

# **Does Microfinance Matter?**

## **Income, Savings and Asset Building of the Women Borrowers of Bangladesh**

### **ABSTRACT:**

This paper examines the impact of microfinance on the sixty women borrowers of Bangladesh, who have been **structured questionnaire** respondents selected through a systematic random survey process. This is a quantitative research based on primary and secondary data. The primary data were collected through the semi-structured questionnaire on the 60 women borrowers of the Dhaka City, Bangladesh. This paper finds that microfinance has statistically significant positive impact on the income of these women borrowers at a 1% level of significance. But it has no significant impact on the asset building and savings of the sixty women borrowers of the Dhaka City, Bangladesh. Overall, there has been a mixed outcome. Finally, this paper recommends eight steps to increase the effectiveness of the microfinance on the women borrowers.

**Key Words:** *Impact, Microfinance, Women, Dhaka City, Bangladesh*

**JEL Code:** D14, D04, G21

### **1. INTRODUCTION:**

Microfinance, also synonymously termed as microcredit, opened the new horizon of financing for the lower income people or the poor people (Yunus, 2018). As criticized, the Bank does not provide the micro loan to the **People** who are unable to manage collateral. Conversely, Microfinance institutions sanction the micro loan without collateral for the lower income people (Grameen, 2018).

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However, since the birth of modern Microfinance in 1976 by Professor Dr Mohammad Yunus (Yunus and Jolis, 2006), it faces arguments that whether it has a positive or negative impact on its borrower. Many researchers have found that Microfinance has no impact on its borrower while many researchers show the positive impact of microfinance on its borrower. Besides, some researchers reveal the mixed impact of microfinance on its borrower. Table-1 reveals the previous research findings on the effect of microfinance on the income and expenditure of the borrowers.

**Table 1: Impact of Microfinance on Household Income/Expenditure (Existing Research Findings)**

Source	Name of Organization Studied	Income or Expenditure per Annum (BDT)	Participants	Control (Nonparticipants)	Difference (%)
Hossain, 1984	GB	Income, per capita	1762	1346	30.9
Hossain, 1988	GB	Income, per capita	3524	2523	39.7
BIDS, 1990	BRDB	Income, per household	6204	4260	45.6
BIDS, 1990	BRAC-RDP	Income, per household	2844	1560	82.3
IMEC, 1995	Proshika	Income, per household	22,244	17,482	27.2
Rahman, 1996	PKSF	Expenditure, per household	26,390	23,802	10.9
Khandker, 1998	BRAC	Expenditure, per capita	5180	4202	23.8
Khandker, 1998	GB	Expenditure, per capita	5050	4335	16.5
Khandker, 1998	RD-12	Expenditure, per capita	4931	4279	15.2
Holder, 1998	BRAC	Expenditure, per capita	8244	6480	27.2
BIDS, 1999	PKSF	Expenditure, per capita	36,528	33,732	8.3
IMEC, 1999	Proshika	Income, per household	48,635	43,584	11.6
Zohir, 2001	PKSF	Wage income, per capita	5858	5559	5.3
Hossain 2002	GB	Income, per household	18134	14204	27.7
Khandker, 2003	GB, BRAC, RD-12	Expenditure, per capita	3923	3838	2.2
Rahman, Atiur, 2005	PKSF	Annual Income, per household	58109	38968	49.1
Khalily, 2010	PRIME-2 of PKSF	Annual income, per household	53394	48505	10.1
Rabbani, 2011	PRIME-3 of PKSF	Annual Income, per household	61530	45680 (benchmark)	34.7
Khalily, 2011	FSVGD & UP of PKSF	Monthly Income, per household	5224	4463 (early dropouts)	17.0

Source: Badruddoza, S (2011)

Furthermore, according to the goal, MFIs accommodates the 80-90% Member as women while remaining are the male members (MRA, 2018, CDF, 2017). It is usually believed that the women borrowers are always concentrated to the family affairs. So Microfinance institutions (MFIs) emphasized on the women borrowers to achieve the effective outcome because sometimes, the male members of the family misuse the microfinance fund (Roodman and Morduch, 2014). Thus, the aim of this paper is to inspect the effect of microfinance loan on the women borrowers of Dhaka city, Bangladesh. The data were collected from sixty women borrowers of Dhaka North and South City Corporation through structured questionnaire. Currently, 705 MFIs are functioning in Bangladesh (MRA, 2018a) of which 274 MFIs are working in the Dhaka division (Hossain and Wadood, 2018).

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## 2. OBJECTIVE AND METHODOLOGY OF THE STUDY

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The main objective of this paper is to inspect the effect of microfinance on the women borrower of Bangladesh. This is a quantitative Research that uses both the primary and secondary data. The primary data were collected through the semi structured questionnaire on the 60 women borrowers of Dhaka city, Bangladesh. The sample respondents were selected through systematic random sampling method from the both the Dhaka north and south city corporation. The theoretical background was developed from the different books, articles, newspaper, brochure, reports and websites. Moreover, the main sources of secondary data are the Bangladesh microfinance regulatory authority (MRA), credit development forum (CDF) of Bangladesh. The data were analyzed through the Stata 13. The main hypothesis is that microfinance has a significant effect on the income generation, savings and asset building of the sixty women borrowers. The details of model specification are given below:

This paper scrutinizes three separate regression models to detect the effect of microfinance fund on the determination of income, savings and asset building of women borrowers.

According to the permanent income hypothesis (PIH) of Milton Friedman (1957), the income of an individual depends on his permanent income but not only current and transitory income. Permanent income can be defined as the expected long-term average income. It depends on the physical and non-physical assets. Symbolically,

$Y = Y_p + Y_t$ , here,  $Y_p$ = permanent income and  $Y_t$ =transitory income

Permanent income ( $Y_p$ ) comprises the long term income from job such as salary, pension and gratuity, investment earnings from capital. For instance, interest and dividend from Securities. In contrast, transitory income refers to the temporary income such as bonuses for Festival and special occasion, wages for overtime duty, wealth from inheritance, earnings from lottery, prizes, awards, etc.

### The determination of average monthly income model equation

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$Y = f(Y_p, Y_t)$ , In this model,  
 $Y$ = income

$Y_p$  denotes for the average monthly income, assets (land, business materials), monthly Savings, microfinance loan.  $Y_t$  represents the receipts of cash or goods from Charity and social Safety net program

Again,

$$Y = f (AV, S, C, SS, MFinv)$$

Here,

Y=average monthly income

AV= Asset Value

S=Savings

C= Charity.

SS= Social safety net

MFinv = Investment from Microfinance loan

**The savings model:**  $S = f (Y, AV, C, SS, MFinv)$

Here,

S=Savings

Y=average monthly income

AV= Asset Value

C= Charity.

SS= Social safety net

MFinv = Investment from Microfinance loan

**The Asset building model:**  $AB = f (Y, S, C, SS, MFinv)$

Here,

AB= Asset building (Asset Value)

Y=average monthly income

S=Savings

C= Charity.

SS= Social safety net

MFinv = Investment from Microfinance loan

### 3. Literature review

The majority percent of microfinance member are women in the world. The field of microfinance was enriched by the several researches on the women borrowers.

Akhter et al (2018) scrutinized the how does microcredit affect the women in rural Bangladesh. Huque (2017) inspected the effect of microcredit on the empowerment of the women borrowers of Dhaka city. Islam (2016) discusses the issues of women's empowerment and microfinance in the perspective of Bangladesh. Porter (2016) describes the influences of the women borrowers of the microcredit and other loans on the allocation of resources. Jinia (2016) inspect that whether the microcredit increase the power of women in the decision making of the family or not? Bhattacharjee (2016) illustrates the effect of Microcredit on the consumption expenditures of thirty five women borrowers of Sylhet city of Bangladesh. Banerjee (2015) examines the effect of microfinance on the borrowers of Hyderabad in India and did not find any impact of microfinance on the women empowerment. Esty (2014) explains the issue that how the microfinance affect the living of women. Bie (2014) inspects the effects of microfinance on female empowerment in Bangladesh. Khandker et al (2013) raises the debt issue of

the borrower of microcredit in Bangladesh. Nessa et al (2012) examined the impact of microcredit on the empowerment of the Bangladeshi women borrowers. Rahman (2007) discusses the role of microcredit to reduce poverty among the women borrowers of Bangladesh.

However, the earlier researches highlighted the women empowerment on the decision making in the family, consumption expenditures and poverty alleviation. On the other hand, this paper measures the impact of microfinance on the income, savings and asset building of the borrowers of the Dhaka city, Bangladesh. These issues were not covered in a single research paper of the previous studies.

#### **4. PROFILE OF THE WOMEN BORROWERS RESPONDENTS OF DHAKA CITY, BANGLADESH**

According to the age group, the largest portion of women borrowers (52%) is under 30 years while 48% are above 30. Moreover, 78.33% of women were married followed by the unmarried (10%), widow (8.33%), divorced (1.67%) and separated (1.67%) respectively. Average size of the family member is 4.76 in a family. 65% families have 2-5 members while the remaining 35% families have 6-9 members respectively. Moreover, 35% of the 60 women borrowers reside in the Dhaka north City Corporation while remaining 65% lives in the Dhaka south City Corporation.

The educational qualification of the respondent states that the 46.67% respondents have no education. 35% borrowers have some level of primary education. 17% have junior secondary education (Class-6 to class 9) and only 1.67% has secondary education (class 10).

Moreover, the occupational status of 45% women is Housewife, 28.33% are House maid, followed by unemployed (10%), small business (6.67%), private service (3%), garments workers (1.67%), sewing (1.67%) and begging (1.67%) respectively.

Eleven MFIs provide loan among the 60 women borrowers. The distribution of borrowers by MFIs as follows: ASA (20%), DSK (16%), BRAC (10%), Shakti (11.67%), Heed Bangla (3.67%), IBBL (3.33%), Sathi (8.33%), Arban (6.67%), Manobik (1.67%), and CBO (1.67%) respectively. Moreover, many borrowers take loans from the two MFIs simultaneously. These are DSK and BRAC (5%), Heed Bangla and ASA (1.67%), Shakti and ASA (6.67%), Arban and PSTC (1.67%) respectively. The average interest rate of microcredit is 18%. The minimum interest rate is 10 % and the maximum rate is 38% respectively.

The following table discloses the starting year of the borrowing of the microcredit by the sixty women borrowers.

**Table-2: The Starting year of the Microcredit by the 60 Women Borrowers**

Year	No of Borrowers	Percent Cumulative
2000	4	6.67
2002	1	1.67

2005	1	1.67
2007	3	5.00
2008	1	1.67
2009	1	1.67
2010	14	23.33
2011	2	3.33
2012	4	6.67
2013	11	18.33
2014	16	26.67
2015	2	3.33

#### **Recognition and criticism of microfinance by the women borrowers:**

The women borrowers recognized the contributions of MFIs to its borrowers. The women borrowers said that microcredit is useful for them though it has many negative sides. They stated that micro loan help them to buy the means of livelihood such as rickshaw, van, boat etc. To repair their House, and sometimes they spend the microloans for consumption and health care. They also pleased for educating their children through educational institutions of MFIs. MFIs also arrange the water and sanitations facilities for the women borrowers. Nari Moitri- an NGO take awareness program by its employee for the women borrowers. DSK (Dustho shastha kendro)-a renowned MFI provide charity for its women borrowers and the average value of this donation is BDT.10000.

They also gratitude to the MFIs, because MFIs provide micro loans to them at annual interest rate (though it is still very high rate) while banks do not sanction loan for them. Before becoming the member of MFIs, they took loan from the neighbors and local money lenders at the daily interest rate.

The women borrowers also criticized the MFIs. They complained that the loan interest rate of MFIs is higher than the interest rate of the bank. Moreover, bank charges loan interest rate for yearly basis (365 days) while MFIs charge annual interest rate for 44-46 weeks (308-322 days). Moreover, the MFIs do not allow adequate time for investment. The loan repayment started just following week of receiving the loan. They also complained that MFIs do not disclose the saving interest rate of the women borrowers.

Besides, MFIs do not provide the adequate nonfinancial services such as training, healthcare services. Finally, they expressed their disappointment that MFIs do not provide loan to the extreme poor.

## **5. EMPIRICAL ANALYSIS OF REGRESSION AND DISCUSSION OF THE RESULTS**

The regression results illustrate that microfinance has statistically significant impact on the income at 1% level of significance. But it has no significant impact on asset building and savings of the 60 women borrowers. Table 4-6 shows this scenario. Besides, Table-3 highlighted the mean value of the income, savings, asset value, microcredit amount, charity and social safety net.

**Table-3: Income, Asset and Other Statistics of the women Borrowers (BDT)**

Variables	Mean	Std. Dev	Min	Max
Average Income Per month	13,800	6267.48	7,000	35,000
Savings per month	240.333	99.779	80	500
Value of asset	27,666.67	24,741.15	5,000	120,000
Charity	1,308.333	3,834.601	0	14,000
Social safety net	416.667	3227.486	0	25,000
Microfinance Loan	25,650	14,808.18	5,000	70,000

The microfinance has a positive impact on the income of the sixty women borrowers of Dhaka city at the 1% level significance (table-4). The amount of Microfinance Loan varies from minimum BDT.5, 000 to maximum BDT.70, 000. Moreover, 29% borrower received BDT.20000 as loan followed by 17% received BDT.30000 as microloans. The average size of the microcredit is BDT.25650 among the women borrowers.

The sixty women borrowers use the microcredit for the investment in the business (49%), buying a rickshaw (14%), buying a house (6%), house repairing (7%), training financed by MFIs (2%), buying a rickshaw van (6%), and buying a boat (4%) respectively.

Moreover, the average size of income is BDT.13800. The income of women borrowers increases due to the microloans. Currently only 1% family lives below the poverty line.

**Table-4: Impact of Microfinance on the Income of the women Borrowers**

Variable	Regression Co-efficient	P>  t
Dependent variable: Income per month		
Independent Variables:		
constant	7102.82 (2.80)	0.007
Savings per month (savpm)	4.287143 (0.57)	0.572
Value of asset (Valueofasset)	.0977762*** (3.19)	0.002
Charity	.0527979 (0.27)	0.790
Social safety net	.1542662 (0.66)	.511
Microfinance Loan (mfloan)	.1102667*** (2.17)	0.007
No. of respondent	60	
R <sup>2</sup>	0.2342	
Adjusted R <sup>2</sup>	0.1633	

Value in parenthesis is t-values and \*\*\* indicate the 1percent level of statistical significance

The Mean value of the Asset of the women borrowers us BDT. 27666.67 And total asset value varies from BDT. 5000 to BDT.120000. The most common form of assets is home appliances including television, radio, kitchen materials, livelihood means such as Rickshaw, van, boat and land in the village. The table-5 shows that income has significant impact on the asset buildings of 60 women borrowers but microfinance has no significant impact on its women borrowers.

**Table-5: Impact of Microfinance on the building of the Asset of the women Borrowers**

Variable	Regression Co-efficient	P>  t
Dependent variable: Value of asset (Value of asset)		
Independent Variables:		
constant	235.3392 (6.38)	
Income per month (avgincpm)	1.625445*** (3.19)	0.002
Savings per month	.0653224 (0.00)	0.998
Charity	.6698008 (0.85)	0.598
Social safety net	-.8478881 (0.89)	0.679
Microfinance Loan (mflon)	-.0624825 (0.29)	0.516
No. of respondent	60	
R <sup>2</sup>	0.1831	
Adjusted R <sup>2</sup>	0.1074	

Value in parenthesis is t-values and \*\*\* indicate the 1percent level of statistical significance

The women borrowers had no savings until the membership of microfinance institutions. The average size of the savings is BDT. 240.33 Per month. The minimum and maximum savings amount is BDT 80 and BDT.500 respectively. The table-6 shows that microfinance has no significant impact on the savings of its borrowers.

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**Table-6: Impact of Microfinance on the Savings of the women Borrowers**

Variable	Regression Co-efficient	P>  t
Dependent variable: Savings per month		
Independent Variables:		
constant	235.3392 (6.38)	
Income per month (avgincpm)	.0013903(.57)	0.572
Value of asset (Value of asset)	1.27(0.00)	0.998
Charity	.0018782 (0.53)	0.598
Social safety net	-.0017506 (0.42)	0.679
Microfinance Loan (mflon)	-.000622 (0.65)	0.516
No. of respondent	60	
R <sup>2</sup>	0.02	
Adjusted R <sup>2</sup>	0.07	

Value in parenthesis is t-values and \*\*\* indicate the 1percent level of statistical significance

## 6. CONCLUSION AND RECOMMENDATIONS



This article scrutinizes the effect of microfinance on the income generation, savings and asset building of the sixty women borrowers of Bangladesh. The key findings of this study are: the microfinance has statistically significant effect on the income generation of the sixty women borrowers at 1% level of significance. But it has no significant effect on the asset building and savings of the sixty women borrowers of Dhaka city, Bangladesh. Finally, this paper recommends the following steps to increase the effectiveness of microfinance on its women borrowers

- i. MFIs should arrange education and training program for the women borrowers for purpose of using the micro loan
- ii. Instead of cash money loan, MFIs may transfer the goods or means of livelihood to the women borrowers. Such as sewing machine, candle making machine. It may increase the effectiveness of microfinance. Because, the borrowers spend the micro loans for consumption instead of investment.
- iii. MFIs should reduce the loan interest rate for the women borrowers because they cannot participate in the all kinds of investment in the outside like as male borrowers.
- iv. Since MFIs provides microcredit and development program. So MFIs should provide women and maternity health care program for the women Development.
- v. To increase the effective of microfinance, women empowerment is most important for the women borrowers. So MFIs should take awareness program for the women borrowers on women's rights, property rights, power of decision making etc.
- vi. MFIs should train the women borrowers to produce the handicraft.
- vii. MFIs charge the loan interest rate but do not disclose the saving interest rate. All MFIs should declare the saving interest rate.

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## Appendix

### Stata output: Impact of Microfinance on the Income

```
. reg avgincpm savpm valueofasset charity socialsafetynet mflowan
```

Source	SS	df	MS			
Model	542877007	5	108575401			
Residual	1.7747e+09	54	32865240.6			
Total	2.3176e+09	59	39281355.9			

Number of obs = 60  
 F( 5, 54) = 3.30  
 Prob > F = 0.0113  
 R-squared = 0.2342  
 Adj R-squared = 0.1633  
 Root MSE = 5732.8

avgincpm	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
savpm	4.287143	7.534193	0.57	0.572	-10.81801 19.39229
valueofasset	.0977762	.030609	3.19	0.002	.0364088 .1591437
charity	.0527979	.1970173	0.27	0.790	-.342198 .4477938
socialsafe-t	.1542662	.2331578	0.66	0.511	-.3131869 .6217194
mflowan	.1102667	.0508943	2.17	0.035	.0082298 .2123035
_cons	7102.82	2535.625	2.80	0.007	2019.199 12186.44

### Stata output: Impact of Microfinance on the Asset Building

```
. reg valueofasset avgincpm savpm charity socialsafetynet mflowan
```

Source	SS	df	MS			
Model	6.6121e+09	5	1.3224e+09			
Residual	2.9503e+10	54	546356131			
Total	3.6115e+10	59	612124294			

Number of obs = 60  
 F( 5, 54) = 2.42  
 Prob > F = 0.0473  
 R-squared = 0.1831  
 Adj R-squared = 0.1074  
 Root MSE = 23374

valueofasset	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
avgincpm	1.625445	.5088488	3.19	0.002	.6052646 2.645625
savpm	.0653224	30.8109	0.00	0.998	-61.70681 61.83746
charity	-.6698008	.7986423	-0.84	0.405	-2.270982 .9313807
socialsafetynet	-.8478881	.9474931	-0.89	0.375	-2.747497 1.051721
mflowan	-.0624825	.2161737	-0.29	0.774	-.4958847 .3709196
_cons	8052.114	11009.71	0.73	0.468	-14021.02 30125.25

### Stata output: Impact of Microfinance on the savings

```
. reg savpm avgincpm valueofasset charity socialsafetynet mflloan
```

Source	SS	df	MS			
Model	11864.5963	5	2372.91927			
Residual	575528.737	54	10657.9396			
Total	587393.333	59	9955.81921			

  

				Number of obs =	60
				F( 5, 54) =	0.22
				Prob > F =	0.9512
				R-squared =	0.0202
				Adj R-squared =	-0.0705
				Root MSE =	103.24

  

savpm	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
avgincpm	.0013903	.0024433	0.57	0.572	-.0035082	.0062888
valueofasset	1.27e-06	.000601	0.00	0.998	-.0012037	.0012063
charity	.0018782	.0035411	0.53	0.598	-.0052212	.0089776
socialsafetynet	-.0017506	.004209	-0.42	0.679	-.0101891	.0066879
mflloan	-.000622	.0009518	-0.65	0.516	-.0025302	.0012861
_cons	235.3392	36.90982	6.38	0.000	161.3395	309.339