Fragility of Microfinance Institutions (MFIs) in Bangladesh and Its Implications for Poverty-Focused Paradigm-Shift: An Exploratory Study

Mohammad A. Ashraf

College of Business at University Utara Malaysia (UUM) and Assistant Professor (on leave) of United International University (UIU), Dhaka, Bangladesh

Email: mashraf@monisys.ca .

Abstract

Microfinance initiative is widely acclaimed as a new approach to alleviate poverty and bring about development, but recently the effectiveness of the MFIs has been appeared to be a focus of debate in finance and economics literature. The controversy surrounds mainly on the impact of these MFIs on poverty, ultra-poverty and further overall socioeconomic development. Specific factors, among others, are mainly under scrutiny such as income and living standard, costs of credit, risk of loans, disciplinary imperatives, loan repayment policy, religious restrictions, loan using opportunity etc. An exploratory survey was conducted to analyze the microfinance members' evaluation about the microfinance schemes adopted by different MFIs in Bangladesh. This study covered only three MFIs such as Grameen Bank (GB), BRAC (Bangladesh Rural Advancement Committee) and ASA (Association for Social Advancement). The sample was taken on random basis from the Districts of Gazipur, Savar and Narayanganj. The respondents (clients of those three MFIs) were asked to evaluate their judgments on different objects selected in the questionnaire. Respondents ranked the attributes on a number of itemized five-point scale ratings bounded at each end by one of two bipolar adjectives. The result of this study indicated that overall poverty was not alleviated and the factors such as disciplinary criteria, costs of credit, income and living standard, religious restrictions and risk of loans are not on a satisfactory level which underscores the necessity of alternative paradigm. Otherwise, ineffectiveness of the MFIs would persist and poverty alleviation objective would remain futile.

Keywords: Microfinance customers, Safety Net, MFIs, Islamic MFIs

INTRODUCTION

'Microcredit' or its wider term 'Microfinance'(Hashemi and Rosenberg, 2006; Rutherford, 2003; Hulme, 2000) has become a buzzword since at the latest of early 1980s when Grameen Bank (GB) was licensed as a full-fledged specialized rural finance development model in Bangladesh. The extension of small amounts of collateral-free institutional loans to jointly liable poor group members for their self-employment and income generation is a GB innovation. The failure of commercial banking to provide financial services to the poor coupled with disadvantages of using informal markets are major rationales for intervention in the market for financial services at the micro level. Consequently, microfinance emerged as an economic development approach intended to address the financial needs of the deprived groups in the society. The term microfinance refers to ''the provision of financial services to low-income clients, including self-employed, low-income entrepreneurs in both urban and rural areas'' (Ledgerwood, 1999).

The emergence of this new paradigm was encouraged by the successful story of microfinance innovations serving the poor throughout 1970s and 1980s. The other most quoted examples except Grameen Bank in Bangladesh, are the unit *desa system* of Bank Rakyat Indonesia, ACCION International in United States and Latin America and PRODEM, BancoSol's predecessor in Bolivia. The microfinance adopts market-oriented and enterprise development approach. It emphasizes institutional and program innovations to reduce costs and risks and has greater potential to expand the financial frontier to the poor in sustainable manner (Littlefield et al., 2003).

The scheme of Microfinance is, thus basically, the provision of a broad range of financial services such as deposits, loans, payment services, money transfers and insurance to a poor and low income household and the microenterprises (ADB, 2008). MFIs thus analyze staff as the best fit from an occupational perspective and are now looking at clients of credit borrowers as to their best fit for financial products and what is in the borrowers' best emotional interest (Latham, 2008). This transformation of microcredit has graduated the poorest from merely the status of borrowers to full-fledged microfinance clients linking safety nets and financial services (Hashemi and Rosenberg, 2006). Here is the clue for considering the present study for customer-experience or satisfaction evaluation of MFIs for rating their credit help as well as other financial services provided to the poor clients of Bangladesh. This approach is, however, new to the case of credibility evaluation of microfinance services provided by the MFIs located inside and outside Bangladesh. Yet, here in the study customer experience and customer satisfaction are used interchangeably.

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 (Khandkar 2006). Available assessments of microfinance institutions' (MFIs') peer-monitoring model or group-based activities in Bangladesh emphasized the lack of physical, human, but also social capital as key access barriers to micro-entrepreneurship and microcredit (Zeller et al., 2001). This has led some to argue that microfinance is perhaps not suitable for many of the poor and that expanding coverage of social safety nets notably as foreseen by the PRSP and taken further by NFP may represent a better avenue for poverty and ultra-poverty reduction (NFPCSP 2007). Dichter (1996), Hulme and Mosley (1996) and Montgomery (1996) report that MFIs do not serve the poorest, who are either no 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 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 MFIs have helped the poor and ultra-poor recipients make sustainable livelihoods. The present study is a humble attempt in that concern. This investigation has, therefore, made an opinion survey among the microfinance recipients to evaluate their overall satisfaction out of the microcredit programs in which they are currently participating.

CONCEPTUAL FRAMEWORK

Microcredit is a financial product delivered by the MFIs in exchange of predetermined service charge. As is well-known, the main goal of the MFIs is to provide group-based microcredit exclusively to the destitute rural poor without having any security deposit from the recipients in order to uplift their income and living standard through facilitating the easy formation of microenterprises in the rural areas. This study investigated the factors affecting microcredit beneficiaries' experience 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 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).
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

Figure 1: Conceptual framework for microfinance customer experience to measure the effectiveness of the microfinance programs.
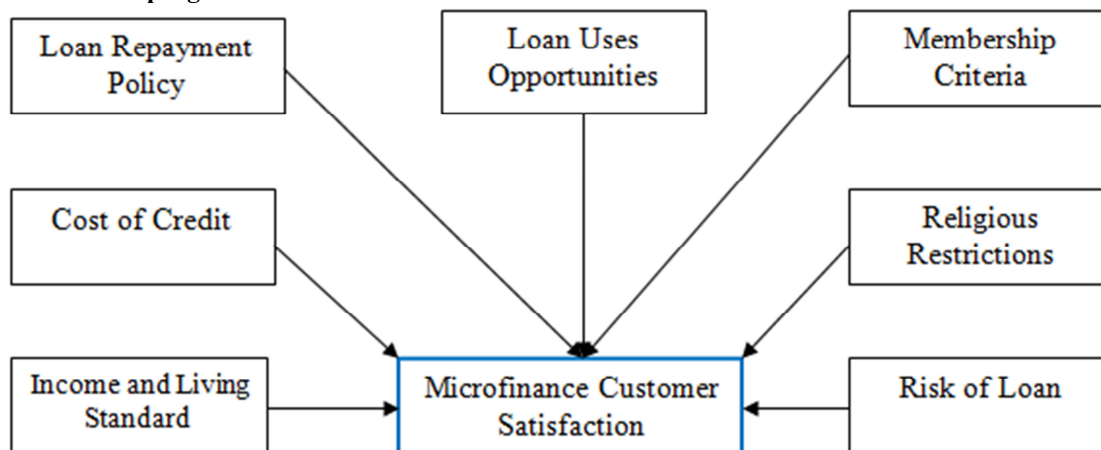
cumulative basis (Kingsbury, 2007). Undoubtedly, this is extremely high cost that leads the microenterprises to the high risk of losses in the business. If the internal rate of return cannot reach as much as 60 percent overall cost of credit, the risk factor would be higher that could put the small business 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 membership 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.

METHODS
Data Sources and Measurement
As any satisfaction evaluation is contingent on several numerous socioeconomic factors, the study endeavors to identify the key factors that are responsible for determining the level of 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 210 members --- 70 from each of the aforesaid MFIs were surveyed. The data were collected during May to September 2009. 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, Multiple Regression Analyses, and ANOVA, have been used to measure the level of microcredit users' satisfaction of the afore-mentioned selected MFIs in Bangladesh.

Data Analyses

Factor analysis of 26 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 satisfaction. 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 satisfaction 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.

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. Studies like 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 (2000) 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.

Table 1: Factor Analyses of customer satisfaction for the financial services provided by GB, BRAC and ASA of Bangladesh

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)	.5984
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)	.6570
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)	.6648

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

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. Only one association of RR and LUO has the lowest significance. The relationships of the overall 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 satisfaction of microcredit use in Bangladesh. The mean scores have been computed based on weighted average method.

Table 2: Mean, Standard Deviation and Correlation Coefficient

Factors	Mean	Std. Dev.	OS	RL	RR	MC	LUO	LRP	CC
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 Satisfaction (OS)	2.3810	1.0155	.__	__	__	__	__	__	__

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

In the 5-point scale, these mean values represent somewhat negative level of loan using satisfaction from the loan recipients' point of view, because 3 indicates the neutral position and less than 3 weighted average implies dissatisfaction.

Multiple Regression Analyses

Multiple regression analyses were conducted to assess the influences of different key factors on credit users' satisfaction. The results are shown in Table 3. The Table includes the F-test result to detect the significance of coefficient of determination. The inclusion of seven factors correlates well with microcredit users' satisfaction. This could also be interpreted that 53.4% (0.731 square) of the variation in the overall satisfaction of the microfinance users be explained by the seven factors and the remaining be explained by other factors. A relatively low standard error

Table 3: Multiple Regression Analysis of Microcredit Users' Satisfaction

Factors	Regression Coefficient	Standard Error Coefficient	Computed T	Significance
Income & Living Stand.	.221	1.08	2.570	0.011**
Costs of Credit	.146	.098	1.978	0.049*
Loan Repayment Policy	-.002	.081	-.036	0.971
Loan Uses Opportunities	-.066	.112	-1.12	0.268
Membership Criteria	.303	.083	3.465	0.001***
Religious Restrictions	.146	.112	1.963	0.051*
Risk of Loan	.079	.074	1.274	0.204

Multiple Correlation	0.731
R-Square	0.534
Adjusted R-Square	0.518
Standard Error of Estimate	0.7051

ANOVA For Regression					
Sources of Variation	Sum of Square	Degrees of Freedom	Means Square	Computed F	Sig.
Regression	115.089	7	16.441	33.068	000***
Residual	100.434	202	4.97		
Total	215.524	209			

*p< .05**p< .01***p< .001

value of 0.7051 broadens the scope of prediction of the nature of satisfaction by the factor scores, as they are they are lying reasonably close around the regression line. Considering the factors individually, membership criteria, income and living standard, cost of credit and religious restrictions are found highly significant towards the overall microcredit users' satisfaction. It qualifies that the variables related to these factors are important for the credit users' satisfaction of the GB, BRAC and ASA in Bangladesh. Notably, the results found in factor analyses are wonderfully congruent with the results displayed in the regression analyses. The same key factors are identified in the both two analytical techniques. Hence, the outputs are robust and forecasting based on these would carry realistic implications in the programs of MFIs in Bangladesh.

FRAGILITY OF MFIs AND THEIR IMPLICATIONS FOR ALTERNATIVE PARADIGM

Microfinance is not the only way to help people. There are programs that have potentiality to be suited to the circumstances and needs of the poorest. One approach to helping the poorest in terms of access to appropriate financial services is to start with the programs that will help the poorest to have access to financial services. This explores a few cases where the poorest participate in grant-funded safety net programs, where they receive nonfinancial support, such as employment, food aid, training, etc., as well as support to graduate from their existing levels of poverty to a level where they can make good use of access to appropriate financial services. These examples raise the questions: Can microfinance help the poorest? If so, how? And can people "graduate" from being poor recipients of loans to becoming full-fledged non-poor microfinance clients? (Hashemi and Rosenberg, 2006).

Microfinance 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 (Khondakar 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 affect the endogenous variable of opinion scale of overall satisfaction that made the microcredit programs ineffective subsequently to achieve their goals.

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 Khondakar (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).

CONCLUSIONS

Microfinance initiatives are widely acclaimed as a paradigm for alleviating rural 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 emerge a serious question on of MFIs in reaching their goals of providing safety nets of the rural poor. The present study was conducted to identify the socio-economic factors that are responsible for obstructing in achieving those objectives of MFIs.

The empirical results of this study reveal that the overall microfinance clients' experience or satisfaction of Bangladeshi MFIs namely the Grameen Bank, BRAC and ASA is at negative level exhibiting an average dissatisfaction measure of 2.3810. Nevertheless, the satisfaction variable is significantly dependent on membership criteria, costs of credit, household income and living standard and religious restrictions. To make the safety nets of MFIs to be helpful for the rural poor all those variables 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.

As eradication of poverty is considered an important objective of an Islamic economic system, institutions providing microfinance can play an important role in reaching this goal. The paper presents a strong case for alternative Islamic institutions to provide micro-financing and facilitate wealth creation of the poor. The institutional structures of contemporary MFIs, Islamic banks, and the traditional Islamic instruments (like *zakat, awqaf, qard hassan*, etc.) can be combined to finance poor microenterprises (Ahmed, 2004). These latter instruments, however, are not being employed in micro-financing to their full usable potentials of social safety nets. To make these various alternative models of Islamic micro-financing operational there is a need for more research on various aspects of these institutions and adopt these for implementation.

Based on the discussions delineated earlier, it can be argued that the present mode of microfinance operations have lost their direction to achieve the goals of poverty alleviation and rural development. There is scanty evidence that the rural poor who participate in the microfinance programs in Bangladesh are graduating from the class of poor to non-poor (Ahmed, 2004). In effect, the poor are getting caught in the vicious circle of overlapping debts of multiple money lending organizations which make them completely bankrupt and very often homeless fugitive. These imply that the microfinance programs that are incepted primarily for rescuing the hardcore poorest of the rural poor from the poverty-cobweb and treated as a safety net which turns out to be seriously fragile. In gist, the existing highly interest-based and profit-oriented model of microfinance programs have failed to achieve their primary goals of poverty alleviation and raising the rural poor's standard of living which ought to be re-considered for adopting the alternative paradigm of Islamic microfinance.

REFERENCES
ADB (2008). News from ADB Bangladesh, *A Quarterly Newsletter*, September, 2008.
Assaduzzaman (1997). "Role of Microcredit in Poverty Alleviation," in R. I. Rahman (Editor), *Poverty and Development: Bangladesh Perspective*, BIDS, Dhaka (in Bnegali).
Bennett, L. (1998), "Combining Social and Financial Intermediation to Reach the Poor: The Necessity and the Dangers", in Kimenyi, Mwangi S., Robert C.Wieland, and J.D.V. Pischke (Editors), *Strategic Issues in Microfinance*, Hants, England: Ahsgate Publishing Ltd.

Bornstein, D. (1997). *The Price of a Dream: The Story of the Grameen Bank and the Idea That Is Helping the Poor to Change Their Lives.* Chicago: University of Chicago Press.

Banerjee, N. (1999). Role of Microcredit in Capacity Development for Poverty Alleviation: Case Study from the Non-Government Sector of Bangladesh. Report for Canadian Partnership Branch, Canadian International Development Agency (Ottawa).

Develtere, P. and Huybrechts, A. (2005). "The Impact of Microcredit on the Poor in Bangladesh." *Alternatives* 30: 165-189

Dichter, T. (1996). "Questioning the Future of NGOs in Microfinance," *Journal of International development* 8: 256-269

Dyal-Chand, R. (2005). "The Pitfalls of Microlending." A Lecture Delivered at Northeastern University, Boston.

Dyal-Chand, R. (2007a). "Human Worth as Collateral." *Rutgers Law Journal* 38: 793- 845.

Dyal-Chand, R. (2007b). "The Attorney's Role in the Micro-lending Project" in Clare, Dalton (ed.) *Progressive Lawyering, Globalization and Markets: Rethinking Ideology and Strategy.* Boston: Hein.

Evans, T. G., Adams, A. M., Mohammed, R. and Norris, A. H. (1999). "Demystifying Nonparticipation in Microcredit: A Population-Based Analysis." *World Development* 27, no .2: 421 - 424

Hashemi, S. M. and Rosenberg, R. (2006). Graduating the Poorest into Microfinance: Linking Safety Nets and Financial Services. Focus Note 34. Washington, D.C.: CGAP.

Hashemi, S. M. (1997). "Building up Capacity for Banking with the Poor: The Grameen Bank in Bangladesh," in Schneider, Harmut (Editor), *Microfinance for the Poor*, Paris: Development Center of the organization for Economic Cooperation and Development, 109-128.

Hashemi, S. M. and Schuler, S. R. (1992)). State and NGO Support Networks in Rural Bangladesh: Conflicts and Coalitions for Control, Copenhagen: Center for Development Research, pp 2-4.

Hulme, D. and Mosley, P. (1996). *Finance against Poverty*, vol. 2, London: Routledge.

Kahf, M. and Khan, T. (1992), *Principles of Islamic Financing, A Survey,* Jeddah: Islamic Research and Training Institute/ Islamic Development Bank, Research Paper No. 16.

Karim, M. R. and Osada, M. (1998). Droping Out: An Emerging Factor in the Succcess of Microcredit- based Poverty Alleviation Programs, *The Developing Economies,* 36(3): 257-288.

Khandker, S. (2006). "Reaching the Poor: Microfinance experience in Bangladesh*," in* S. Ahmed & W. Mahmud, (eds.) *Growth and Poverty: The Development Experience of Bangladesh,* pp 237-260. Dhaka: University Press Limited.

Kingsbury, K. (2007), Microfinance: Lending a Hand. *The Time*, April 16, 2007

Ledgerwood, J. (1999), Microfinance Handbook: An Institutional and Financial Perspective (Sustainable Banking with the Poor). Washington, DC.: The World Bank.

Littlefield, E., Morduch, J. and Hashemi, S. (2003), Is Microfinance an Effective Strategy to Reach the Millennium Develoment Goals? Washington, DC.: CGAP.

Likert, R. (1932). A Technique for the Measurement of Attitudes. *Archives of Psychology* 140: 55.

Mathew, R. P. (2006). The Effects of Microfinance Program Participation on Income and Income Inequality: Evidence from Ghana. Washington University in St. Louis, Draft 1, November 19, 2006.

Montgomery, R. (1996). "Disciplining or Protecting the Poor? Avoiding the Social Costs of Peer Pressure in Micro-credit Schemes, *Journal of International Development* 8: 289- 305.

Morduch, J. (1998). Does Microfinance Really Help the Poor? New Evidence from Flagship Program in Bangladesh. Stanford, Calif.: Hoover Institution.

NFPCSP-National Food Policy Capacity Strengthening Program (2007), "A Research Needs Digest for Food Security in Bangladesh." *Technical Report,* No. 2, Dhaka, Bangladesh.

Nunnally, J. L. (1978). Psychometric Theory. New York: McGraw Hill Company.

Rahman, A. (1999). "Microcredit Initiatives for Equitable and Sustainable Development: Who Pays?" *World Development* 27, no. 1: 67-82

Rutherford, S. (2003). "Raising the curtain on the 'microfinancial service era'," in Harper, M. (ed.) *Microfinance: Evolution, Achievements and Challenges*, London: ITDG Publishing.

The Economist (2000). The Other Government in Bangladesh, Opinion. Volume 30, No. 12.

Ullah, A. K. M. A. and Routray, J. K. (2007). "Rural poverty alleviation through NGO interventions in Bangladesh: how far is the achievement?" *International journal of Social economics* 34(4): 237-248.

Zeller, M. S., Ahmed, M. and Rashid, A. U. S. (2001). *Group-Based Financial Institutions for the Rural Poor in Bangladesh.* Research Report No. 120, IFPRI, Washington, D.C.

The IISTE is a pioneer in the Open-Access hosting service and academic event management. The aim of the firm is Accelerating Global Knowledge Sharing.

More information about the firm can be found on the homepage:
http://www.iiste.org

CALL FOR JOURNAL PAPERS

There are more than 30 peer-reviewed academic journals hosted under the hosting platform.

Prospective authors of journals can find the submission instruction on the following page: http://www.iiste.org/journals/ All the journals articles are available online to the readers all over the world without financial, legal, or technical barriers other than those inseparable from gaining access to the internet itself. Paper version of the journals is also available upon request of readers and authors.

MORE RESOURCES

Book publication information: http://www.iiste.org/book/

IISTE Knowledge Sharing Partners

EBSCO, Index Copernicus, Ulrich's Periodicals Directory, JournalTOCS, PKP Open Archives Harvester, Bielefeld Academic Search Engine, Elektronische Zeitschriftenbibliothek EZB, Open J-Gate, OCLC WorldCat, Universe Digtial Library , NewJour, Google Scholar