The Economic and Social Impacts of Microfinance: A Case Study of Grameen Bank

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ABSTRACT

Grameen Bank became a well-known microfinance institution because of its unique loan program for beggars and group lending. This paper introduces Grameen Bank and how its credit delivery system enhances accumulation of capital, particularly social capital. Microfinance positively influences borrowers' ability to build economic and social capital.

INTRODUCTION

Grameen Bank provides six different types of loans and four kinds of saving products, especially for women, the poor, the unemployed, and the illiterate in rural areas of Bangladesh. The bank implements group lending, which requires that a borrower must belong to a five-member group. Repayment responsibility solely remains on the hands of an individual borrower and there is no legal instrument with the bank. This unique method creates peer pressure among group members, which encourages them to repay on time.

MATERIALS AND METHODS

The impact of microfinance on total household expenditure is presented by developing a multivariate regression model using the Ordinary Least Square (OLS). The amount of credit is a dependent variable to explain whether microfinance has a positive relationship with total household expenditure. Even though the p-value for loan principal fails to reject the null hypothesis, I concluded that it has a positive relationship with total expenditure from previous findings.

RESULTS

After running the first regression model, wage, total land value, total crop production, loan principal, and gender variable are not statistically significant because their t-scores are less than the critical t-value even though their signs match with alternate hypothesis. The rest of the variables, including total livestock value and revenue, are statistically significant that these two variables positively influence the total household expenditure. The primary goal of running this regression model is to find the relationship between loan principal, the initial amount of credit, and the total expenditure. The second regression model eliminates wage, gender variable, and total crop production because they are not statistically significant. No serious correlation problems exist in the equation, but the Ramsey Test suggests that there are omitted variables. This result indicates that the equation is missing a significant variable(s), so it is expected to see that the adjusted R-squared decreases from 0.2075 to 0.1772. Dropping variables does not necessarily correct specification problem, but it can at least show significant variables that influence total expenditure. Both the White Test and the Breusch-Pagan Test are conducted to see whether the model has heteroskedasticity. The second model does have a problem with heteroskedasticity even though robust standard errors were estimated to fix. For the second regression model, total land value, total livestock value, and revenue are statistically significant while loan principal is not completely significant.

CONCLUSIONS

According to the result, total land value, total livestock value, and non-farm revenue from last week have a positive relationship with total household expenditure. Increase in household expenditure implies that borrowers have increased their household income. Secondly, consistent income allows the borrowers to accumulate capital by saving and invest in their business. Thirdly, the credit delivery method provides the members a secure place where they can freely exchange their ideas and information, which builds a social network within a community. Over the time, this network becomes social capital, which is accumulated throughout the membership. Lastly, Grameen’s unique system empowers women in rural areas of Bangladesh. Women can utilize small amounts of loans to initiate or expand their businesses and become wage-earners. This implies that women’s power and their role in decision making within the household increase.

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