have changed the outcome.

Analysis and Findings

Reliability of Data

The reliability of a measure presents the level of internal consistency and free from random error (Zikmund, et al.,

2007). Cronbach's coefficient alpha is the overall scale measuring device. The value of Cronbach's alpha is between 0 to 1. The value of 1 indicates perfect internal consistency and the value of 0 presents the no internal reliability (Pallant, et al., 2005). The value of

Table 3: Reliability Statistics

Cronbach's Alpha	No of Items
.914	7

Cronbach's coefficient alpha is .914 which represents a high level of internal reliability among 7 variables. The result of

internal consistency ensures a ground for further study and analysis.

Table 4: Demographic Outline of the Respondents

Variables	Respondents No.=170	Frequency (%)
Name of MFIs		
Grameen Bank	45	26%
BRAC	40	24%
ASA	40	24%
BURO Bangladesh	25	15%
TMSS	20	11%
Gender		
Male	99	58%
Female	71	42%
Age (Years)		
26-30	41	24%
31-40	45	26%
41-45	54	32%
Above 45	30	18%
Income Level (Monthly)		
Below 20000 BDT	21	12%
21000-30000 BDT	30	18%
31000-40000BDT	39	23%
41000-50000BDT	51	30%
Above 50000 BDT	29	17%
Education Level		
HSC	55	32%
Graduation	65	38%
Post-graduation	50	30%

Source: Survey Data

The above table shows the demographic profile of the respondents. The respondents are operating the microfinance institutions in Bangladesh. The demographic factors are included name of the microfinance institutions, gender, age, income level and educational level. From this study, it has been found that 26% of the respondents are working in Grameen Bank while 11% of the respondents are working in the TMSS. In the case of gender, male

respondents are 58% and female respondents are 42%. It is shown that those age groups 31 to 40 are responds at 32% and age group above 45 are responds only 18%. The respondents' monthly incomes 41000 to 50000 taka are 30% and above 50000 taka are 17 % only. Final statistics show that the respondents have graduation (38%) and post-graduation 30 % only.

Multiple Regression Analysis

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.815 ^a	.665	.652	.53047

a. Predictors: (Constant), Government Regulatory Framework, Loan Lending System, Proper Management System, Motivation of Employee, Effective Risk Management Technique, Innovation and IT

In this study, multiple regression analysis has been used to find out the determinants of successful criteria in microfinance institutions in Bangladesh. Table 5 shows the model summary of multiple regression analysis. In model summary the R value is .815, which indicating the correlation of six (6) independent variables with the dependent variable. The value of the coefficient of multi determination is R Square=.665, this means 66.5percent

variation in the dependent variable, i.e. performance of microfinance institutions are defined by independent variables that are innovation and IT, loan lending system, motivation of employee, proper management system, effective risk management technique, government regulatory framework and remaining 33.5 percent can be explained by other attributes which are not studied in this paper.

Table 6: ANOVA^a

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	90.932	6	15.155	53.857	.000 ^b
Residual	45.868	163	.281		
Total	136.800	169			

a. Dependent Variable: Profitability of MFIs

b. Predictors: (Constant), Government Regulatory Framework, Loan Lending System, Proper Management System, Motivation of Employee, Effective Risk Management Technique, Innovation and IT

In table 6 shows that the ANOVA test result (F=53.857, P=.000) represents the fitness of the model. It can be concluded that the combination of the independent variables

significantly predicts patterns of performance of MFIs in Bangladesh.

Hypothesis Testing

Table 7: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1. (Constant)	.180	.214		.840	.402
Loan Lending System	.520	.072	.502	7.240	.000
Innovation and IT	.071	.072	.067	.986	.326
Motivation of Employee	.239	.078	.224	3.074	.002
Proper Management System	.165	.074	.154	2.233	.027
Effective Risk Management Technique	-.196	.080	-.176	-2.441	.016
Government Regulatory Framework	.162	.067	.150	2.414	.017

a. Dependent Variable: Performance of MFIs

Table 7 shows the influential strength of each of the independent variables to the dependent variable. The hypotheses of this study are connected with the organisational impact of six (6) variables on the Performance of MFIs in Bangladesh. The test of these hypotheses guides to reach the object of this study.

Testing H1

In table 7, the result presents that there is a significant relationship between loan lending system and Performance of microfinance institutions with (Beta=.502) and (p=.000<.05). This means that the loan lending system is most significant determinants contributing more than 50 percent of Performance of MFIs. The result of the study accepts H1. The loan lending system is influencing the Performance of MFIs.

Testing H2

From table 7, the result shows that there is an insignificant

positive relationship between innovation and IT and Performance of MFIs with (Beta=.067) and (p=.326> .05). These results of the study reject H2. It means that innovation and information technology (IT) has no significant relationship with the Performance of MFIs. The study found that innovation and information technology is not directly influence the Performance of MFIs.

Testing H3

From table 7, the result is shown that there is a significant relationship between motivation of employee and Performance of MFIs with (Beta=.224) and (p=.002<.05). The result of this study supports H3. This means that motivation of employee influences more than 22 percent Performance of MFIs in Bangladesh. The performance of microfinance institutions depend on the motivation of employees. It is very essential key factor for all types of organization for attaining their target.

Testing H4

In table 7, it is presented that there is a significant relationship between the proper management system and Performance of MFIs with (Beta=.154) and ($p=.027<.05$). This means that the proper management system influences more than 15 percent of Performance of MFIs. The results of this study accept the H4. The management system is the most important factor for any institution. The proper management system helps the organization to attain the success in the future.

Testing H5

From table 7, it shows that there a significant negative relationship between effective risk management technique and Performance of MFIs with (Beta=-.176) and ($p=.016<.05$). The result of the study supports the H5. The data indicate that negative relationship between effective risk management and MFIs Performance. Sometimes risk management technique reduces MFIs profitability and influences the performance.

Testing H6

In table 7, the result shows that there is a significant relationship between the government regulatory framework and performance of MFIs with (Beta=.150) and ($p=.017<.05$). This means that government regulatory framework has been influenced of 15 percent performance of MFIs. The results of the study accept H6. The data indicate that government regulatory framework is an essential influential key factor for achieving the performance of MFIs.

Conclusion

The objective of this study was known about key factors that are affecting the performance of microfinance institutions in Bangladesh. Multiple regression analysis is used in this study to find out potential factors that lead performance of MFIs. Based on prior literature, six prominent factors were identified. The results of the study show five factors, i.e. loan lending system, motivation of employee, proper management system, effective risk management technique, government regulatory framework significantly influencing the performance of microfinance institutions. Innovation and IT has an insignificant relationship with MFIs performance. The four factors have positive relations to the performance of MFIs in Bangladesh namely government regulatory framework, loan lending system, proper management system, and motivation of employee. The effective risk management technique has a negative relationship with performance of MFIs. On the other hand, highest impact factor is loan lending system of the microfinance institutions and it contributes performance of MFIs in Bangladesh.

Bangladesh is a developing country. Microfinance

institutions are world recognized organizations to alleviate the poverty that has been operated to aid the poor of the country (Meisami, et al., 2011; Fernando, N. 2008). Nowadays, microfinance institutions are becoming a significant investment prospect in many countries. This study would be helped the academician, researchers, managers, and rule makers to develop their expertise about the key factors of microfinance institution's performance.

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