

The impact of micro finance in Zambia, case study of Chipata district

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Abstract

Micro finance is an essential pre-condition for sustainable economic development. The process of provision of financial services has been gaining importance for the overall economic development of the country. Micro finance became alternative source of loans to the poor people with the goal of creating financial inclusion and equality. Informal sector constitute an important part of the economy. Therefore the study was conducted to investigate the impact of Micro Finance in Zambia, the case of residents of Chipata district. The study was guided by the following research objectives: to determine the level of awareness on micro finance products, to assess the level of development of MFIs within Chipata, to assess the impacts of microfinance on Chipata District residents, women in particular and to assess challenges Chipata residents face in accessing credit.

The study came up with the several results, among the few are that MFIs have a positive effect on the people of Zambia as MFIs increase the household income levels. It has been noted that, access to credit which is a major challenge in the SME sector has been reduced to a large extent through the operations of MFIs. It was also concluded that MFIs have contributed largely in the area of mobilizing savings through their saving schemes that make saving more accessible, less costly and ready to receive little amounts. The practice helps to improve capitalization as most of these saving are ploughed back in their businesses.

Keywords: Micro finance Institutions, impact, Development, Microfinance, Poverty

1. Introduction

The term "Microfinance" pertains to the lending of extremely small amounts of capital to poor entrepreneurs in order to create a mechanism to alleviate poverty by providing the poor and destitute with resources that are available to the wealthy, albeit at a smaller scale. This particular form of lending has existed in the world for quite some time, though formalized by Mohammed Yunus in Bangladesh during the 1970's, Micro finance has several benefits for developing nations like Zambia. Microfinance institutions (MFIs) have become the main source of funding micro enterprises in Africa and in other developing countries. As pointed out by the former UN Secretary General Kofi Annan during the launch of the International Year of Micro Credit (2005), "Sustainable access to microfinance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs." (Kofi Annan, December 2003) ^[1].

Microfinance popularity has been growing in last two decades, and the topic has recently reached the public opinion. One of the facts that drew more attention from the global audience was in 2006 when Mohammed Yunus and the Grameen Bank were awarded with the Nobel Peace Prize due to "their efforts to create economic and social development from below" (Nobel Prize 2006). But at the same time, critics to microfinance also started to reach the public through the media.

Zambia is one of the least developed countries in the world. In the face of her rapid growing and transforming economy, with the per capita income of the country, though it showed enhancement in recent years. According to the report by MoH (2011/12), the level and distribution of poverty in Zambia is extensive. The 2010 and the 2011 Household Income, Consumption and Expenditure Survey and Welfare Monitoring

Survey of the Central Statistical Office show that about 29.6 percent of the total population (30.4 percent in rural areas and 25.7 percent in urban areas) are living below poverty line and survey also showing rising rural - urban poverty inequality by 17% (CSA, 2011) ^[2]

The major causes of the high prevalence of poverty in Zambia include lack of access to financial services, employment opportunities, income, skill, education, health etc. It has been noted that provision of financial services is one of the important economic inputs in the effort to reduce poverty and empower economically marginalized segments of the society. These marginalized poor people have limited access to important economic input (credit) from traditional lending financial institutions, despite the prevailing demand for credit among the poor is highly growing and largely untapped (Gowri, 2011) ^[3].

Littlefield and Rosenberg (2004) ^[4], argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market fail addressing this gap in the market in a financially sustainable manner, an MFIs can become apart from the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Otero, 1999) ^[5]. There are also significant disparities in the level of development and performance across different countries (MIX, 2010). While the developed micro finance institutions (MFIs) of South Asia and Latin America are challenged to become more commercially viable, emerging – often donor dependent - MFIs in sub-Saharan Africa can struggle to survive.

Inexperienced staff, questionable working practices, poor internal controls, substandard governance and inadequate management information systems all contribute to African MFI underperformance (CGAP, 2009) ^[6]. In Zambia, for example, a

lack of competent and skilled ‘human capital’ has been identified as a particular failing problem facing micro institutions in Zambia (Microfinance Africa, May 2010).^[7] In Zambia, Siwale (2006)^[8] previously scrutinized Christian Enterprise Trust of Zambia (CET-ZAM)’s near collapse and observed how its subsequent restructuring embraced policy and senior management, product diversification, and further grassroots staff changes in branches. Similarly, Moroccan MFIs were found to lack the necessary skills, knowledge and experience with some being accused of fraud and embezzlement of depositors’ funds. Studies elsewhere suggest that many crises are not just random, one off events apart, but originate in serious, and maybe also potentially predictable and/or avoidable, management and intelligence failings. Under performance shadows MFI development in Southern Africa (Lafourcade, Isern, Mwangi, & Brown, 2005; Chiumya, 2006; Dixon, *et al.*, 2007)^[9] and formal evaluations of impact assessment, program replication, client outreach and financial sustainability (Copestake, 2001)^[10] typically suggest that progress here lags significantly behind that which has been claimed for South Asia and Latin America (Basu, Blavy, & Yulek, 2004)^[11]. However, some schools of thought remain sceptical about the impact of micro-credit in development. In the light of this, the study would find the impact that micro finance has on the lives of the people of Zambia.

2. Purpose and Objectives

The purpose of this study was to investigate the impacts of Micro Finance on the people of Zambia and Chipata residents in particular, with a particular interest in the role that micro-finance institutions play in impacting the lives of the vulnerable women. In addition to gaining an in-depth understanding of the impact, the study focused on ascertaining knowledge of the people on micro finance products provided by MFIs that can contribute to ensure a sustainable growth and development of SMEs in Zambia. The other reason for this study was to come up with findings that may be used to make assertions on the awareness and impacts of microfinance in Zambia.

The study was guided by the following objectives:

- To determine the level of awareness of microfinance among Chipata residents
- To find out the level of development of microfinance institutions within Chipata.
- To assess the impacts of microfinance on Chipata District residents
- To establish the challenges Chipata residents face in accessing credit.
- To ascertain the strategies employed by the microfinance institutions in Chipata District

3. Theoretical framework

The Imperfect Information Paradigm: Joint Liability vs. Individual Liability: One of the characteristics of microfinance is creation of mechanisms in order to overcome the asymmetries of information. One of the most studied is joint liability group lending model, which uses groups of borrowers instead of individuals to give the credit. If one of the members of a group fails to pay back, the rest of the members have to contribute in order to ensure the full repayment. Joint liability group lending “stimulates screening, monitoring and

enforcement of contracts among borrowers, reducing or erasing the agency costs of the lender” (Hermes and Lensink 2007)^[12]. due to social ties and geographical proximity. This is also supported by theoretical models by Stiglitz (1990), Banerjee *et al.* (1994 as in Hermes and Lensink 2007), or Armendáriz de Aghion (1999), and by several empirical studies as shown in Hermes and Lensik (2007). Another mechanism that works under group lending is the creation of social capital and social ties between the customers, as shown in Cassar *et al.* (2007). But in recent years, individual liability is having a growing importance as many mfi’s are shifting or taking this mechanism in account with this method, moral hazard would be avoided with the use of reputation and the use of incentives like the progressive access to larger amounts of credit, as “new borrowers are provided small loans and allowed to increase loan sizes by demonstrating prompt repayment” (Robinson 2001)^[13]. Also, some of the drawbacks of group lending joint liability— like tensions within the group, free rider problem, higher costs for better customers or lack of adaptability to demand—would be overcome with this method (Giné and Karlan, 2006)^[14]. As a summary, under the imperfect information paradigm, the lending activity entails five components: “(a) the exchange of consumption today for consumption in a later period, (b) insurance against default risk, (c) information acquisition regarding the 20 characteristics of loan applicants (this is the screening problem) (d) measures to ensure that borrowers take those actions that make repayment most likely (this is the incentives problem); and (e) enforcement actions to increase the likelihood of repayment by borrowers who are able to do so” (Hoff and Stiglitz, 1990)^[15]. Meanwhile, microfinance has become one of the most important tools of development policies. According to the UN, and as stated in the Millennium Summit in September 2000, microfinance should be a key strategy to achieve the Millennium Development Goals. In order to support this thesis, some authors give examples where microfinance has been empirically proved to eradicate poverty, promote children education, improve health for women and children, empowering women and targeting the poorest (Morduch *et al.* 2003)^[16]. On the other hand, other authors highlighted that MFIs do not always target the poor and the poorest but they often target less poor customers (Hulme 2000a)^[17].

4. Research Design/Materials and Methods

This survey is a non-experimental, descriptive research method which tends to be quantitative and aims to collect information from a sample of population such that the results are representative of the population within a certain degree of error. Survey research design was chosen because the sampled elements and the variables that are being studied are simply being observed as they are without making any attempt to control or manipulate them. Also the design is chosen because quantitative information needs to be collected through the use of standard and structured questionnaire.

The study used both the qualitative and quantitative survey designs in which tables and charts presentation of observed phenomena were used in order to give accurate information on the impact of micro finance institutions in Chipata District, Zambia. The design used in this research journal was the Mixed Methods design because it involves both qualitative and quantitative research designs. The reason for combining the designs is to ensure that information obtained using one design

is complimented by the other in terms of the type and quality of information to be collected.

The sample size of the research study comprised of 50 respondents that included 50 Women who are beneficiaries of micro finance loans in Chipata. All the beneficiary respondents were women of Mchini, Katopola, Kapala, Msekera and Kagunda areas of Chipata District.

This research study used the simple random sampling techniques in selecting the sample of respondents who took part in the study, these were 50 women and who are past and present MFIs clients and 1 loan officer. This technique was used because all the elements in the population had high probability of being chosen or selected. Sampling was considered because it reduced cost and resources that would have been used in studying the entire population.

The tools used as instruments for data collection were questionnaires which contained both open ended and closed ended were used in order to yield quantitative and qualitative data. The researcher also used both primary and secondary data. Primary data was obtained using questionnaires while secondary data from the internet, books and journals.

The Data was analyzed qualitatively and quantitatively. The analysis was based on the research questions of study. All interview responses were recorded and the information was categorized according to the keys given. For example key 1 represented “Yes” while key 2 represented “No. The data was processed and analyzed on the database using Microsoft excel and STATA. The Data was interpreted using frequency tables, and graphs and was summarized using narrative reports and finally presented.

5. Results/Findings

During the survey a total of 50 respondents were sampled in Chipata district representing the total population of 300 people on average number of 6 people per household, these respondents comprised of 50 female and they were drawn from the following compounds Mchini, Katopola, Msekera, Kapala and kagunda. Women were chosen because they are a group that is mostly involved in micro finance borrowing and that they are the ones mostly affected by poverty. This assertion is supported by Kabeer, who quoted in Mosedale (2003, p.2) [18] and states that women need empowerment as they are constrained by “the norms, beliefs, customs and values through which societies differentiate between women and men”.

She also states that empowerment refers to the “process by which those who have been denied the ability to make strategic life choices acquire such an ability”, where strategic choices are “critical for people to live the lives they want (such as choice of livelihood, whether and who to marry, whether to have children)” (Kabeer, 1999, p.437) [19]. The sampled population comprised of 50 micro credit beneficiaries. Below is the graphical presentation of this data. Amongst the population sampled 19 were widows’ household heads and 31 were married spouses.

Table 1: Number of Respondents

Number of Respondents	
Male	0
Female	50

Table 2: Status of Respondents

Status of Respondents	
Married	31
Single	0
Divorcees	0
Widows	19

Table 3: Age of Respondents

Age range	Sampled Population	Percentage
20 to 40 years	23	46
41 to 60 years	25	50
61 to 80 years	2	4

The table shows the age distribution of the sampled population that was interviewed. The majorities were the ages between 41-60, followed by those that were between 20 to 40 and finally those that were from 61 to 80 years and these were very few. Considering the data analysis the biggest number of population which is active in micro finance is that which is between the ages of 41 to 60 years, followed by those that are between 20 to 40 years.

Table 4: Level of education

Education levels	Sampled Population	Percentage
Pre school	1	2
Primary School	25	50
Secondary School	20	40
Tertiary Level	0	0
Never Been to school	4	8

Amongst the people interviewed on the level of education, no one reached tertiary level, while 13 reached secondary school, 32 reached primary school, 2 reached pre-school and 4 have never been to school. From this data it shows that education levels in Chipata are very low.

6. Chart # 1: Main Profession of Respondents

The main profession of the respondents is trading followed by private sector employee. Amongst the sampled population no one was a civil servant and only one respondent was involved in farming as a way of earning income. Because of low levels of education most of the sampled populations do not have formal employment. Therefore major employment for the people of Chipata is trading which comprised of 90% of the sampled population. Below is the diagram that shows the interpretation of this information.

7. Knowledge and Sources of Information about MFIs

From the study that was conducted in Chipata, it was found that, 100 percent, thus fifty (50) respondents have knowledge about the operations of Micro Finance Institutions (MFI’s). This gives much evidence that the respondents sampled for study have much knowledge on the operations of the Microfinance Institutions and that all of them had heard about MFIs from their friends. The table below shows how these respondents got to know about the operations of MFI’s.

Table above shows that 50 percent got information about MFIs through friends, no one heard about MFIs through the media, MFI officials, handbill or through other means. This analysis shows that, most of the respondents got to know about the operations of Micro Finance Institutions through friends

Table 5: Source of Information about the Operations of MFIs

Source of information about MFIs	Sampled Population
Friends	50
Media	0
MFI Official	0
Hand bill	0
Others	0

8. Tangible Benefits acquired from the Loan from MFIs

There are a number of benefits MFIs clients acquire from the loans they access from these micro finance institutions. From this study it was evident that there are many tangible benefits clients get from the loans, among the few are Improvement in the Housing as most of the clients indicated that they used the funds to buy plots and build houses, Boasting of their businesses as a number of them said their businesses have been boasted due to the loans, and a number of the respondents also indicated that the funds accrued from the loans have been used to send children to school and some on them have completed grade 12 from the funds realised from the business being done from the loan funds from the MFIs. The table below shows the presentation of the tangible benefits accrued from MFIs.

Table 6: Tangible Benefits from MFIs

Tangible Benefits from MFIs	Sampled Population benefited	Percentage of Population benefited
Improved Housing	25	50
Increased Household income	10	20
Improved education standards	10	20
Increase in Household Assets	3	6
No benefits, Just joined MFIs	2	4

The Effect of MFIs on SMEs

The existence of MFIs has in one way or the other contributed to the development of small and medium entrepreneurs (SMEs). When SMEs were asked whether the existence of MFIs have had any effect on their business, it was found that majority of them, thus 100 percent recorded a positive effect. However, none of the respondents indicated a negative effect of the existence of MFIs on their business. Hence it can be deduced that, MFIs have contributed positively in the operations of SMEs. This assertion is buttressed by Rhyme and Otero (1992) [20], when they indicated that MFIs that are financially sustainable with high outreach, have a greater livelihood and also have a positive impact on SME development because they guarantee sustainable access to credit by the poor.

9. Discussion and Interpretation of Findings

Microfinance institutions provide small-scale financial services to poor people who are otherwise "excluded from the formal banking sector" (Morduch, 1999, p. 1569) [21] and standard financial systems. Operating merely in developing and emerging countries, they have specialized in offering loans of minor scale to enable individuals to start small productive businesses and enhance entrepreneurship. Especially in rural areas of developing countries, the development of financial systems is often poor, sometimes they have not fully emerged at all. In this case, microfinance institutions often represent a first opportunity for the local population to participate in

financial systems and to benefit from access to business and capital.

Using data obtained, the impact of microfinance on household income was estimated by comparing eligible households in the Association for Social Advancement and any other households. They found different impact estimates depending on the season. The estimated annual average impact was 37% per 100 credit available. They noted the substantial difference between their estimate and that of Pitt and Khandker (1998) [22] and explained that their "measures were not only the effect of actual borrowing, but also the effect of access to credit, that is, the ability to borrow sometime in the future even if the household in the current period chooses not to borrow." These indirect benefits would include "reduced cost of consumption smoothing, such as decrease in distress sale and an increase risk-bearing capacity favoring more profitable production and investment portfolios."

In contrast to, Coleman (2006) [23] found no significant impact of access to microcredit on improving household wealth, using a sample of households in the eastern province of Zambia. However, when the sample was broken down into general beneficiaries and community members, found that the insignificance was limited to general beneficiaries and that a positive impact was found among community members who received access to financing. Estimates in CSO (2005) [24] using data from eastern province found a mild significant impact on per capita food expenditure in the months after the beneficiary first borrowed. However, access to microcredit did not have a significant impact on non-food expenditure.

The researcher used household survey data on poor households from a number of households to undertake the analysis. The researcher found that credit increased labor income in a statistically and economically significant manner. Access to credit increased the hourly labor income of poor individuals compared with a similar population without access to credit by 4.8 times, the impact was sensitive to the size of the loan. They found that, in targeted area, a 10% increase over the average amount of credit translates into an increase in hourly labor income of 4.7 times to the average income of credit borrowers and 6.2 times for those without access to credit.

The incidence of hunger and reduction in food consumption were also studied to determine whether the provision of microcredit had an impact on these dimensions of poverty. The results show that hunger incidence was about 2% in the respondent population and that there was a reduction in food consumption in 11% of the respondent household. A probity model was used to estimate the impact on the incidence of hunger and reduction in food consumption. The analysis did not show a significant difference between those who received microcredit loans and those who did not. The incidence of hunger in the survey population was too low for the program to have any significant impact.

Almost all of the respondents reported that their incomes rose after participation in the credit loan program. They stated that the microfinancing program enabled them to expand their microenterprises and start new businesses. Further, ownership of assets changed positively after participation in the program for about 90% of the beneficiaries.

The findings revealed that 50% of the respondents suggested expansion of their infrastructure in terms of housing, 20% of the respondents showed an 'increase in people's incomes' as their measure of growth in economic activities, while 20%

showed an improvement in the education levels and some of them completed secondary education including their children, 6% MFIs have contributed to the improvement of household assets and 2% said they have not seen any impact in MFIs as they had just joined the groups.

The majority of respondents therefore prefer increase in Housing as the best measure of growth and increase in household income through their businesses and individual welfare, closely followed by the ability to pay back the loans. Most authors contend that there are several indicators of growth in economic activities, the above indicators inclusive, notable among these are; Dyck, Alexander (1997); Hoque, Serajul (2004); and Daley, Harris, Snodgrass, Sebstad (2002) just to cite a few. However, Ledgerwood, (1999) ^[25], noted from the clients that there are no particularly outlined ways of measuring growth in economic activities.

Most of the respondents did not experience hunger in their households. Only 3 of the 10 respondents reported that they have taken less food the last 3 months. In terms of food quantity, three quarters reported that they had more food after participation in the program. The purchase of clothing and health services also increased.

The study findings deduced that out of selected attributes for the contribution of MFIs funding to the rural women and youth, Housing was ranked number one, followed by improvement in the business and increase in income levels and education. Contribution of micro finance to buying household asset turned out to be number three. This therefore implies that MFIs play a vital role in contributing to the infrastructure development specifically housing.

It was also evident that MFIs play a vital role in boosting up the incomes of their clients through business expansion. This is supported by (Braun, James & Gary Woller. (2005) ^[26], who conceded that growth was also reflected by the increase in the different business ventures, prompt tax payment and meeting financial obligations among others. However a few clients harbor a different view about MFI funding. They argue that MFIs charge high interest rates coupled with the very short repayment period which culminates into confiscation of property, imprisonment and general impoverishment and hence they see no positive contribution at all. This argument is supported by Otero (1999) ^[27].

The respondents indicated that the loans acquired have led to the following positive impact in their households;

- Contributed to the increase of income levels at household levels reducing poverty levels and enabling community members to meet their basic social and economic activities such as school fees for children who have so far finished grade 12 and medical fees as well as food requirements throughout the year. This was evidenced by 15 respondents who said that MFIs have in contributed to their economic growth through increased in-come levels.
- Micro loans have contributed to the Increase of household assets from improved income levels. Three Respondents indicated that assets such as TVs, Beds, mattresses, musical instruments, bicycles etc were bought as a result of micro loans. Respondents indicated that these items may provide income in difficult times and reduce the risk of falling back into severe poverty as thus this contributes to development of the country.

- Microfinance interventions have shown to have a positive impact on the education of clients and clients' children. A Total of five respondents (10%) of the total respondents indicated that they did not finish grade 12 but after acquiring the loans from MFIs they used part of the money to pay school fees for themselves and have since finished grade 12. Eight respondents representing 16% indicated that they used the money from MFIs to send their children to school and some of the children have since completed Grade 12. These findings are supported by Littlefield, Murdugh and Hashemi (2003, p.4) ^[28] who state that one of the first things that poor people do with new income from microenterprise activities is to invest in their children's education.
- Some respondents said that they did not own a business but after acquiring the loans from the MFIs they started their businesses which are now doing fine. Some of them indicated that their businesses were almost collapsing and the acquired loans saved their businesses from collapsing.

10. Conclusions

MFIs play a very vital role in improving the standard of lives of the people of Chipata and Zambia at large and impact the MFIs beneficiaries positively. The study findings deduced that the contribution of MFIs funding to the rural women are in the areas of business expansion, meeting financial obligations in time, increase in peoples' household incomes, improves education standards, increases household assets, improves gender equality and equity and included improvement in Infrastructures and meeting customer demands on time. This therefore implies that MFIs play vital role in boosting up the incomes of their clients.

This study established that there a lot of impacts that MFI has on the community, it also showed that MFI proves to be a strategy of poverty reduction and the way credit can reach the poor. The conclusion from the findings is that whilst microfinance clearly may have had positive impacts on poverty it is unlikely to be a simple panacea for reaching the core poor, remains broadly valid. Reaching the core poor is difficult and some of the reasons that made them difficult to reach with conventional financial instruments mean that they may also be high risk and therefore unattractive to microfinance clients.

11. Recommendations based on study findings

The study findings yielded the following recommendations in view of the impact of MFIs funding on the Economic Growth of the rural women of Chipata.

- Management of MFIs should emphasize village banking in order to overcome or reduce on the default rate. Such a method creates psychological coercion amongst the clients to pay back the borrowed money. Individual borrowers tend to default a lot which poses a big risk to the organization. Village banks are community-managed credit and savings associations established by NGOs to provide access to financial services for the poor and are managed by the clients themselves.
- It is important to note that credit alone is often insufficient in ensuring growth and small business development, particularly when people engaged in such activities lack basic knowledge and skills related to business management. More so, extending credit to them with

limited business knowledge is riskier proposition for MFIs. Therefore, microfinance institutions should arrange mechanisms to improve technical and business skills of the poorest through training and loan utilization. This will enhance their business skills to use credit and establish market channels for their products.

- The management of MFIs should stretch further to rural areas so as to be able to serve the needs and wants of the rural business men. Most MFIs concentrate their businesses in urban areas. Cost benefit analysis should be considered when such a decision is being embarked on so that both parties can equally benefit from the venture.
- The management of MFIs should increase on the product portfolios offered to the rural people. The existing product portfolios do not cater for all the needs and wants of the rural people. The marketing department should endeavour to research on the clients' desired options and be able to include the probable and realistic ones onto the list.
- Management of MFIs should also endeavour to lengthen the loan payment period. The current loan payment period is too short to pay the loan.

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