

MICRO-CREDIT AND ITS IMPACT TO IMPROVE THE STANDARD OF LIVING IN BANGLADESH : EVIDENCE FROM RAJSHAHI AND NATORE DISTRICT

MD. ALAMGIR HOSSAIN^{1*}, DHANESWAR CHANDRO SARKAR²,
MD. NURUL ISLAM³, MD. MONSUR RAHMAN³ and
MD. MOSTAFIZUR RAHMAN³

¹Department of Statistics, University of Rajshahi, Rajshahi-6205

²Department of Statistics, Mawlana Bhashani Science and Technology University,
Santosh, Tangail-1902

³Department of Statistics, University of Rajshahi, Rajshahi-6205, Bangladesh

Abstract

Micro-credit is a powerful tool which contributes significantly for alleviating poverty and improving living standard for sustainable development of the rural area. Several microfinance institutes such as Grameen Bank, BRAC, ASA and Jagoroni Chakro Foundation (JCF) and others are working in Bangladesh. The aim of this study is to investigate the impact of micro credit program to improve the living standards of concerned people in Rajshahi and Natore districts of Bangladesh. The empirical study shows that 78.6% of the respondents are female and only 21.4% are male and most of them are belong to the age group 31-40 and maximum number of the respondent's education level is below primary. Some of the factors that show the improvement of the living standard are increased education enrollment, safe water, hygienic environment, nutrition and adequate food, household assets, income, and savings. After joining this program, about 69% of the respondents increase their saving. And most of the indicators increase sufficiently after joining the micro-credit program. Overall, almost all the clients reported an increase in their incomes which has improved their standard of living, have sent their children to school; have been able to pay for their medical bills and can feed their families, can cope with future crises using their savings.

Keywords: Microcredit program, Living standard index, Grameen Bank, BRAC, ASA, JCF

Introduction

Micro-credit, as practiced in Bangladesh, provides small institutional credit with reasonable terms (i.e., interest rates lower than those charged by local informal moneylenders) and little or no collateral requirement to poor people who would normally not have access to conventional banking and financial institutions. In doing so, it allows the poor to expand the scale of their economic activities to lift themselves out of poverty.

* Corresponding author: alamgirbd250@gmail.com

For example, it permits borrowers to start new businesses and to expand existing income-generating activities, consumption of necessities, and ownership of capital goods. Recently Microfinance Institutes (MFIs) are globally accepted as a good instrument to fill up the gap of conventional bank's limitation in reaching the poor and vulnerable non-poor with banking service.

The micro-credit is considered as one of the most effective interventions for empowering the poor in economic and social involvement. Before assessing the impact of any institution on poverty, it is important to know the concept of poverty and its relative definitions. According to Abebe (2006), the world is characterized by the division of 'haves' and 'have not's'. The 'haves' leads a luxurious life while the 'have-nots' suffer from lack of decent, healthful, and productive life. The popularity of micro-credit has encouraged some in-depth analysis of the extent to which micro-credit improves the 'standard of living' of the poor people. "Standard of living," in the context of this study, refers to the level of wealth and material comfort available to households and also expenditure on a food item, non-food item, and education. This study focuses on Bangladesh because it has some of the largest and most established micro-credit outreach programs in the world. Moreover, it is one of the few countries in which a large-scale, publicly available household survey is measuring the impact of micro-credit covered samples from all seven of the country's divisions and not from only a particular region.

The empirical evidence on the impact of micro-credit on poverty is very mixed for example, Edgecomb and Barton, (1998); Morduch, (1998, 1999); Schrieder and Sharma, (1999); Sebstad and Chen, (1996); Coleman, (1999); Hossain, (1988), Hussain and Muazzam (1998), Mazumder and Lu (2013). Some impact/evaluation studies have found that access to credit by the poor have a large positive effect on living standards. Chirkos (2014) examined the impact of microfinance on the living of standard, empowerment, and poverty alleviation of the poor in the case of Ethiopia. However, other studies have found that poverty is not reduced through micro-credit— poor households simply become poorer through the additional burden of debt. Since more money for micro-credit in practice means less money for other programs with similar aims, it is extremely important to carefully evaluate whether or not 'small loans for poor people' works. More importantly, in the Rajshahi and Natore districts, where this study is to be conducted, studies are very few. Therefore, this study is designed to fill this gap. Therefore, the aim of the present study is to find out whether the delivery of microfinance services has made a difference in the socio-economic situation of its clients. More specifically the study is intended to investigate the Socio-demographic characteristic of the loan receiver and their earlier income activity, to assess whether customers reached by these schemes improved their living standard and also to evaluate the nature and change of income, wealth and saving after joining these program.

Materials and Methods

The sample frame of this study was the entire people found in the list of Micro Finance Institute (MFI) in Bangladesh. To select respondents of the branches of Grameen Bank, BRAC, ASA, and JCF applied simple random sampling technique. Five hundred respondents were selected from the whole list of the branches of Grameen Bank, BRAC, ASA, and JCF by using simple random sampling technique. Among these samples, 130 were selected from Grameen Bank, 120 were selected from BRAC, 130 were selected from ASA, and 120 were selected from JCF. The case study design also helps to examine the detail features of the institution.

The method of analysis used in the is study is descriptive statistics. It includes the comparison among variables income, asset ownership, housing condition, nutrition, education, business growth and employment opportunities of the clients before and after use of micro credit and hence it can be seen that if there is any improvement in their living standard after using micro credit or not. Quantitative data collected through questionnaires were analyzed and interpreted through SPSS (Statistical Package for Social Science). In addition, other data, which are qualitative, are also analyzed and interpreted by using statistical tools such as data tabulation, frequency distribution, percentage, graphs, and charts. Once the data are organized and presented, it is then analyzed to form meaning about the research questions and draw appropriate recommendation. Those data collected through document review are analyzed and interpreted by comparing it with a standard literature review to draw appropriate finding, conclusions, and recommendations.

Results and Discussion

In this section, the presentation and analysis of results are undertaken based on the data collected from the clients of Micro Finance Institute (MFI) in Bangladesh. The empirical findings gleaned from the collected data, and it provides demographic information of the respondents and the statistical analysis of the information collected from them, followed by the interpretation and discussion about the findings.

Table 1 shows that 78.6% of the respondents were female, whereas 21.4% were male. The lion shares of the respondents were women that testify to the fact that most of the beneficiaries of microfinance are female because the researcher has selected the respondents randomly without any bias towards the gender. There are good reasons to target women by MicroFinance Institute (MFI) in Bangladesh because gender discrimination is one of the significant causes of poverty, slower economic growth, weaker governance and lower standards of living and women are poorer and more disadvantaged than men.

Table 1. Percentage distribution of the respondent according to socio-demographic characteristics

Variables	Measuring Group	Number	Percentage (%)
Gender	Male	107	21.4
	Female	393	78.6
	Total	500	100
Age	<20	4	0.8
	21-30	98	19.6
	31-40	22	44.4
	41-50	149	29.8
	50+	27	5.4
	Total	500	100
Education	Illiterate	106	21.2
	Primary	102	20.4
	Secondary	127	23.4
	SSC	104	20.8
	HSC	53	10.6
	University	18	3.6
	Total	500	100
No. of family members	<2	20	4.0
	3-5	360	72.0
	6+	120	24.0
	Total	500	100

In terms of age, 0.8% of the respondents were in the age group of below 20 years. 19.6% were in the age group of 21 to 30 years, 44.4% were in the age group of 31 to 40 years, 29.8% were in the age group of 41 to 50 years, and the remaining 5.4% were 50 years and above. The respondents also classified in terms of their level of education since it could affect how they manage and live their daily lives and manage the household and business. From this survey, many of the respondents had at least basic illiterate, which represents 21.2% of the respondents, primary education (1-5 grades), which represents 20.4% of the respondents, however 23.4% had secondary educational experiences (6-10 grades), 20.8% had co-educational experiences, 10.6% had HSC educational experiences and 3.6% had University educational experiences. About their numbers of families, the analysis shows that 4.0% of the respondents had less than two members in their family, which indicates that respondents were their unmarried, or had no children, 72.0% had 3 to 5 members and rest of the 24.0% had more than six members. The researcher tried to find out how many family members each respondent have because a large family size usually has higher expenses than a smaller family.

Previous business experience and income sources of the respondents

The respondents of the institution were asked if they had their sources of income or any business activities that helped them to generate income and create employment opportunity before joining the credit program. Only 29% of the respondents of Micro Finance Institute (MFI) in Bangladesh had their own business and income sources previously from which they generate income and creating employment opportunity before joining the credit program, and rest of 71% had no previous business experiences. This may be a good indicator that the Micro Finance Institute (MFI) in Bangladesh is mainly targeting to the poor segment of the society in its credit service provision. It indicates that MFIs are contributing a lot to start the new small-scale businesses as well as in the expansion of old businesses.

Therefore, we can see that more than 50% of the respondents were part of the large families, and at the same time, a higher proportion of the people did not have any business experience before joining in Micro Finance Institute (MFI) in Bangladesh. So indirectly, MFIs were able to reach and benefit more people and enable them to improve their living standards in general.

Source of Startup Capital of the Respondents

In this study, the source of startup capital (Source of initial capital) of the respondents, 72% of the total respondents have joined in the micro-credit program. The rest of the respondents have either borrowed money from friends and relatives or have started a business from their savings. It implies that MFIs is the major source of initial capital and is playing a significant role in helping poor people to start their own business.

Current occupation and it's status after joining MCP

The current occupation and its status after joining the MCP program are listed in Fig. 1. The fig. indicate that about 34.40% of the respondent worked at their house where 22.00% of them are farmer and rest of them are working as house servant, day labor, rickshaw puller, dress maker and another small job before taking this loan but after joining this program about 70.80% percent of the respondent change their current occupation.

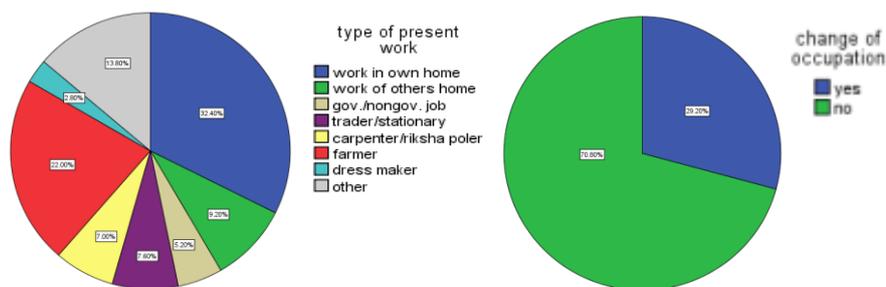


Fig. 1. Current occupation and it's status after joining into MCP

Personal Savings and it's status after joining the MCP

The impact of the program has been manifested in education, health, nutrition, accommodation, and in savings mobilization. One of the components of the program is a requirement to save regularly. The clients were asked if they had personal savings, excluding the forced loan guarantee. Fig. 2 reflects that the majority of the clients (53.60%) respondents to have personal savings, while 46.40% said they had no savings. Also, about savings, the clients were asked whether their savings increased, decreased, remained the same and the response is demonstrated in the chart below which shows 69% having increased savings while 19% said it decreased and 12% said it remained constant. The loans acquired by clients are mainly short term loan and to avoid accumulated interest, the clients are encouraged to make regular savings, and this partly explains the increment because they work hard.

The main reason was given as to why people save to enable them in case of severe crisis and to provide protection against risks, used to acquire another microfinance cycle and also to expand the current economic activities. However, some clients prefer to save in physical assets after the obligatory loan guarantee savings.

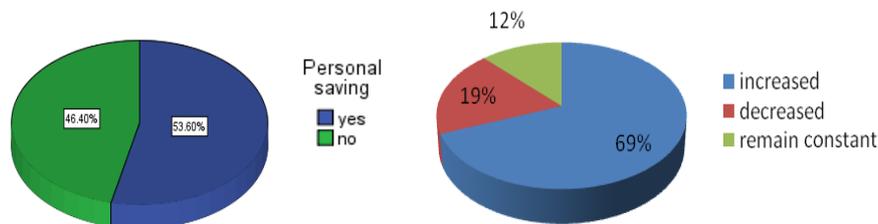


Fig. 2. Pie-chart of personal saving and its status

Measure of Living Standard

The measuring relative wealth or living standards of people in developing countries presents many challenges, especially since income data are often not available. Recent studies have addressed this problem by constructing measures based on information on household assets and dwelling characteristics (Gunnsteinsson *et al.*, 2010). The measure of living standard improvement shown in Table 2.

The above table shows that after joining the MC program, use of safe drinking water increased 19.2%, vulnerable house condition decreased 6.6% but improved ordinary house condition 5.4%. Improved sanitation 41.4%, improved use of electricity 28.6%, improved use of color TV 30.8%, and improved use of refrigerator 18.8%. In the same way, Improved use of mobile, more than one mobile, dish line are 39.2%, 24.8% and 29.4% respectively by the help of the micro-credit program.

Table 2. Percentage distribution of living standard improvement according to household assets

Indicators	Before joining MC	After joining MC	Increased/decreased
	Percentage	Percentage	Percentage
Safe drinking water	21.8	41.0	19.2
Improved house condition	36.6	42.0	5.4
Access to sanitation	29.6	71.0	41.4
Decreased vulnerable house	17.2	10.6	6.6
Access to electricity	57.0	85.6	28.6
Use color TV in the house	23.6	54.4	30.8
Use Refrigerator in house	7.4	26.2	18.8
Use of mobile	48.2	87.4	39.2
More than one mobile	22.6	47.4	24.8
Use of dish line	22.4	51.8	29.4

Expenditure pattern of the Respondent after joining MC

The additional money increases a household's disposable income that improves the consumption patterns and lifestyles of the rural families. Micro credit program has a significant impact on income and economic security on the socio-economic lives of rural area. The expenditure pattern on food items, non-food items, and education of the respondents before and after joining the MC program is given in Table-2. The study shows that for food items maximum respondents said that they spent within taka 1000-2000. But after joining the micro-credit program, they are maximum spent within taka 2000-3000. For non- food items maximum respondents said that they spent within taka 2000-4000. But after joining the micro-credit program, they are maximum spend within taka 8000+. For education, maximum respondents said that they spent taka below100. But after joining the micro-credit program they are maximum spent within taka 500-1000 which implies that every respondent gear-up their spending power.

Conclusion

Poverty alleviating is a major challenge for developing countries. It is a problem for all the countries irrespective of their level of development and can be observed in many forms. It has income and non-income or resources, a lack of coping capacity, a lack of basic human capabilities, a lack of institutional defenses or in extreme cases a lack of all of these. Recently, the micro-credit program has been given due weight as one of the means to fight against poverty. Micro-credit Programs extend small loans to poor people

aiming at enhancing self-employment projects that generate income to improve the living conditions of the poor and alleviate poverty.

Firstly, the study investigates the demographic characteristic of the loan receiver and their earlier income activity. In terms of age, it was found that maximum numbers of loan borrowers are between the 31 to 40 years old, and their education level is below secondary. The results show that most of the respondents have their family member 3 to 5.

Secondly, assess whether customers reached by these schemes improved their living standard. The findings reported that clients had increased incomes, which enable them to save and to buy a property. More than 50% of the respondents were part of the large families, and at the same time, a higher proportion of the people did not have any business experience before joining in Micro Finance Institute (MFI) in Bangladesh. The results indicate that a maximum number of the respondent spend Tk. 1000-2000 for food item before joining MC program, but it increases to Tk. 2000-3000 after joining MCP. Similar increasing pattern found for non-food item and education. This implies that every respondent gear-up their spending power. So indirectly, MFIs were able to reach and benefit more people and enable them to improve their living standards in general.

Thirdly, the study also evaluates that the nature and change of income, wealth, and saving after joining the micro-credit program. The finding reflects a maximum number of respondents increase their savings. The results also increased safe drinking water. Vulnerable house condition decreased but improved ordinary house condition. More over improved sanitation, use of electricity, use of color TV, and increased number of household who are used refrigerator. In the same way improved use of mobile, more than one mobile and dish line with the help of micro-credit programs.

Although there is a debate about the high-interest rate of micro-credit program but in present study traced that most of the respondents did not agree on this issue and found it to be reasonable because they get enough time and opportunity to repay the loan. So, the study concludes that maximum numbers of the borrowers are improving their living of standard through micro-credit program in the study area.

Acknowledgment

The earlier version of this paper is presented at the conference of ICBBAAHE-2017, RU, and we are grateful to honorable chair and audience for their constructive suggestion of this recent version.

References

- Abebe, T. 2006. Impact of Microfinance on Poverty Reduction in Ethiopia: The Cases of Three Branches of Specialized Financial and Promotional Institution (SFPD), *Master Thesis, Addis Ababa University: Addis Ababa, Ethiopia.*

- Bamilak, A. 2006. Micro Financing and Poverty Reduction in Ethiopia. *Internship report of the Program of IDRC, ESARO, Nairobi.*
- Coleman, B. E. 1999. The Impact of Group Lending in Northeast Thailand. *Journal of Development Economics*, vol. 60, pp. 105-141.
- Chirkos, A. Y. 2014. The Impact of Microfinance on Living Standards, Empowerment and Poverty Alleviation of the Poor People in Ethiopia, A Case Study in ACSI, *Research Journal of Finance and Accounting*, Vol. 5, No. 13, 43-66.
- Edgecomb, E. and Barton, L. 1998. Social Intermediation and Microfinance Programs; A Literature Review. Bethesda, MD: *Development Alternatives Inc.*
- Gunnsteinsson, S., Labrique, A. B., West, K. P., Christian, P., Mehra, S, Shamim, A. A., Rashid, M., Katz, J. and Klemm, R. D. W. 2010. Constructing Indices of Rural Living Standards in Northwestern Bangladesh. *J Health PopulNutr*, 28, 5, 509-519.
- Hossain, M. 1988. Credit for Alleviation of Rural Poverty: the Grameen Bank in Bangladesh. Research Report 65; Washington DC: International Food Policy Research Institute (in collaboration with the Bangladesh Institute of Development Studies).
- Hussain, A. and Muazzam M. 1998. Poverty Alleviation and Empowerment: The Second Impact Assessment Study of BRAC's Rural Development Programme. Dhaka: Bangladesh Rural Advancement Committee.
- Mazumder, M. S. U. and Lu, W. C. 2013. Micro-Credit and Poverty Reduction: A Case of Bangladesh. *Prague Economic Papers*, 3, DOI: 10.18267/j.pep.459
- Morduch, J. 1998. Does Microfinance Really Help the Poor? New Evidence from Flagship Programs in Bangladesh. Mimeo. Stanford: Hoover Institution, Stanford University.
- Morduch, J. 1999. The Microfinance Promise. *Journal of Economic Literature*, vol. 37, no. 4, pp. 1569-1614.
- Schrieder, G. and Sharma, M. 1999. Impact of Finance on Poverty Reduction and Social Capital Formation: A Review and Synthesis of Empirical Evidence. *Savings and Development*, vol. 23, no. 1, pp. 67-93.
- Sebstad, J. and Chen, G. 1996. Overview of Studies of the Impact of Microenterprise Credit. Washington: Management Systems International.
- Tassew W. 2005. The Impact of Dedit Credit and Savings Institution on Poverty Reduction and Community Development in Gebrehiot A. (ed). AEMFI: Ethiopia.