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Major Impacts of Microfinance on the Poor

Snapshots from Bangladesh



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1. Introduction

“This is not charity. This is business: business with a social objective, which is to help people get out of poverty.” As said by Professor Muhammad Yunus, the founder of Grameen Bank. Microfinance, by its unique features, has established itself as an accepted instrument for poverty alleviation in many less developed and developing economies. It was envisioned as a means of enabling the poor to have easy access to small accounts for undertaking economic and/or sometimes other activities. Grameen Bank led the way starting in the mid 1970s in Bangladesh. There are now hundreds of microfinance organizations (Table 101) of different operational sizes throughout the country mostly in rural areas.

Table 101: Sources of Microfinance

Sources	%
Grameen Bank	33.90
ASA	24.10
Brac	21.00
Buro Tangail	3.80
Other 44 sources	17.20
Total	100.00

Source: Bangladesh Unnayan Parishad and ActionAid Bangladesh, 2007

Microfinance has, by now, reached a total of over 60% of all poor households of the country, and 37% of all households (World Bank, 2005). There are, however some controversies relating to the indebtedness for the microfinance receivers and the contribution of microfinance in their socioeconomic conditions. Some say it is making poor people debt trapped, on the other hand, some say it is benefitting the poor. Well, there are no polar extremes. Throughout this paper we will be examining, to which extent the arguments are feasible, and finally develop some measures to increase the performance of microfinance.

2. Microfinance and Poverty

Poverty continues to be a perennial problem in Bangladesh. It tends to understand both tangible deprivations such as lack of income, assets, food immunity to diseases, health care services and education, as well as intangible deprivations such as physical weakness, inequality, dependence, low status, isolation, vulnerability and powerlessness. In a country where poverty is so widespread with all of its multidimensional attributes, the alleviation of poverty sounds wishful, but assessing the true relationship between microfinance services and poverty reduction is not straightforward (ADBI, 2003). There are many research paper that deal with microfinance assessment with respect to poverty alleviation, but few of them put experimental analysis like Hossain and Bayes did. Taken from their longitudinal data, we see the impacts of microfinance membership on poverty reduction (Table 202). Let us we start from moderate poor. In twenty years 29.20% of the moderate people graduated at 21.60% without any help from microfinance, whereas the people who had membership(s) of microfinance institution(s) graduated even one step more.

Table 202: Impact of MFI Membership on Poverty Reduction (%)

Status	Target HHs		Change	Controlled HHs		Change
	1988	2008		1988	2008	
Extreme and Moderate Poor	70.80	47.50	-23.30	56.60	39.60	-16.00
Extreme Poor	33.30	20.80	-12.50	26.40	18.90	-7.50
Moderate Poor	37.50	26.60	-10.9	29.20	21.60	-7.60
Non-poor	29.20	52.50	23.30	44.40	60.40	16
Total	100.00	100.00	-	100.0	100.00	-

Source: Hossain & Bayes, 2009

Where 26.40% of the extreme poor graduated at 18.90%, the microfinance members did better again. Summing up these two, we find the poverty of 70.80% extreme and moderate poor got alleviated onto 47.50% with the lift of microfinance.

This can be considered as a précis of all the major impacts that microfinance have on the poor as we will be discussing in the later chapters. Primarily we will divide the chapters in two categories, namely: Economic Aspect and Social Aspect, and continue the elaboration accordingly.

3. Major Impacts of Microfinance on the Poor: Economic Aspects

Another longitudinal research that we will put here to strengthen our premise, that the impacts of micro finance is positive on the poor, is PKSF ME Study by BIDS from 1997 to 2001. On the design of that research, income, food security, employment and asset are called to be the components of economic aspects (Table 301).

Table 301: Impact of Microfinance Compared to Non Participants

Categories	Indicators	Change
Economic Impact	Income	Positive
	Food security	Positive
	Employment (land poor)	Positive
	Assets (land poor)	Positive

Source: PKSF MES by BIDS, 2001

According to the research findings, all the factors had changed with respect to time, and the changes were positive. We will now be elaborating the components to make the narration easier.

3.1. Income and Food Security

The effect of microfinance on household income has been proven positive over time (Table 311). Based on the experimental research from 1988 to 2008, the household income of the MFI participants changed up to USD 204, where some of the non participants changed only up to USD 152. Another major finding comes here is the decreasing number of family member in the participants' house hold which may a result of the credit plus facilities that given by the MFIs namely family planning consultations.

Table 311: Effect of MFI Participation on HH Income (USD)

Status	Target HHs		Change	Controlled HHs		Change
	1988	2008		1988	2008	
Household Income	497	701	204	640	792	152
Household Member	6.01	6.08	0.07	6.30	6.24	-0.06
Per Capita Income	99	138	39	121	51	30

Source: Hossain & Bayes, 2009

The decreasing trend in family member in the participants' households had made another positive statistic which is the per capita income. The per capita income of the MFI participants changed up to USD 39 and reached at 138, where same of the non participants changed only up to USD 30 reaching at 51 (2008). There has not been, however, a significant improvement in relation to access to food in terms of quality, quantity or both since MFI membership. In the case of food intake around 40% of the MFI participants are unsure about a change, 34% suffer from inadequate access to sufficient quality foods, and 20% still suffer from the food shortage (Qazi K Ahmed, 2007).

3.2. Employment and Entrepreneurship

The longitudinal data on the impact of MFI membership on employment comes with two different ends for the male and female members (Table 321). Though participation in economic activities and duration of daily work hour of the male participants positively differ with that of the non participants, the increasing wage rate is not found evident. Surprisingly the wage rate of the male non participant is BDT 13 more than that of the participants.

Table 321: Impact of MFI Membership on Employment

Employment	Male Members		Female Members	
	Target	Controlled	Target	Controlled
Participation in Economic Activities	87.50	82.30	58.90	59.80
Duration of work (Hour/Day)	7.29	7.11	2.73	2.37
Wage Rate (BDT /Day)	63.62	76.76	59.19	54.55

Source: Hossain & Bayes, 2009

Analogically the same for the women also, but with the female participants, the participation in the economic activities is lesser than the non participants. Evidences show that business activities in rural areas are mostly financed by their own. Households' own savings meet about three fourths each for the required initial and investment capital.

3.3. Wealth Generation

Quite expectedly MFI participants are more credit driven than the non participants. The average agricultural capital of participant households was evident less than that of the non participant households in 1988, but it leveled off in 2008. Still, over time capital accumulation has been higher in participant households than in non participant households. One of the main aims of MFIs is to finance economic activities such as rearing livestock and poultry birds. These activities are mostly household based, and hence suitable for women. The result proves the success of the effort all where (Table 311). The present value of livestock and poultry birds is higher for participant households than non participant households.

Table 331: Ownership of Livestock by MFI Membership, 2008

% of HH Owning	Target HH	Controlled HH
Cattle	40.00	34.30
Goats	17.70	13.60
Poultry Birds	80.30	73.80

Source: Hossain & Bayes, 2009

In the regime of land scarcity, non land assets are an important mean for poverty reduction. To help poor households to accumulate non land assets is one of the most important objectives of MFIs. Relatively higher proportion of participant households among functionally landless group seems to have non land assets (Table 332).

Table 332: Ownership of Non Land Assets by MFI Membership, 2008

% of HH Owning	Target HH	Controlled HH
Irrigation Machine	0.90	0.80
Rickshaw/Van	13.90	6.80
By-Cycle	16.20	11.90

Source: Hossain & Bayes, 2009

Data show that percentage of participant households owning irrigation machine, rickshaw/van, and by-cycle is 0.90, 13.90, and 16.20 respectively, whereas, for the non participant households the respective percentage is 0.80, 6.80, and 11.90.

4. Major Impacts of Microfinance on the Poor: Social Aspects

On the design of PKSF ME research by BIDS, fertility and contraceptive use, health and nutrition, sanitation and drinking water, literacy and school enrollment of children, social mobility, and women participation and household welfare are called to be the components of social (in wider sense) aspects (Table 401).

Table 401: Impact of MF Compared to Non Participants

Categories	Indicators	Change
Social and Other Development Impacts	Fertility and contraceptive use	Positive
	Health and nutrition	Positive
	Sanitation and drinking water	Positive
	Literacy and school enrollment of children	Positive
	Social mobility	Insignificant
	Women participation and household welfare	Positive

Source: PKSF MES by BIDS, 2001

According to the research findings, all the factors but one which is social mobility had changed with respect to time, and the changes were positive. We will now be elaborating the three most important components assuming the insignificance of social mobility it as an outlier.

4.1. Health and Nutrition

The improvement in access to health services of the MFI participants since enrollment has been proven significant. The proportion of participants who could not afford to go to qualified doctors or went to quacks for treatment has declined from 96% to 71%. The proportion receiving treatment from

qualified doctors and health centers was about 4% before enrollment, which is now about 29%.

Table 411: Access of the HHs to the Health Services (%)

Access to Health Care	At Present	Before Enrollment
Cannot/could not afford doctors	42.20	60.10
Treatment taken from quacks	28.80	35.70
Treatment taken from doctors	23.60	2.70
Treatment taken from health centers	4.90	1.30

Source: Bangladesh Unnayan Parishad and ActionAid Bangladesh, 2007

The before after experimentation with monitored controlled households refers that the improvement has been possible mainly as a result of being enrolled with MFIs (Qazi K Ahmed, 2007).

4.2. Education

There has been an improvement either in terms of all children and girls going to school now, while the did not before (Qazi K Ahmed, 2007). In the research of Bangladesh Unnayan Parishad and ActionAid Bangladesh in 2006 the findings tell that 26% of the respondents' children do not go to school on a regular basis now as they did not before MFI enrollment. 18% of the respondents' children did not go to school before MFI enrollment, but now they go regularly. In the case of 7% respondents, only boys went to school before enrollment, but now girls also go. No negative impacts are evident however.

It, however, appears that micro credit is not the main factor (as was in the previous ones) behind the positive changes in the education of children. More important reasons include awareness rising and grants provided to girls if enrolled in schools.

4.3. Women Empowerment

One of the most visible aspects of recent changes in rural livelihoods centers on substantial increase in women's access to credit. The dominant view amongst micro finance practitioners has developed as the *confluence of three rather distinct paradigms* of micro finance programs and is believed to lead to the empowerment. These paradigms are: the financial self-sustainability paradigm, the poverty alleviation paradigm, and the feminist empowerment paradigm (Hossain & Bayes, 2009). However, the scholarly presentations on the role of micro finance in empowering women are in evidence in discourses on rural development, the niche reality is a bit different sometimes.

Research conducted by Bangladesh Unnayan Parishad and ActionAid Bangladesh in 2006 tells that only about 10% women run with full authority the economic activities undertaken using micro credits they receive, but almost 90% somehow manage it either by partnering husbands or leaving him to manage everything.

In so far as family decision making is concerned, about 36% of the female borrowers are now given due importance but not so before enrollment, another 36% are now occasionally given more importance than before (Table 431). The findings initiate that since women are the borrowers of micro credit and the money so received is available to the family, women are given more importance in making family decisions, as about two thirds of the women are found always or occasionally taken more seriously now than before enrollment.

Table 431: Importance of the Views of Women in Family Decision Making

Importance	%
Given due importance now, not before	35.80
No importance given as before	28.00
Occasionally given more importance than before	36.00
No response	0.20
Total	100.00

Source: Bangladesh Unnayan Parishad and ActionAid Bangladesh, 2007

Women are valued more when they are micro credit receivers as a conduit for some money coming into the family but not much in terms of human dignity for human beings, as indicated by many women MFI participants. Despite this view, it is good that women MFI participants are given more importance in making family decisions; this beginning may lead once its benefits are seen and understood, to male female balanced role in decision making. (Qazi K Ahmed, 2007). However, unfortunately, the intensity of torture has increased by about 60% amongst who still face torture in the family.

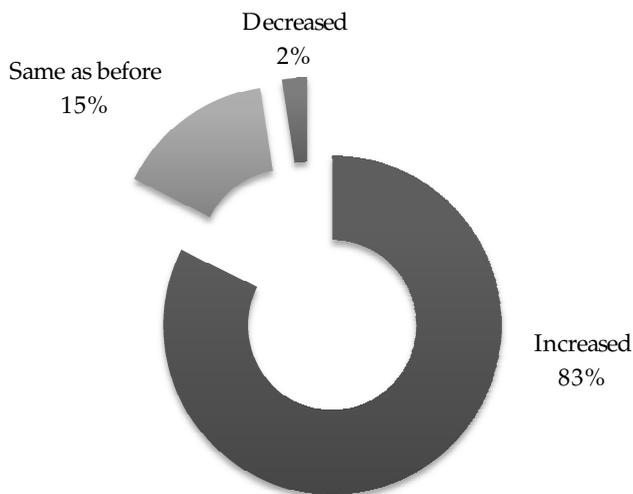


Figure 431: Exchange of Dowry since MF Enrollment

The exchange of dowry has also increased significantly about 83% (Figure 431). This is a social menace against which there is strong opinion among the social reformers, but it, however, seems that since women are now able to secure some money through micro credit, their families are more pressured than before to pay dowry to marry off women from their families.

5. Suggested Measures: A Strategic Overview

Both the economic and social aspects that we discussed in the previous chapters mostly end with positive results. Compiling these two the overall living conditions can be calculated (Table 501).

Table 501: Overall Living Conditions since MF Enrollment

Status	%
Much better	1.50
Somewhat better	34.60
No change	23.80
Somewhat worse	25.90
Much worse	14.00
Non-response	0.20
Total	100.00

Source: Bangladesh Unnayan Parishad and ActionAid Bangladesh, 2007

As seen, 35% of MFI participants are living somewhat better than before. The degree of radical change is hardly evident at 1.50% only. Another 39% could not make any benefit out of the participation at all! Although microfinance has cancelled many birthdays, still there are some things to do more and better. Scholars in different researches put their valuable recommendations, but eventually those all remain only in the pages. Four of the *must overcome* problems include the following¹:

1. More disadvantaged people generally do not participate in microfinance
2. Failed enterprises lead to poverty
3. Men use loans made to women
4. Increases in income not translated into improvements in welfare

¹ There are some other significant issues left regarding government and economic policy makers that are not covered in this paper hence not discussed.

The strategic solutions to the 1st problem may include:

- Loan use should be flexible and include 'consumption' loans
- Flexible repayment and grace periods, tailored to borrowers' circumstances and activities
- Encouraging groups to include poorer members
- Asset building and training schemes to give poorer people skills, capital and confidence to participate
- Training of staff so that arrangements for default do not drastically impoverish borrowers
- Flexible access to savings (i.e.: short notice periods, not need to leave credit group)

The strategic solutions to the 2nd problem may include:

- Proper advice and assistance in identifying opportunities
- Arrangements for rescheduling and repayment schedule according to borrowers' capacity

The strategic solutions to the 3rd problem may include:

- Increase availability of loans to poor men
- Training for women to enhance economic opportunities
- Awareness raising to change attitudes towards women, cash, and work
- Support services for women to reduce particular constraints they face e.g.: childcare

The strategic solutions to the 4th problem may include:

- Education and awareness raising to address particular issue
- Training, research and development, improved technology and assistance in accessing new markets to enable borrowers to develop a wider range of enterprises

6. Conclusion

Madame Mbeki, the First Lady of South Africa, nicely coined Bangladesh as the *University of Microfinance* which is truly appropriate in the sense of originality and continuation. It has been evident that, as a result of the activities undertaken through microfinance, poverty of MFI participants' households has declined over time. Critics argue, however, that microcredit has not had a positive impact on gender relationships, did not alleviate poverty, has led many borrowers into a debt trap and constitutes a "privatization of welfare" (Gina Neff, 1996). Most of the cases the extreme cases turn out as outliers, but it is true that there are chances to improve a lot. Wide number of researches is conducted nowadays. Funds come from local and international donors. The process of making the services even better has started. Scholars are now talking about the sustenance issue. Some of the MFIs are targeting the niche market namely the ultra poor.

I, at the end of this paper, would love put adding a little with Madame Mbeki that, Bangladesh, the *University of Microfinance* will, in near future, will be able to offer more courses and the graduates that it produces will be even competent.

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