THE DEMAND FOR MODERN MICROFINANCE SERVICES IN BANGLADESH

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Abstract

For several decades, microfinance services have benefited a variety of low-income households and small businesses in diverse ways; digital-based modern microfinance services may, however, impede the users of conventional services and those without access to technology. This study investigates the demand for modern microfinance services in Bangladesh, as well as the factors that influence such demand, including household income, religion, residence district, current use of a microfinance program, and loan repayment schedule. The study was conducted with microfinance clients in Bangladesh via an online survey and the data were analysed with IBM SPSS using the analysis of variance (ANOVA) test. The findings show that household income, religion, residence district, current microfinance programme and loan repayment schedule influence the demand for modern microfinance services. The results suggest that microfinance institutions should develop microfinance programmes with appropriate loan terms and repayment schedules to attract new customers, and should prioritise customers who live in remote areas with restricted access to microfinance services allowing them to improve their lives as a result of microfinance assistance.

Keywords: digital-based microfinance, microcredit, microfinance, online banking services

1. INTRODUCTION

Although Bangladesh's economic development potential is exceptional among the world's poorest countries in a variety of socioeconomic factors, approximately half of Bangladesh's population lives in poverty (World Bank, 2019). There are no precise methods for improving impoverished people's living conditions or involving them in income-generating activities, as it is difficult for the poor to obtain small amounts of operating capital through the official banking system for numerous reasons. A collateral-free working capital loan is necessary at the correct moment to assist the poor in facilitating and initiating realistic targeted income-generating activities (Ahmed, 2009). Thus, poverty reduction and rural employment creation should be key priorities in the government of Bangladesh's strategies to alleviate poverty.

Light Castle Partners (2019) notes that microfinance, or microcredit, is a critical tool for distributing loans and funds to individuals who are unable to access mainstream banking and financial services owing to economic or creditworthiness constraints. Microfinance is a term that refers to financial institutions or loan providers that offer a range of banking products, such as

deposits, loans and insurance, to low-income individuals and small enterprises who do not have access to traditional financial services (Hermes, Lensink & Meesters, 2018). Microfinance management systems have addressed fundamental issues associated with identifying and delivering financial services to millions of disadvantaged individuals. In recent years, microfinance has been a popular intervention for poverty reduction in developing nations and the least developed countries (Naser, 2018). In Bangladesh's rural financial markets, microfinance institutions have risen significantly (RFM). Numerous reputable financial institutions, including nationalised commercial banks, specialised banks, specialised government entities and non-governmental organisations, have implemented microcredit schemes (Bangladesh Bank, 2021). Light Castle Partners (2019) identified a thousand microfinance organisations that provide microcredit. According to the Microcredit Regulatory Authority (2018), at the end of the second quarter of 2018, the microfinance sector's total loans outstanding was approximately 673.90 billion BDT, including Grameen Bank, government banks, and commercial banks, with savings of approximately 262.96 billion BDT. The overall number of loan beneficiaries from microfinance organisations is 31.22 million. This huge customer base could speed up the entire growth process of the Bangladeshi economy.

Given that customer attitudes toward digitisation have shifted and the general public's ability to use modern technology has improved, microfinance institutions should consider converting their traditional operations to electronic ones, which can increase access to banking services and have a great impact on the lives of microfinance service users (Light Castle Partners, 2019). Financial Inclusion Insights (2018) estimates that 47% of Bangladeshis have access to financial services, such as a legitimate mobile banking account, a single savings account or a complete banking account with non-bank financial institutions, including microfinance organisations. These numbers indicate how people's financial inclusion and technical flexibility have increased.

While microfinance services serve the poor and small enterprises in several ways, the recent digitally based model of modern microfinance services may create challenges to users used to the conventional services and those without access to technology. Thus, it is worthwhile to investigate the factors influencing demand for modern microfinance services in Bangladesh to develop an effective approach for utilising microfinance to alleviate poverty.

1.1. Purpose of the Study

This study examines the demand for modern microfinance services in Bangladesh and explores the factors affecting the demand for modern microfinance services in the country.

2. LITERATURE REVIEW

Demand is defined as the quantity of a good or service that buyers are inclined to purchase at a particular price during a specified time (Hayes, 2021). In an economy, people want goods and services to meet their basic needs for food, healthcare, clothes, entertainment and housing, among other things. Demand for a product at a particular price represents the level of satisfaction an individual anticipates from its use. This subjective measure of satisfaction is referred to as utility, and it varies for each customer. According to Gordon (2022), the utility of a product in satisfying consumers' needs or wishes, as well as a consumer's buying capability, are two elements that affect demand. Real demand exists when a person's willingness to satisfy a want is backed up by his or her capacity and willingness to pay.

Demand theory is a critical economic concept that describes the link between consumer demand for products and services and market pricing. The demand curve, which ties consumer desire to the number of products available, is based on demand theory. As more of a good or service becomes accessible, demand falls, and the equilibrium price falls with it (Mankiw & Taylor, 2011). In addition, demand theory puts a focus on demand's involvement in price formation, whilst supply-side theory places an emphasis on supply's position in the market (OpenStax, 2016). Demand theory is a key concept in microeconomics. It aims to solve fundamental problems about how strongly humans desire products and how wealth and happiness levels affect demand (utility) (Hayes, 2021). Businesses adjust the amount given and the cost paid based on how customers perceive the value of goods and services. Demand is influenced by elements such as customer preferences, interests and choices (Peek, 2021). Evaluating demand in an economy is, therefore, one of the most important decision-making variables that a business must analyse if it is to survive and grow in a competitive market. The market system is governed by the laws of supply and demand, which determine the prices of goods and services (Gordon, 2022). When supply equals demand, prices are said to be in a state of equilibrium. When demand is higher than supply, prices increase to reflect scarcity. Conversely, when demand is lower than supply, prices fall due to the surplus.

The law of demand establishes an inverse link between the price of a commodity or service and its demand. It essentially asserts that when the price of a commodity rises, demand declines, assuming all other variables stay constant. Additionally, when prices fall, demand grows. This connection may be visually represented using a tool called the demand curve (Nicholson & Snyder, 2012). According to OpenStax (2016), the demand curve is slanted downward from left to right to indicate the inverse connection between an item's price and the amount desired over time. Demand expands or contracts as a result of the income impact or the substitution effect. When the price of a commodity decreases, an individual may have the same degree of enjoyment for less money, as long as the product is a standard good. In this instance, the consumer can acquire a greater quantity of things within the constraints of his or her budget. This is referred to as the income impact. The substitution effect occurs when customers shift from purchasing more expensive items to lower-priced equivalents. Demand grows when more individuals purchase the item at a reduced price. Occasionally, people purchase more or less of an item or service for reasons unrelated to pricing; this is referred to as a demand change (Thompson et al., 2012). A change in demand is a movement in the demand curve to the right or left as a result of a change in, among other factors, customer preferences, taste or income. For instance, a consumer who obtains a raise at work will have more discretionary money to spend on market items regardless of whether prices decline, resulting in a shift to the right of the demand curve. When dealing with Giffen or inferior commodities, the law of demand is broken. Giffen commodities are substandard items that consumers consume in greater quantities when prices rise, and vice versa. Due to the lack of readily available alternatives for a Giffen commodity, the income impact outweighs the substitution effect (Hayes, 2021).

2.1. Conceptual Framework

This study investigates the demand for modern microfinance services in Bangladesh, as well as the factors that influence such demand, including household income, religion, residence district, current use of a microfinance program, and loan repayment schedule. The independent variables include household income, religion, residence district, current usage of a microfinance

programme and loan repayment schedule. The dependent variable is demand for modern microfinance services. Figure 1 depicts the conceptual framework of the study.

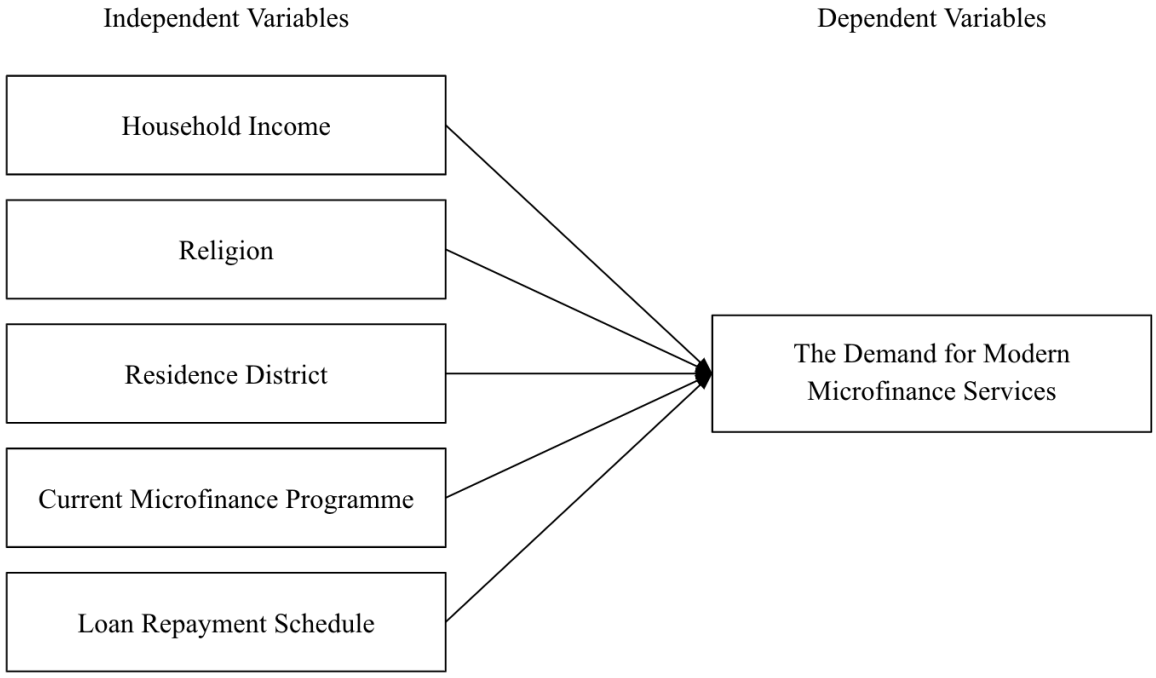

Figure 1: Conceptual Framework

3. METHODOLOGY

In this quantitative study, closed-ended questionnaires were used to collect data. Testing was used to determine whether measuring instruments were reliable and accurate. According to Siripipattanakul et al. (2022), it is critical to understand that an instrument's validity refers to how well it measures the researcher's conceptual framework or hypothesis. Moreover, the sample, selected by convenience sampling, included responses from 653 individuals who were microfinance clients in Bangladesh; however, after data screening, only 551 surveys were valid for data analysis. The data were collected via an online survey created with Google Forms between February and April, 2022, and analysed employing IBM SPSS using the analysis of variance (ANOVA) test. In this study, independent variables include household income, religion, residence district, current usage of a microfinance programme and loan repayment schedule; the dependent variable is demand for modern microfinance services.

4. RESULTS

Table 1: Household Incomes Affecting Demand for Modern Microfinance Services

Household income (BDT/month)	N	Means	SD	F	Sig.
Lower than 15,000	98	0.03	0.173	12.255	0.000
15,000–25,000	276	0.26	0.438		

25,001–50,000	125	0.42	0.496		
50,001–80000	26	0.12	0.326		
80,001–100,000	16	0.06	0.250		
Over 100,000	10	0.00	0.000		
Total	551	0.24	0.426		

As shown in Table 1, household income has an effect on demand for modern microfinance services ($p<0.05$). The majority of participants earn between 15,000 and 25,000 Bangladeshi taka per month, followed by 25,001 to 50,000 Bangladeshi taka, while microfinance consumers earning more than 100,000 BDT per month have the lowest proportion.

Table 2: Religion Influencing Demand for Modern Microfinance Services

Religion	**N**	**Means**	**SD**	**F**	**Sig.**
Islam	501	0.25	0.434	5.797	0.016
Hindu	50	0.10	0.303		
Total	551	0.24	0.426		

As shown in Table 2, the demand for modern microfinance services might be influenced by a customer's religion ($p<0.05$). Islamic clients account for around 10 times as many loans as Hindu ones.

Table 3: Residence District Affecting Demand for Modern Microfinance Services

Residence district	**N**	**Means**	**SD**	**F**	**Sig.**
Barishal Sadar	125	0.06	0.231	75.717	0.000
Jhalokathi	93	0.70	0.461		
Barguna	128	0.05	0.212		
Perojpur	91	0.01	0.105		
Patuakhali	66	0.58	0.498		
Bhola	48	0.29	0.459		
Total	551	0.24	0.426		

At the significance level of 0.05, resident district is one of the factors influencing demands for modern microfinance services. The bulk of clients come from Barguna and Barishal Sadar, with 128 and 125 residents, respectively, while others come from Jhalokathi, Perojpur and Patuakhali, with 93, 91 and 66 residents, respectively. The fewest consumers come from Bhola (48).

Table 4: Influence of Microfinance Programmes on the Demand for Modern Microfinance Services

Microfinance programmes	**N**	**Means**	**SD**	**F**	**Sig.**
Jagoron	258	0.27	0.443	2.931	0.003
Agrosor	86	0.20	0.401		
Buniad	135	0.28	0.451		
Sufolon	2	1.00	0.000		
LRP	5	0.00	0.000		
ENRICH IGA	58	0.07	0.256		
SEP-Agrosor	2	0.50	0.707		

Bank Loan	4	0.00	0.000		
LRL 2	1	0.00	.		
Total	551	0.24	0.426		

According to Table 6, microfinance programmes have an influence on demand for modern microfinance services at the significance level of 0.05. Most customers tend to use Jagoron, accounting for 258 people, followed by Buniad (135 people), Agrosor (86 people) and ENRICH IGA (58 people), while there are a few customers who are likely to use other programmes such as LRP (5 people), bank loans (4 people), Sufolon (2 people), SEP-Agrosor (2 people) and LRL 2 (1 person).

Table 5: Influence of Loan Repayment Schedule on Demand for Modern Microfinance Services

Loan repayment schedule	**N**	**Means**	**SD**	**F**	**Sig.**
Weekly	491	0.25	0.434	2.861	0.036
Fortnightly	3	0.00	0.000		
Monthly	56	0.13	0.334		
One-time payment (for whole amount of debt)	1	1.00	.		
Total	551	0.24	0.426		

The loan repayment schedule is another factor affecting demand for modern microfinance services at the 0.05 level of significance. Most consumers (491 people) opt to pay their debts weekly, while some prefer to pay their loans monthly (56 people); only a few consumers pay their payments fortnightly (3 people) or in full (1 person).

5. DISCUSSION

According to the findings, household income, which may reflect the socioeconomic status of the client, may be essential in determining whether to employ modern microfinance services. According to Hamdan et al. (2020), microfinance has been shown to be a stimulant of economic growth due to the ease with which small businesses and low-income consumers can receive loans through microfinance institutions. Thus, enterprises, economic activities and revenue-generating activities may operate smoothly and efficiently, resulting in increased profits and per capita income; in this way, microfinance benefits the economy. Because the incomes of low-income consumers have constantly increased, they have been able to escape extreme poverty. Akram and Hussain (2011) also demonstrate that microfinance has a favourable effect on income levels. Microfinance provides employment possibilities and self-esteem to jobless and low-income customers, as well as faith and self-esteem.

Without regard for literacy, religion stimulates and alters the human mind (Barro & Mccleary, 2003). Microfinance institutions that are not-for-profit and regional in scope are primarily concerned with poverty reduction. On the other hand, faith-based microfinance institutions are connected to the community and religious values, and their outcomes are more thoroughly investigated than those of conviction-based organisations. Islamic law prohibits the use of interest on loans (Imam & Kpodar 2016), and Islamic organisations have a greater potential for social performance than traditional organisations, as financing is derived from earnings (Fersi & Boujelbéne, 2016). Hence, religion could affect the intention to use microfinance services.

District of residence is another factor affecting the demand for modern microfinance services. Geographic or physical access is one of the primary impediments preventing small enterprises and disadvantaged households from receiving financial services in most developing nations. While some financial institutions, including microfinance institutions, allow clients to access their accounts via telephone or the internet, most institutions (including microfinance) require clients to visit a branch to ensure repayment and the collection of hard and soft data (Presbitero & Ravellotti, 2014). Allen et al. (2013) analyse data from a household survey and Equity Bank's penetration in Kenya. The findings indicate that having a local presence has a beneficial and significant effect on households' use of bank accounts and credit, particularly for those who are overlooked by traditional commercial banks.

Microfinance programmes are critical in assisting rural households to obtain microcredit (Phan 2012). Microfinance helps rural households to invest in new technologies, boost output and productivity, as well as eventually boosting income and consumption. Considering the criteria for credit participation, this section discusses both credit rationing theory and the demand for credit. Credit participation begins with credit demand; it presupposes that a person (or a family) wants to maximise the utility of his or her loan. Loans incur an opportunity cost, which is the cost of the interest rate. Thus, based on the idea of credit demand, an individual or household decision to borrow money may be viewed as a rational one. However, credit demand alone cannot account for credit participation behaviour, because credit is rationed in situations of information asymmetry (Stiglitz & Weiss 1981). According to Hemtanon and Gan (2020), lenders are unable to charge borrowers at market or interest rates due to a lack of knowledge regarding the borrowers' default risks. Additionally, lenders cannot raise interest rates until the credit market achieves interest rate equilibrium, so they must ration each loan. This indicates that if lenders raise interest rates until interest rate equilibrium is reached, marginal borrowers may exit the market, leaving only risky borrowers. A client's experiences of attending a microfinance programme may thus influence the demand for modern microfinance services.

Loan repayments are frequently made in instalments, weekly or monthly. The frequency of payment is decided by the clients' actions and are contingent upon the client's desires and the microfinance institutions' capacity to assure loan repayment (Werema & Opanga, 2016). The frequency of loan repayment is thus one of the factors that a client uses to make a decision about using microfinance services (Moin et al., 2021).

6. CONCLUSION

Around half of the population of Bangladesh lives below the poverty line, so poverty reduction and rural employment development are among the primary issues that the Bangladeshi government must address. Microfinance is a type of financial service provided to low-income individuals and small enterprises who do not have access to regular banking and financial services. It is a critical component of poverty reduction in developing nations globally, including in Bangladesh. Although microfinance services benefit the poor and small businesses in several ways, recent digitally based modern microfinance services may create difficulties for users of traditional services and those without access to technology. The present study explores the factors affecting the demand for modern microfinance services and finds that household income, religion, residence district, current microfinance programme and loan repayment schedule affect the demand for such services. On the basis of these findings, the following recommendations are made. Microfinance institutions should generate a favourable first impression by developing microfinance programmes with the appropriate terms and loan payback frequency to attract

additional clients. Microfinance organisations should, for example, increase loan amounts or prolong loan payback schedules for clients with strong credit. In terms of housing location, microfinance institutions should prioritise customers dwelling in distant locations with limited access to microfinance services, as these places have a high concentration of clients. If such consumers can be contacted, their lives may improve as a result of the assistance provided by microfinance services.

This study examines the demand for modern microfinance services in Bangladesh. It is suggested that the researchers conduct additional sampling in different countries. The findings may explain a broad scale. In addition, this study consists of a self-administered questionnaire. Consequently, qualitative studies, such as interviews or focus group discussions, could provide insight for future research.

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