“Assessing Impact of Micro Finance on Poverty Alleviation- Bangladesh Perspective”

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Abstract:
“Micro finance” or its major part “micro credit”, both used interchangeably, is an important institutional device for alleviating poverty of the poor people. Micro finance concept was first developed and initiated in Bangladesh in the late seventies with a view to help the people living below the poverty line. Since its inception to till date, there has been tremendous growth of organizations, known as MFIs (Micro Finance Institutions), in this field to deal with the micro finance/credit activities. Despite this, the poverty situation of the poor people who have already used the micro finance programs was not improved substantially. The few MFIs have their own programs to conduct survey on impact assessment of their individual micro credit activities. The present study will focus on the impact assessment of micro finance activities on some variables of poverty alleviation, the extent to which these programs helped loanees to become micro finance graduates and the relevant suggestions as to the success of the micro finance activities.

1. Introduction:
Micro finance is a core concept that embodies lot many things; micro credit is the major part of it, other parts of micro finance include micro savings, micro insurance and other financial services. Bangladesh is widely considered micro finance’s “natural home” for renowned Grameen Bank Model and the highest number of client’s outreach in the world. Micro finance lending has certain salient features that distinguish them from lending of conventional banks. These programs are obviously for the people living in abject poverty. The programs have been expected to alleviate poverty or to uplift the economic condition of the poor people. Studies have shown that it has had a positive impact on improving social indicators (Marilou Uy and Hassan Zaman: 2003).

More than one thousand registered NGOs are presently working in Bangladesh for alleviating poverty through micro finance activities but the state of poverty in Bangladesh particularly in rural areas is not improving substantially. The programs undertaken by some prominent MFIs including Grameen Bank, BRAC, ASA and Proshika do not appear to be much successful in improving the poverty of the poor people as was expected initially. The underlying reasons are perpetual cycle of debt, inability to reach the poorest of the poor, the infrastructural problem, overlapping, disbursing credit or use of credit to unproductive sector, extreme attention to loan recovery, ignorance of human capital, higher rate of interest (although it is still lower than village money lenders who charged on an average of 120 percent interest rate) and limited access of poor to the economic stream among the important factors.

2. Objectives of the Study:
The major objectives of the present study include the following:
I. To have a glimpse on the micro finance activities performed by MFIs for poverty alleviation.
II. To assess the impact of these activities on the poverty alleviation.
III. To suggest policy measures for more effective implementation of the programs.

3. **Hypothesis of the Study:**
   The following hypothesis will be tested against the objective II
   
   **H₀₁:** There is no association between the micro finance programs of MFIs and poverty alleviation in Bangladesh.

4. **Scope of the Study:**
   The study covers the micro finance programs of GB, BRAC and ASA operating under the district of Chittagong, Bangladesh. The authors think that the sample study represents the picture of the whole country.

5. **Methodology of the Study:**
   The proposed study is an empirical one. Both primary and secondary data have been used during the study.
   
   **Data Collection:** For collection of primary data direct interview method have been used. Two sets of interview schedules have been prepared, first set is for executives of the selected micro finance agencies and the second set for the loanees. Both the questionnaire sets have some common questions to assess the impact of the micro finance programs on poverty alleviation. Secondary data have been collected from available literatures in form of books, journal, magazines, published materials, research articles and annual reports of the micro finance agencies under study. The socio-economic conditions of the select loanees from the sample areas were also personally observed and evaluated on the basis of informal talks with them.
   
   **Methodology:** The data and information collected from primary and secondary sources have been analyzed using the statistical tools like average, percentage, and parametric and non-parametric tests have been used as and when required.

6. **Findings and Analysis:**
   
   I. **Programs for Poverty Alleviation in Bangladesh offered by the Select MFIs:**
   A good number of projects and programs have been undertaken so far by GO and NGOs to alleviate poverty in Bangladesh. BRDB is the most prominent and potential government organization operating micro finance for poverty alleviation. Apart from the ADP, nationalized and private commercial banks have also individual programs for poverty alleviation in Bangladesh.
   
   The following three major MFIs have their exclusive micro finance programs for poverty alleviation in Bangladesh:
   
   a) GB (Grameen Bank)  
   b) BRAC (Bangladesh Rural Advancement Committee)  
   c) ASA (Association of Social Advancement)  

a) **Grameen Bank:**
   
   The most prominent micro finance institution in Bangladesh is Grameen Bank, which has diverse financial products and services (around 211 types of loan services since its inception to December 2001) as well as human resource development/training programs for poverty alleviation in Bangladesh. Credit products of Grameen Bank include general, seasonal, equipment and livestock leasing, sanitary latrines, housing (at 8 percent interest), collective loans etc. General, Seasonal and Tube well loans are for 12 months, livestock leasing loans are for 6 months, equipment leasing loans are for 2 to 3 years, sanitary latrine loans is for a maximum of 1-2 years and housing loan is for a maximum of 10 years paid in weekly instalments. Initially Grameen encourages a borrower to start with small loan. The amount of loan depends on the nature of loan activities.
GB has introduced *New Generalized Grameen System* comprising two types of loans: (a) Basic Loans and (b) Flexible Loans. A borrower can take a basic loan (of any duration) for any income generating purpose. Flexible Loan is actually a rescheduled loan and a borrower can negotiate the repayment schedule according to her capacity to pay. Now in the new system it has become easy to check the quality of loan; Basic Loans means having hundred per cent repayment rate, while Flexible Loans mean, loans at risk. Apart from the above programs, a new product *Loan Insurance Savings Fund* was introduced in 2001 with a view to providing insurance coverage of all Grameen Bank borrowers within 2002.

**b) BRAC:**
The largest NGO-MFI in Bangladesh is BRAC, started its micro credit program since 1974. While BRAC believes that micro-credit is an important tool in breaking the cycle of poverty, it also places equal emphasis on training of its members in income generating activities and in facilitating their linkages with consumer markets. BRAC also runs a number of social development initiatives designed to increase members’ awareness of their rights and responsibilities and to facilitate addressing issues of discrimination in their villages and region. To deal with a complex syndrome like poverty BRAC applies a holistic approach encouraging innovative interventions through three core program areas, Economic Development, Health and Education. Typically micro finance activities performed by BRAC for poverty alleviation include micro credit and savings, death benefit, petty trading/micro enterprising, livestock, rickshaw/cart pulling, crop cultivation, paddy husking, rural industries, shop trading, consumption and repaying other loans. A 2% loan loss reserve is kept to cover the risk of bad debts and death. Regular borrowing and payments allow the borrower to take larger loans. BRAC has been implementing a new program since January 2002, focusing on development of the ultra poor who live below the poverty line as interventions including poverty alleviation efforts, which have generally neglected to address the needs of the ultra poor. The program titled “Challenging the Frontiers of Poverty Reduction (CFPR)” comprises inputs such as asset transfer, social empowerment, training and essential health care to 1,345,000 ultra poor.

**c) ASA:**
After inception in 1978 as an NGO, ASA implemented social development programs. But later on several changes occurred in the policy level and during the early 90’s it specialized in micro finance and gradually emerged as a micro finance institution. ASA follows individualistic approach, i.e. each borrower is individually responsible for the loan, not collectively like other similar programs implicate. ASA has started its new programs for job-creation for 5 lakh ‘hard-core’ or ‘un-reached’ poor recently through the introduction of credit for ‘small entrepreneurs’. ASA’s *Micro Credit and Saving (voluntary along with weekly)* Program plays a vital role in reducing poverty of the distressed people. ASA has *Small Credit Program* for poor women in order to conduct Income Generating Activities (IGA). Each loan has to be repaid within a year in 46 instalments along with 15% service fees. Repayment of installment begins after 15 days from the disbursement.

The *Small Business Loan Program* of ASA contributes enormously to the poverty alleviation initiative of the institution. The successful female members who can prove their capability are provided with small business loan. But usually these loans are extended to the male members who are capable of handling a bigger amount of capital.
Table-1 shows the important information of Grameen Bank and three top MFIs.

II. **Impact of Micro Finance on Poverty Alleviation:**

Several studies have shown that micro finance has had a positive impact on improving standard of living of the borrowers and thus contributing to poverty alleviation. Since poverty is a complex syndrome that refers to forms of economic, social and psychological deprivation, we have carefully selected the variables. In selecting the variables, the researchers have used pilot survey, final survey on select loanees, literature survey and study of annual reports of select MFIs that focused on the link between the micro finance activities and poverty alleviation and also the associated impact on some select areas. Table-2 indicates that ten major variables have ultimately been selected and thrown to the borrowers to assign ranks. They were requested to assign 1 against the 1st rank, 2 for the 2nd rank, 3 for the 3rd and so on. The analysis from the findings shows that micro finance has had a positive impact on poverty alleviation. Kendall’s Coefficient of Concordance has been used to analyze the non-parametric relationship between the select variables. The study on 50 loanees from three thanas under Chittagong District representing three major non-government MFIs has revealed that the calculated value of $\chi^2$ (=56.68), using Kendall’s Coefficient of Concordance, in our experiment, is greater than its table value (16.919) at 5% level of significance for degrees of freedom = 9. Therefore, we reject the null hypothesis $H_0$ and conclude that there is a significant relationship between micro finance and poverty alleviation in Bangladesh. According to the select loanees, the variables leading to poverty alleviation have been ranked in Table-3. The analysis thus suggests that the MFIs should give more emphasis on these indicators of poverty alleviation. Table-3 also indicates a comparative picture of impact assessment study between our present study and the study conducted by World Bank (1999). The impact assessment studies conducted by MFIs like BRAC, ASA and Proshika reported the similar findings of World Bank.

These variables leading to poverty alleviation have been discussed in the following section as per their ranks assigned by the borrowers under study:

**Rank-1: Profit/Business Expansion**

By taking micro finance, the loanees could have increased profit of the business. Micro finance also has contributed to the business expansion.

**Rank-2: Consumption/Calorie Intake**

This variable emphasizes not only increase in consumption expenditure but also gives emphasis on calorie intake and frequency of purchasing fruits and fish/meat in a month by a borrower for his/her family members.

**Rank-3: Housing/Shelter**

Most studies and researches conclude that improvement in housing quality or shelter is an important parameter of poverty alleviation. The changes in housing condition after use of micro finance has been ranked as 3rd of ten variables.

**Rank-4: Income/Resource/Saving**

After taking micro finance, the income of the borrower, their resources and marginal propensity to save have been increased.

**Rank-5: Expenditure on Education**

Education is another important requirement for poverty alleviation. The borrowers have been asked to assign their respective ranks on the educational attainment and increase of expenditure on education after use of micro finance and they ranked it as 5th among ten variables.

**Rank-6: Health Care/Medicine**
This represents the ability of the loanees to spend required amount on medicine and other health care facilities.

Rank-7: Better Clothing
Better Clothing indicates the improvement in standard of living of an individual. Micro finance clients have shown obvious improvement in clothing use. They were asked to tell about the frequency of new clothing purchase in a year and the relevant budget on the purchase of the new clothes particularly during an occasion. Micro finance borrowers have assigned 7th rank to this variable.

Rank-8: Social Awareness
Social Awareness is, in fact, a combination of many other important parameters of human wellbeing. Social Awareness, in our research, includes four important parameters, which include (i) Exercise of voting rights both in local and national election; (ii) Use of news media including Radio, TV, Newspaper (iii) Attitude towards dowry and (iv) Vaccination. This is an exclusive job done by the MFI to improve the social awareness among the micro finance clients apart from the credit programs. The clients have shown the positive impact on their social awareness since after close dealing with MFI.

Rank-9: Loan Repayment Ability
Some select MFIs extend loan to the borrowers to repay the inside (the loan from within the MFI) and outside loan (the loan from other sources). Some of the loanees have shown positive impact on the ability to repay both types of loan.

Rank-10: Household Durables
The ability to spend a sizeable amount on household durables is also an important parameter that indicates the improvement in standard of living of the individuals. Long time micro credit users, particularly, micro credit graduates could be able to spend much on household durables. Impact study has also focused on the changes in net worth of the loanees. Study reveals that even though the average net worth of the loanees has increased the percentage increase in average net worth after use of micro finance was only 12.73%. The net worth of 28% loanees has been decreased after use of micro finance. Chart-1 shows the changes in net worth after use of micro finance.

III. Client Exit Survey(CES):
Client Exit Survey (CES) is an important tool, compiled by Carter Garber for the USAID AIMS project, to measure the impact of micro finance on poverty alleviation. AGAPE/Colombia, a member of the Opportunity International Network has implemented this tool (Susy Cheston and Larry Reed: 1999a).
The CES has been conducted to find out the reasons of leaving the micro finance program and it was surveyed on those who are planning to leave the program or have recently left the program. Table-4 indicates that most of the loanees (98%) reported that they wanted to leave the program because they got only one type of loan from the MFI. Other reasons include (i) early start of installment after disbursement (ii) no significant return from the projects financed by MFIs (iii) no way out/stuck up/revolving credit (iv) lack of repayment rescheduling facility and so on as mentioned in Table-4.

IV. Survey on Economic Graduation of Loanees:
The overall success of any micro finance program depends not only on the alleviation of poverty of its client but also on the long-term sustainability of the benefits that have accrued to them. Borrower sustainability/viability can be ascertained by the extent of their economic graduation (Khandakar and Chowdhury: 1995). The present
study shows the following picture in respect of the economic graduation of the loanees:

### Economic Graduation of Loanees

<table>
<thead>
<tr>
<th>Loanees (N=50) left the program</th>
<th>As Grad.</th>
<th>Not as Grad.</th>
<th>GNWL</th>
<th>Loanees stuck up</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>After 1(^{st}) time use of loan</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>After 3(^{rd}) time use of loan</td>
<td>2</td>
<td>24</td>
<td>5</td>
<td>9</td>
<td>40</td>
</tr>
<tr>
<td>Total</td>
<td>2</td>
<td>30</td>
<td>7</td>
<td>11</td>
<td>50</td>
</tr>
</tbody>
</table>

Grad. = Graduates, GNL = Graduates Not Wish to Leave the program

In the above table, it is observed that the percentage of economic graduation after 1\(^{st}\) time use of loan is very insignificant (only 4%), which has little bit improved after 3\(^{rd}\) time use of loan (14%). 22% loanees were stuck up and 60% loanees left the program ultimately without any substantial change in their living standard.

### V. Impact of Diversion:

During the study, the authors have got an interesting information, 62% of the loanees under study shows that they did not use the loan for the purposes they have borrowed, out of which 65% have faced negative impact on loan repayment. 13% of these loanees (who diverted fund to other use) faced no problem in repaying loan. The rest 22% loanees got rather positive impact by transmitting fund to more productive sector.

<table>
<thead>
<tr>
<th>Total diversion cases (N=50)</th>
<th>31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative impact of diversion cases</td>
<td>20</td>
</tr>
<tr>
<td>Share of negative impact of diversion cases</td>
<td>65%</td>
</tr>
</tbody>
</table>

### 7. Concluding Remarks:

- Several tools can be used to assess the economic impact of micro finance program. The survey shows that impact study conducted by lending institutions was not satisfactory, while BRAC’s impact assessment of its own effort was appreciating.
- Although our present effort of impact studies shows that micro finance could have contributed to the poverty alleviation of the poorest people of Bangladesh, the impact is not still substantial.
- Study indicates that the extent of positive impact has not been equal for all program borrowers. Variations are found from program to program, area to area and MFI to MFI. Variations are found also in matter of degree of changes occurred. Exact measure about the extent of impact is hard to establish. Available evidences from various impact assessment studies point towards an overall positive direction.
- Credit to the borrowers sometimes seems to be curse rather than blessing. Even credit can pose severe risks for the extremely poor (Richard Montgomery et al: 1995). The borrowers have been entangled with the loan, they could not find any way out the program and have to depend on several MFIs. Most of the active members of MFIs are female (CDF Statistics: 2002). They even have to work as maidservant in order to accumulate sufficient amount to repay the loans of MFIs. Two authors (Susy Cheston & Larry Reed: 1999) have euphemistically put in this regard “to a borrower, credit means debt, and debt can destroy as easily as it can build”.
- The overall success of a targeted credit program depends not only on the alleviation of poverty of its clients but also on the long-term sustainability of the benefits that have accrued to the borrowers. Borrower sustainability can be ascertained by examining the extent of their economic graduation (as noted
earlier) which we have tried out in conducting survey on the micro credit/finance graduates. According to Susy Cheston & Larry Reed (1999), “If the clients of a micro credit organisation pay the full cost of the service, pay back their loans on time, and come back regularly for more loans then the program must be having a positive impact. (Client payback = Client perception of value = Client satisfaction = positive impact). On the basis of this supposition we can say that loanees who have graduated but not left the program, the impact was significant upon them.

- From the study it can be concluded that borrowers’ sustainability is questionable. Currently none of the MFIs is sustainable under strict security (Md. Omar Chowdhury: 2001)
- The study shows that there are overlapping programs but still there is a considerable unmet demand. The demand for more and better service products from MFIs is growing day by day because of limitations with prevailing programs and the limited client outreach by Govt., Banks, and MFIs altogether (which accounted for around 10 Million poor household in the study of Md. Omar Chowdhury (2001a).
- Study implies that MFIs are less interested in the upliftment of economic conditions of the poor people. They apparently seem to be much more concerned about the recovery of loan (Nabi et al: 1997). Most of the MFIs concentrated their attention on the changes in income of the borrowers. Elisabeth Rhyne (1992) writes that for the most part, evaluations of credit programs are centred on the presumption of a direct line of causation between receipt of credit by individual borrowers and a particular desired responses, for example, changed borrower income resulting directly from receipt of a particular loan. In order to alleviate the poverty, MFIs should give more emphasis on the select areas (as mentioned in table-3). In that case, their programs will be more sustainable and beneficial as well for the borrowers.
- MFIs should change their policy regarding weekly instalment. Most of the loanees suggested that weekly repayment should start at least 4 weeks after its disbursement.

**Notes and References:**

4. Ibid. (2001a), P- 32.


10. Ibid, P-23.


Table-1: Important information of Grameen Bank and Top Three MFIs

<table>
<thead>
<tr>
<th>Name</th>
<th>Established in</th>
<th>Client outreach ('000)</th>
<th>Lending Rate</th>
<th>Staff in Credit</th>
<th>Credit Outstanding (Tk in Million)</th>
<th>Recovery Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB</td>
<td>1983</td>
<td>2,378</td>
<td>20% RB</td>
<td>1100</td>
<td>15,103</td>
<td>98.29</td>
</tr>
<tr>
<td>BRAC</td>
<td>1974</td>
<td>2,846</td>
<td>15% RB</td>
<td>8686</td>
<td>7,516</td>
<td>98.37</td>
</tr>
<tr>
<td>ASA</td>
<td>1991</td>
<td>1,141</td>
<td>15% FR</td>
<td>5226</td>
<td>3,957</td>
<td>99.93</td>
</tr>
<tr>
<td>Proshika</td>
<td>1976</td>
<td>997</td>
<td>20% RB</td>
<td>1928</td>
<td>3,632</td>
<td>95.05</td>
</tr>
</tbody>
</table>

Source: Compiled from CDF Statistics June 2000, Annual Reports of GB, BRAC and ASA. RB – Reducing Balance method, FR – Flat Rate

Table-2: Relationship between Micro Finance and Poverty Alleviation

<table>
<thead>
<tr>
<th>Respondents (N=50)</th>
<th>H/S</th>
<th>EE</th>
<th>HC</th>
<th>C/CI</th>
<th>P/BE</th>
<th>I/R/S</th>
<th>LRA</th>
<th>HHD</th>
<th>BC</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Ranks, $R_i$</td>
<td>235</td>
<td>243</td>
<td>288</td>
<td>217</td>
<td>206</td>
<td>239</td>
<td>332</td>
<td>361</td>
<td>314</td>
<td>315</td>
</tr>
<tr>
<td>Average $R_i$, $AR_i$</td>
<td>4.7</td>
<td>4.86</td>
<td>5.76</td>
<td>4.34</td>
<td>4.12</td>
<td>4.78</td>
<td>6.64</td>
<td>7.22</td>
<td>6.28</td>
<td>6.3</td>
</tr>
<tr>
<td>Grand Average, $R$</td>
<td>5.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$(AR_i - R)^2$</td>
<td>-0.8</td>
<td>-0.64</td>
<td>0.26</td>
<td>-1.16</td>
<td>-1.38</td>
<td>-0.72</td>
<td>1.14</td>
<td>1.72</td>
<td>0.78</td>
<td>0.8</td>
</tr>
<tr>
<td>$\Sigma (AR_i - R)^2$</td>
<td>0.64</td>
<td>0.41</td>
<td>0.068</td>
<td>1.346</td>
<td>1.9</td>
<td>0.52</td>
<td>1.3</td>
<td>2.958</td>
<td>0.61</td>
<td>0.64</td>
</tr>
</tbody>
</table>

Definition of notations: [H/S: Housing/Shelter, EE: Expenditure on Education, HC: Health Care, C/CI: Consumption/Calorie Intake, P/BE: Profit/Business Expansion, I/R/S: Income/Resource/Saving, LRA: Loan Repayment Ability, HHD: Household Durables, BC: Better Clothing, SA: Social Awareness (Social Awareness, in our research, includes four important parameters- (i) Exercise of voting rights both in local and national election; (ii) Use of news media including Radio, TV, Newspaper (iii) Attitude towards dowry and (iv) Vaccination.)]
**Table-3: Ranking of Variables**

<table>
<thead>
<tr>
<th>Rank</th>
<th>Present Study</th>
<th>World Bank, BRAC, ASA and Proshika Study</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Profit/Business Expansion</td>
<td>Increase in income</td>
</tr>
<tr>
<td>2</td>
<td>Consumption/Calorie Intake</td>
<td>Improvement in quality of life</td>
</tr>
<tr>
<td>3</td>
<td>Housing/Shelter</td>
<td>Improvement in clothing</td>
</tr>
<tr>
<td>4</td>
<td>Income/Resource/Saving</td>
<td>Increase in food intake</td>
</tr>
<tr>
<td>5</td>
<td>Expenditure on Education</td>
<td>Adequate and better economic condition</td>
</tr>
<tr>
<td>6</td>
<td>Health Care</td>
<td>Improvement in literacy</td>
</tr>
<tr>
<td>7</td>
<td>Better Clothing</td>
<td>Children education</td>
</tr>
<tr>
<td>8</td>
<td>Social Awareness</td>
<td>Improvement in housing condition</td>
</tr>
<tr>
<td>9</td>
<td>Loan Repayment Ability</td>
<td>Improvement in sanitation</td>
</tr>
<tr>
<td>10</td>
<td>Household Durables</td>
<td></td>
</tr>
</tbody>
</table>

**Table-4: Reasons of leaving the program (ranked as per the clients’ responses)**

<table>
<thead>
<tr>
<th>Reasons of leaving the program</th>
<th>Responses %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only one type of loan is available/single purpose served</td>
<td>98</td>
</tr>
<tr>
<td>Instalment starts very early</td>
<td>95</td>
</tr>
<tr>
<td>No significant return from the projects financed by micro credit</td>
<td>90</td>
</tr>
<tr>
<td>Revolving credit/no way out</td>
<td>74</td>
</tr>
<tr>
<td>Limited facility of repayment rescheduling</td>
<td>72</td>
</tr>
<tr>
<td>The whole group have to bear the loan burden for insolvency of a group member</td>
<td>62</td>
</tr>
<tr>
<td>High rate of interest</td>
<td>60</td>
</tr>
<tr>
<td>No credit programs apart from the micro credit programs of loan giving agencies</td>
<td>52</td>
</tr>
</tbody>
</table>

**Chart-1: Changes in Networth**

- Networth before use of micro credit
- Networth after use of micro credit