

Micro Finance Approaches: Dominant & the Emerging Models

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Abstract

The poorest and poverty reduction have become the object of unprecedented attention at international summits in the 1990's. Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. Microfinance has been treated as an important tool for economic development. Microfinance lenders offer small loans to aspiring as well as current business owners. These loans assist people in getting access to traditional financing and offer jobs to local communities. But it plays vital role in economic development through job creation, financial stability and global poverty. Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low income clients. In this paper the authors tries to highlight the micro finance approaches and the emerging MFI models. It also tries to investigate the satisfaction level of beneficiaries and the approaches of MFIs.

Keywords: *Micro-credit, poverty alleviation, Microfinance Institutions (MFIs)*

Introduction:

Like many popular mass movements, the microfinance movement is characterized both by widespread agreement on broad objectives and by multiple rifts on key issues. The movement itself is driven by the shared commitment to provide credit for small enterprise formation and growth. It is also bound together by a common rhetoric of concern for the poor. This unity of commitment and rhetoric, however, masks a variety of philosophical approaches, types of institutions and borrowers, and delivery systems that

shelter uneasily together under the big tent called "microfinance."

The movement has come to be divided by two broad approaches, or opposing camps, regarding the best way to help the poor through access to financial services: the institutionist approach and the *welfarist approach*. Jonathan Morduch (1998d) refers to this division as the *microfinance schism*. The irony is that while the worldviews of each camp are not inherently incompatible, and in fact there are numerous microfinance institutions (MFIs) that appear in practice to embrace them both,

there nonetheless exists a large rift between the two camps that makes communication between them difficult.

The institutionist approach focuses on creating financial institutions to serve clients who either are not served or are underserved by the formal financial system. Emphasis lies on achieving financial self-sufficiency; breadth of outreach (meaning numbers of clients) takes precedence over depth of outreach (meaning the levels of poverty reached); and positive client impacts are assumed. The center of attention is the institution, and institutional success is generally gauged by the institution's progress toward achieving financial self-sufficiency. The best-known examples of the institutionist approach are Bank Rakyat Indonesia (BRI) and Banco Solidario (BancoSol) in Bolivia. Microfinance institutions (MFIs) came into the rescue for the weaker section of the society. The approaches developed by MFIs in the form of different models helps to eradicate poverty and uplift the livelihood of the beneficiaries.

Relevance of the Study

Economic growth of the country is determined by human, physical and financial resources. But, sometimes, these are under-utilized or misutilised, if human resource factors are not adequately cultivated or properly managed. It has been observed that lack of proper finance in the rural areas and lack of proper guidance to skilled persons, infrastructure bottlenecks and overall lack of industrially congenial atmosphere have been hindrances in the economic development of the country .So, to move ahead with active support of promotional agencies, rural micro financial institutions have been evolved in channelizing the primary resources

into industrial resources causing the real development by removing the industrial backwardness from the region. Microfinance becomes a potent tool for the development of the weaker section of society. Microfinance approaches in the form of various models helps to upliftment of beneficiaries by MFIs.

Review of literature:

Dean Karlan, Jonathan Zinman;(2009) experimented the micro credit .Microcredit seeks to promote business growth and improve well-being by expanding access to credit. The effects are diffuse, heterogeneous, and surprising. Although there is some evidence that profits increase, the mechanism seems to be that businesses shrink by shedding unproductive workers. Overall, borrowing households substitute away from labor (in both family and outside businesses), and into education. They also find substitution away from formal insurance, along with increases in access to informal risk sharing mechanisms. Their treatment effects are stronger for groups that are not typically targeted by microlenders: male and higher-income entrepreneurs. In all, the results suggest that microcredit works broadly through risk management and investment at the household level, rather than directly through the targeted businesses.

Abhijit Banerjee, Esther Duflo, Rachel Glennerster, Cynthia Kinnan(2009), from the Abdul Latif Jameel Poverty Action Lab (J-PAL) at MIT and the Indian Centre for Micro Finance worked with Spandana to randomize the roll-out of its microcredit operations in Hyderabad, India's fifth-largest city. Spandana chose 104 areas of the city to expand into eventually, rejecting some districts as having too many construction workers,

who come and go and might take Spandana's money with them. In 2006–07 Spandana started lending in a randomly chosen 52 of the 104. Researchers followed up by surveying more than 6,000 households between August 2007 and April 2008, restricting their visits to families that seemed more likely to borrow: ones that had lived in the area at least three years and had at least one working-age woman. The surveyors surveyed in “treatment” areas (ones where Spandana worked) and control ones (where it did not yet).

Failure to eliminate global poverty levels is another major criticism of microfinance. stated by Morduch and Haley (2002), Moll (2005) and CGAP (2003b), Microfinance is firmly associated with the Millennium Development Goals of poverty eradication. Mallick (2002: 162) questions the effectiveness of microfinance in this aspect and insists that poverty levels have not decreased in Bangladesh. Hossain (2002) refutes this claim by emphasising the fact that despite its various limitations like many other rural development models, the strength and success of microfinance cannot be ignored. This is confirmed by Yunus (2001) who reiterates that the Grameen borrower has experienced increased income with one third of the very poor escaping poverty. Newaz's (2001) empirical research confirms that microcredit truly empowers disadvantaged rural women. Therefore, Hossain (2002) suggests that rather than reduce the use of microfinance on the basis of the deficiencies outlined, these drawbacks of microfinance should instead be incorporated into its improvement. Although, as argued by Mallick (2002), poverty cannot be single-handedly alleviated by microfinance, it does play a large role in poverty reduction. In August

2005, an independent field research with the Grameen Bank borrowers in north-eastern Mymensingh district in Bangladesh we found that with Grameen microcredit, village women are making remarkable progress in their livelihoods. In a recent study on socio-economic impact of microfinance in South Africa, Hietalahti and Linden (2006) also reported that marginalised rural communities are greatly benefiting from microcredit. The Nobel Foundation (2006) advocates the use of microcredit in addition to all other initiatives, arguing that microcredit enhances their usefulness. As Potts (2002: 352) argues, ‘it is unfortunate if a flexible and useful toolkit is completely discarded because some of the tools in the kit are difficult to use. What is needed is to use the appropriate tools at the right time and in the right places.’

Nava Ashraf, Dean Karlan, Wesley Yin; HBS and Jameel Poverty Action Lab, Yale, University of Chicago,(2008) studied on Female “empowerment” and viewed that it has increasingly become a policy goal, both as an end to itself and as a means to achieving other development goals. Microfinance in particular has often been argued, but not without controversy, to be a tool for empowering women. Here, using a randomized controlled trial, on access to marketing of an individually-held commitment savings product leads which increase the female decision-making power within the household.

Objectives of the Study:

The following are the objectives of the study:

1. To study the socio-economic backgrounds of the clients with special reference to their occupation, caste, age, sex and other variables ;

2. To explain the relationship between the ages groups of various beneficiaries of MFIs and their satisfaction level;
3. To assess the impact of satisfaction of beneficiaries of SHGs on the services of the MFIs;
4. To understand the impact of the factors influencing the satisfaction of beneficiaries.

Hypotheses of the study:

The following are the hypothesis of the study:

1. The middle aged beneficiaries are highly satisfied with the services and facilities provided by the MFIs.
2. Employee Ability to help the beneficiaries of SHGs have a great impact on customer satisfaction.

Research methodology:

Data collected for the research and analysis are from two main sources such as Primary and Secondary. Primary data have been collected by framing a questionnaire to know in detail the earnings made by the beneficiaries of SHGs and MFIs. A sample of 322 beneficiaries out of 98 SHGs and 89 employees out of 100 employees has been taken for study to respond the questions in the questionnaire. The SHGs have been selected from different areas of MFIs operation in Odisha, namely Dhenkanal, Berhmapur, Cuttack, Bhubaneswar and Balasore. As some of the SHGs are in defunct during the period of study and some new SHGs have been coming into existence, so there have been a continuous problem on selecting the sample. Therefore, random sampling method out of the one hundred fifty SHGs have been considered for sampling. As there was a problem on existence

during the study period some of the SHGs were even closed down . So it was difficult on our part to include these SHGs in final response scoring. At last it was finalized with 98 SHGs covering 322 beneficiaries (both male and female) and 89 employees from different operational area of the MFIs. Further, purely new SHGs (within a year of operation) have not been considered for sampling. To justify the responses from the samples ,a maximum of five members from each SHGs has been selected covering the different age groups, operational status, gender, and the amount of loan which have been considered strategically.

The secondary sources of data have been collected from various Annual reports of the MFIs and its subsidiaries, internet pages, news papers, journals, magazines from published or unpublished reports and dissertations available at different institutions.

The data collected from secondary sources have been supplemented by primary data collected from selected samples of 322 beneficiaries and 89 employees covering from different groups from Orissa. The collected data have been classified, interpreted through statistical tools and techniques like percentages, 't' test, Cross tab, , Regression and Factor analysis.

Scope of the study:

The scope of the present study is limited to the operational aspect and does not include the financial aspects. The study mainly focuses on problems and prospects of the MFIs in India and the economic development resulting from MFIs activities. The study has been conducted with special interest to know the role and importance of lending system of MFIs in giving beneficiary satisfaction and that too particularly, in

creating socio economic development. So the study is based on measuring economic development of the beneficiary out of the services provided by MFI-SHG. The central theme of the work is opinion survey from the beneficiaries of the SHGs and Micro Finance Institutions (MFIs) about their specific strategies for economic development of members. The respondents are from five different MFIs covering the different regions of Odisha. The age groups of the beneficiaries of MFI and their occupational status were categorised as Small vendors, Agriculture and Horticulture, Vocational, Live stock, Businessmen, and any other miscellaneous category of vocational trade.

Data analysis & interpretation:

Table -1 Rate of Responses

Categories of respondents	Questionnaires distributed	Questionnaires selected	% of response
Beneficiaries	400	322	80.5
Employees	100	89	89

Table- 2: Age wise distribution of male and female beneficiaries

Age	No. of beneficiaries	Male		Female	
		Number	% to total	Number	% to total
Above 65	12	8	4.7	4	2.6
Below 25	19	11	6.5	8	5.2
55 - 65	40	33	19.3	7	4.7
45 - 55	43	18	10.5	25	16.6
25 - 35	89	43	26.3	63	41.8
35 - 45	119	56	32.7	44	29.1
Total	322	171(53%)	100.0	151(47%)	100.0

Source : Own compilation

Table 2 reported the age wise distribution of male and female figure of the total beneficiaries covered under the total SHGs. Out of 400 sample beneficiary 322 samples have been considered in the following analysis as

Limitations of the study:

Each market research is subject to certain limitations. So this piece of research work is not an exception. The limitations of this study include:

- a) Use of limited samples of 322 beneficiary and 89 employees.
- b) Limited sample may not represent the 100 percent accuracy.
- c) ‘Level of satisfaction’ is a relative term and in this regard the views of the beneficiaries are not accepted whole heartedly.

In spite of these limitations an attempt has been made to make the study a systematic and reliable one.

the responses found valid. Out of the total 322 valid respondents, 171 are found male which represents 53% of the total respondents, where as 151 beneficiaries are female accounted for 47% of the total. Further, as per the age

groups mentioned in the table, highest number of male represent by 35-45 years age group followed by 25-35 years age group. Similarly, in the female group, maximum 63 beneficiaries are from 25-

35 years age group followed by 35-45 years age group. The lowest number of beneficiaries in both the sex groups represented in the age group of above 65 years.

Table- 3 : Age and occupation of beneficiaries

Age	Number of Beneficiaries	Occupation type						Total
		Small vendors	Agriculture & Horticulture	Food & packaging	Live stock	Any other	Business	
		13	17	30	55	92	115	
Above 65	12	1	0	0	0	0	0	1
Below 25	19	0	1	0	0	0	0	1
55 - 65	40	0	0	0	1	0	0	1
45 - 55	43	0	0	1	0	0	0	1
25 - 35	89	0	0	0	0	1	0	1
35 - 45	119	0	0	0	0	0	1	1
Total	322	1	1	1	1	1	1	6

Source : Own compilation

Table -3 inferred the relationship between the age groups of the beneficiaries of MFI and their occupational status. It is important to study their economic profile. The study is based on the activities sanctioned from micro finance institutions . Here each factor has been divided into six groups. From different operational groups, major occupations have been identified and taken into the study. The occupational status have been classified as Small vendors, Agriculture and Horticulture, Vocational, Live stock, Businessmen, and any other miscellaneous category of vocational trades. Similarly for an in-depth study, the age groups of the customers have been correlated so as to identify the influence of age in selecting the trades.

The study indicates that out of 13 engaged in small vending , 12 beneficiaries are of above 65 years old. Similarly, 17 respondents in the category of agriculture and horticulture trade are in the age group of below 25 years. Further, among 55 beneficiaries in live stock occupation, 40 beneficiaries belong to the age group of 55-65 years. Similarly, among 43 respondents of the age group of 45-55 age, 30 beneficiaries are working in different vocational trade like carpentry, electrician, bell metal worker etc. Similarly out of 92 beneficiaries 89 are engaged in miscellaneous trades, which are in the age group of 25-35 years. Lastly, out of 119 respondents of MFI are in the age group of 35-45 years, 115 beneficiaries are doing small business out of the finance provided by these MFIs.

So, it is concluded that maximum of 115 out of 322 beneficiaries accounting for 35% are business men and they represent the age group of 35-45 years followed by 92 beneficiaries doing other miscellaneous trades representing the age

group of 25-35 age. That means younger are more flexible in their trade and they perform as per the market demand. They change their trade types accordingly to procure more income

Table-4 : Age and Satisfaction level

Age	Number of Beneficiaries	Satisfaction level (in Percentage)						Total
		(Below 30)	(30-40)	(Above 70)	(60-70)	(40-50)	(50-60)	
		11	16	45	65	82	103	
Above 65	12	0	1	0	0	0	0	1
Below 25	19	0	0	0	0	1	0	1
55 - 65	40	1	0	0	0	0	0	1
45 - 55	43	0	0	0	0	0	1	1
25 - 35	89	0	0	1	0	0	0	1
35 - 45	119	0	0	0	1	0	0	1
Total	322	1	1	1	1	1	1	6

Source : Own compilation

The above table indicates that out of 322 respondents, nearly 30% of the total beneficiaries i.e.103 beneficiaries have expressed that they are satisfied with the use of products and services offered by MFIs at a satisfaction level of 50-60 percent and maximum of them are in the age group of 45-55. Similarly 82 beneficiaries have a satisfaction level of 40 - 50 percent and most of them are in the age group of 'below 25'. Only 45 beneficiaries have a satisfaction level of above 70%, which is the highest level among all the groups and these beneficiaries are mostly in the age group

of 25-35 years. Only 11 beneficiaries have the minimum satisfaction level i.e. below 30% on the products as well as services offered by NBFC based MFI, and they are mostly in the age group of 55 – 65 years.

So, it can be concluded that maximum number of beneficiaries who feel that high degree of satisfaction are within the age group of 45 – 55 years, where as low degree of satisfaction has been derived among the beneficiaries in the age group of 55 – 65 years.

Table-5 Impact of Satisfaction on the Services of MFIs
(Measurement through factor analysis)

Serial No.	Components	Factor loading
1	Customer friendly attitude of employees of MFIs	0.978
2	Ambience of MFIs	0.964
3	System in providing loan	0.994
4	Facilities provided to beneficiaries	0.993
5	Location of Offices	0.849
6	Customer redressal	0.942
7	Friendliness of field staff	0.906
8	Promptness in problem solving	0.963
9	Contact programme of officers/employees	0.994
10	Knowledge of recovery/collection	0.958
11	Ability of employees to help beneficiaries	0.967

Extraction Method: Principal Component Analysis.

Table - 6: Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	8.450	38.250	38.250	8.450	38.250	38.250
2	5.342	27.212	65.462	5.342	27.212	65.462
3	3.932	20.659	86.121	3.932	20.659	86.121
4	2.072	12.358	98.478	2.072	12.358	98.478
5	.904	1.522	100.000			
6	2.14E-015	1.07E-014	100.000			
7	1.13E-015	5.67E-015	100.000			
8	4.11E-016	2.05E-015	100.000			
9	1.77E-016	8.87E-016	100.000			
10	1.60E-016	8.00E-016	100.000			
11	1.11E-016	5.55E-016	100.000			

Extraction Method: Principal Component Analysis.

When initial values are one in all cases

Table-5 indicates the communalities of factors by using Principal Component analysis. Communalities indicate the proportion of variance in response to factor, which have been explained in the above table. Here the initial value of each factor is 1.00, but the highest extraction value is 0.994. Two factors have the highest extraction values such as system in providing loan and contact program of employees. The second highest extraction value is 0.993 and it represents the factor 'facilities provided to beneficiary'. Above all, all the factors are fit to be used in factorial analysis as the value shows above 80 percent level. For further explanations of these eleven factors on customer satisfaction, the total variance is analyzed in Table-6. Table-6 indicates Total variance with the initial Eigen

values and sum of squared loadings. Here it shows total variances as 38.250, 27.212, 20.659 and 12.358. The last factor shows less than unity in total variance and so it has been excluded in the measurement. The total value, in the initial Eigen value calculation shows 8.450, 5.342, 3.932 and 2.072 respectively for four important factors. Further, in the extracted sum of squares loading, the values reflected in the table, are of equal value with the initial Eigen values. So, no difference arises among the factors even after loading. Similarly, the percentages of variances show the similar value of the initial Eigen values for all the four factors, which have been extracted out of the 11 factors. Hence in the next table-7 four components are explained in a correlations matrix to represent the individual factors coefficient.

Table - 7 : Component Matrix

Serial No.	Factors for satisfaction	Component			
		1	2	3	4
1	Customer friendly attitude of employees of MFIs	.824	.568	.133	.101
2	Ambience of MFIs	.084	.595	-.277	-.311
3	System in providing loan	-.272	.889	.874	-.384
4	Facilities provided to beneficiaries	.873	.476	.226	.198
5	Location of Offices	-.664	-.313	-.226	.507
6	Customer redressal	.365	-.526	.327	-.641
7	Friendliness of field staff	.453	.768	-.254	-.204
8	Promptness in problem solving	.806	-.560	.062	.091
9	Contact programme of officers/employees	.912	.306	.312	.097
10	Knowledge of recovery/collection	.565	.032	.331	.126
11	Ability of employees to help beneficiaries	.779	.494	.569	.639

Extraction Method: Principal Component Analysis.

Table - 7 indicates that the analysis of component matrix, where Component '1' highlights the highest positive values on the factors such as contact programme of officers or employees of MFIs followed by facilities

provided to the beneficiaries, customer friendly attitude of employees of MFIs and ability of employees to help beneficiaries with the values 0.912, 0.873, 0.824 and 0.779 respectively. Here beneficiaries have expressed their

satisfaction on these factors of the MFIs. The first factor customer contact programme is a part of CRM practice and it is observed that the MFIs have organized these programmes satisfactorily. Component – 2 highlights the factors such as Customer friendly attitude of employee of MFIs (0.568), Ambience of NBFCs (0.595), System in providing loan (0.889), facilities provided to beneficiaries (0.476), Friendliness of field staff (0.768), Contact program of employees (0.306), Knowledge of recovery/collection (0.032), and Ability of employee to help beneficiaries (0.494). In considering the component – 3 column, it has been observed that, the system in providing loan of the MFIs(0.874), Facility to the customers(0.226), Customer redressal(0.327), Ability of employees to explain the products(0.569), Contact programme of employees (0.312)are having most positive values.

Further, in component – 4, the factors like, location of MFIs (0.507), ability of employees to explain the products(0.639) , facilities provided by MFIs(0.198) and customer friendly attitude(0.101) , knowledge of recovery (0.126)have recorded most significant positive values. The beneficiaries pay more importance to these factors and are satisfied . So, in cumulative assessment, beneficiaries are immensely satisfied on the factors like customer friendly attitude of the employees, facilities provided by the MFIs, customer redressal and contact programme of officers of the MFIs as compared to the other factors. So MFIs need to pay special attention to upgrade the quality of other factors, those are not satisfying the customers as per their expectation.

Findings of the study:

In the study of age wise distribution of male and female beneficiaries, the result showed that out of 400 sample beneficiaries 322 samples have been considered as valid and included in the interpretation of the study.

- Out of 322 respondents, 198 are male representing 72% and 124 are female accounting for 28% of the total. Further, as per the age groups mentioned in the table, highest number of male represent by the 35-45 age group followed by 25-35 age group. Similarly, in the female group maximum 67 is represented by 35-45 age groups followed by 25-35 age groups. The lowest number of beneficiaries in both the sex groups are represented the age group of above 65 years.
- In the study of Age and occupation of beneficiaries, it was found that maximum of 115 out of 322 beneficiaries accounted for 35% which are business men and they are mostly the age group of 35-45 years followed by 92 beneficiaries doing other miscellaneous trades representing the age group of 25-35 age. That means young beneficiaries are more flexible in their trade and they perform as per the market demand.
- In the study of domicile of beneficiaries, it was reported that the maximum beneficiaries of MFIs belong to the rural areas followed by Semi - urban areas.
- In the study of kinds of account operation with MFIs, it was found that the maximum numbers of beneficiaries have weekly deposits in MFIs followed by daily deposits.

- In the study of age and management of MFIs, it was reported that the maximum beneficiaries of MFIs are in the age group of 45 – 55 years and they expressed their feelings on lack of monitoring system of MFIs on SHGs which is reason why the MFIs have not been quite successful.
- In the study of age and satisfaction level, it was found that the maximum numbers of beneficiaries who feel that high degree of satisfaction are within the age group of 45 – 55 years, where as low degree of satisfaction has been derived among the beneficiaries in the age group of 55 – 65 years.
- In the study of Impact of Satisfaction on the Services of MFIs through factor analysis, it was found So, in cumulative assessment, beneficiaries are immensely satisfied on the factors like beneficiary friendly attitude of the employees, facilities provided by the MFIs, beneficiary redressal and contact programme of officers of the MFIs as compared to the other factors. So MFIs need to pay special attention to upgrade the quality of other factors, those are not satisfying the beneficiaries as per their expectation.
- In the study of Bi-variate Correlation ,it was found that Reliability is the most vital factor followed by Tangibles, Trust and Professionalism which shows significant correlation in the analysis. The factor Responsiveness shows maximum negative correlations with other factors and hence is excluded from further analysis .
- In the study of Factors on Technology, it was found that the highest extraction value is 0.913 for Redressal and solutions through technology followed by Technology on services 0.892. The lowest among all is on New technology adaptability 0.583.
- In the study of t-Test (Paired Correlations),it was found that the highest correlated value is accounted for by Technology reliability used by MFIs (0.941) followed by Technology on services (0.917). It is clear that the perception on Technology care of the beneficiary is totally valueless. So, to create a stable beneficiary base, the NBFC have to create new redressed forum through technology.
- In the study of Paired Correlations (factor and satisfaction), It was found that the highest value represented by Beneficiary redressal and satisfaction with the correlation value 0.923 which showed that beneficiaries are highly serious over this factor, it was also reported that , maximum satisfaction is based on beneficiary redressal followed by Knowledge of recovery /collection.

Conclusion

In all, the potential economic benefits of sustainable microfinance in India are compelling, and its potential effects on the development process cannot be understated. This calls for a holistic approach, as discussed to facilitate the development of the microfinance sub sector and thereby unleash its potential for accelerated growth and development. In particular, priority to the determination of the viability of the MFIs and estimate the economic prosperity of SHGs , sustainable interest rate, quality of loan port folio, administrative efficiency etc. are now is in dilemma. Microfinance approaches really helps in the

development of economic growth of the country. Microfinance development models acted as a potent tool for the weaker section of the society.

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