

Report On
Impact Assessment of Microcredit on Borrower's Life in Rural Areas of
Bangladesh

By

Md. Rasel Azam
18364073

A thesis report submitted to the BRAC Business School in partial fulfillment of the requirements
for the degree of
Masters of Business Administration

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Declaration

It is hereby declared that

1. The thesis report submitted is my own original work while completing degree at BRAC University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

Md. Rasel Azam
18364073

Supervisor's Full Name & Signature:

Md. Shamim Ahmed
Lecturer, BRAC Business School
BRAC University

Letter of Transmittal

Md. Shamim Ahmed
Lecturer,
BRAC Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of thesis report on “Impact assessment of microcredit on borrower’s life in rural areas of Bangladesh”

Dear Sir,

With due respect, I would like to inform you that, it is a great pleasure for me to submit the thesis report on **Impact assessment of microcredit on borrower’s life in rural areas of Bangladesh**

as a requirement for the completion of Masters of Business Administration degree. I have tried to make the report a comprehensive one within the given time. I earnestly thank you for your guidance during the preparation of this report. While conducting the report, I have gathered lots of knowledge about the different aspects of microcredit and its impact on borrowers’ life.

I therefore, request you to accept this report and give us proper suggestion to work in our professional life. I hope it will meet the desired standard.

Sincerely yours,

Md. Rasel Azam
18364073
BRAC Business School
BRAC University
Date: September 27, 2020

Acknowledgment

This thesis has been conducted to assess the impact of microcredit on borrowers' life in rural areas of Bangladesh. I express my sincere gratitude to our supervisor **Md. Shamim Ahmed** for his guidance and his timely advice and continuous encouragement.

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Abstract

The microcredit program has created a revolutionary change in financial services. The main goal of microcredit to assist poor people to alleviate poverty through microcredit to be expected to invest in productive activities. Hence, to assess the effectiveness of microcredit is essential to reveal the actual scenario of the impact of microcredit on borrower's life. This paper is presented as a qualitative approach to assessing the impact of microcredit in borrower's life classifying the borrowers into four groups based on their income relative to their weekly installment and the degree of their investment of microcredit loan. A neutral assessment of microcredit reveals the positive impacts as well as some negative impact on the borrower's life. It is observed that each group of microcredit receivers is not benefited in the same manner. Borrowers' financial stability and tendency to investment play a major role to differentiate the impact of microcredit on their life.

Keywords: Microcredit, Microfinance, Financial Services, Microcredit Receivers

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List of Acronyms

NGO Non-Government Organization

MFIs Micro Finance Institutions

MRA Microcredit Regulatory Authority

Chapter 1

Introduction

In this modern world, financial services are an essential need. Most of the developing countries are still now faces challenges to meet this need for its population. Individual status and profession have created a great difference in accessing financial services in an equal manner. But the need for financial services, especially the need for money, is equally important for all irrespective of profession, carrier, caste, or social class of people. To meet the need for funds of a large business or to promote the business of an industrialist, traditional financial service providers- banks have extended their hand with business loans in return for collateral. But, the need for funds of poor people of the society is always ignored by the banks initially as most poor people cannot provide collateral in exchange for the loan. As a result, the overall development of the country is not accelerated despite the industrial and technological development across the country. To feel this necessity of poor people's participation in the national economy and their right to get funds to enrich their life, modern microcredit is inaugurated with the initiatives taken by Nobel Laureate Dr. Muhammad Yunus. With his guidance and supervision, the first modern microcredit institution "Grameen Bank" is established in 1983 in our country Bangladesh. Its mission was to alleviate poverty by including poor people to financial services. Through the microcredit services, the poor people get microloans without any collateral, which creates a tremendous change in the philosophy of lending money without any collateral can also be successful. Microfinance organizations in Bangladesh have now become the popular choice of borrowing medium not only for the poor class but also for the middle class and upper-middle-class people in both rural and urban areas. Initially,

microcredit is introduced first in Bangladesh with the objective of poverty alleviation by the Nobel laureate Dr. Muhammad Yunus. Gradually, several microcredit NGOs have followed the model of microfinance of Grameen Bank and has created a competitive businesses centric environment in microfinance industry offering different types of services to meet the need of fund for the poor. Hence, over time several pieces of research have taken place to assess the effectiveness of microfinance in poverty alleviation or the development of borrower's life. Much of the researches have either primarily focuses on the success history of microcredit beneficiary to conclude a positive impact of microcredit in borrower's life. Also, some researchers focusing on the bad example of microcredit receivers find out the overall negative or neutral impact of microcredit in borrower's life. A comparative analysis focusing on both the positive and controversial impact of microcredit will reveal the actual scenario of microcredit's impact on societal development (i.e. on borrowers' life).

The objective of the research:

To find out whether microcredit has a positive or negative or neutral impact in the borrower's life by assessing it in a neutral position focusing the findings from the survey, questionnaires, and secondary data.

Chapter 2

Literature Review

Microcredit creates a revolutionary change to assist the middle-class people with loan facility. From the period of the official journey of microcredit to now, it has received numerous recognitions for its contribution. But some critics also believe that microcredit has no substantial impact on societal development. Several pieces of research have been published to assess the impact of microcredit on the life of borrowers. Some researchers focused on good examples of borrowers who have substantially change their condition receiving microcredit have concluded that microcredit has an influential impact on the development of the lifestyle of people. On the other hand, some researchers also conclude based on their research that microcredit has no substantial impact on borrowers' lifestyle development.

Karim, Tania & Farazi (2011) state, to promote a self-employment program, microcredit offers loans to the poor and therefore it helps them to lead their life happily with the income generated from the self-employment program. Hence, eventually, it creates an impact on poverty alleviation.

Islam, Hossain& Afrin (2013) states, the borrowers who take loans from microcredit program has improved their lifestyle in the context of health, food and nutrition, children's education and better access to self-employment opportunities by engaging the money received from the loans.

Goldberg (2005) shows an outcome of analysis conducting on the receivers and non-receivers of loans of Grameen Bank in the period of 80's decade which represents receivers of loan takers of Grameen Bank in that period is comparatively leading their life much better than the non-recipients. It is also showed in the research that the villages where microcredit is offered are financially in a better position than the other villages.

Sefa, Jeffrey & Samuelson (2015) conducts an empirical analysis that shows that microcredit has a marginal relationship with consumption (expenditure) but no substantial positive impact is observed with poverty alleviation and income rising.

Ahmed (2009) states that the majority of people of rural Bangladesh leads their life fighting against poverty. As almost half of the total population is women, they face the challenges of poverty. Without creating employment opportunities and a great focus on poverty alleviation, it is not possible to create a balanced development of the country. Hence, different programs and projects are undertaken by the government to stabilize the macroeconomic situation along with the NGOs (Non-Government Organizations). Noticeable development is made in the activities of microfinance institutions to meet the objective of an overall development across the country by accelerating microcredit facilities to the poor.

Mecha (2017) expresses the importance of microcredit as a means of employment not only for youth but also for the women. Microcredit is a tool for employment that gradually helps to alleviate poverty. In rural areas, women, especially the women of developing countries face the challenges of the fund to initiate money earning small business. As a result, most of them cannot help their family financially. Microfinance has changed the scenario. Now, women in rural areas can bring changes in their life by taking loans from microfinance institutions and investing it in productive works to earn money.

Khandker (2005) states that though the different impact assessment technique provides different result on the impact of microfinance to the poor, there is always some beneficiary of microfinance, and it true that all microcredit receivers do not get benefit equally. Microfinance institutions providing microcredit to the rural women accelerate the path of self-employment and starting a new small business, which eventually creates a positive impact on the family's living style. Results

show that the microfinance program has a strong correlation with the consumption increase and acquisition of a new asset. Microfinance has a substantial impact on children's education and women's decision-making power in the family.

Zaman (1999) states that microcredit helps to reduce the vulnerability of the poor by assisting the poor with the financial services in consumption, asset acquisition, meeting challenges faced during natural disasters, especially in the empowerment of women. According to his study, the effectiveness of microcredit is more evident in the group of moderate poor people than the extremely poor class. Usually, the extremely poor class cannot utilize the money received from microcredit in productive works because of the urgency of meeting basic needs. The effective positive impact of microcredit is possible to achieve by employing the microcredit loan money into income-generating purposes which eventually help to combat poverty.

Tedeschi & Karlan (2006) discusses different problems in assessing tools used for the impact assessment of microfinance institutions. Usually, in the microcredit's assessment, MFIs (Micro Finance Institutions) do not include the dropouts (ex-beneficiary of microcredit, generally poor veteran) in their sample data at the time of assessment. Hence, it might give overestimations of microcredit impact when only comparing with the new member and old veteran members. Hence, the impact assessment of microfinance is largely depending upon the assessment method.

Khandker & Samad (2014) states that over the year competition among the NGO-MFIs has increased but the offered products and services of most of the microfinance organizations are almost the same. Thus, this competitive situation among the MFIs creates an easy access environment where poor women can get funds from multiple microfinance institutions. Sometimes, it may bring debt dependencies and may create a trap of poverty if the microcredit loan amount is not implemented in proper money-generating activities. In the ever-changing

market, the investment of microcredit money in the prospective money-generating activities, as well as different skill development training, are essential for the loan receiver to make them self-employed with skilled modern knowledge and techniques to introduce prospective small business to make the microfinance institutions' impact more sustainable.

Chapter 3

Methodology

The thesis paper is mainly based on the conducted survey on microcredit borrowers, secondary data and information published in renowned journals about microcredit and its impact on borrower's life. Besides, information published regarding microcredit in different microfinance institutions' website of Bangladesh, and Microcredit Regulatory Authority's annual report is regarded valuable source of information in designing the research and forming the report

Chapter 4

Background Study

Microcredit

Microcredit can be defined as the extended version of microloans or very small loans which is focused to provide loans to borrowers, especially the poor, who do not usually have the access to typical loans from the bank due to the absence of collateral or verifiable credit history. Microfinance encompasses microcredit and it has a broader range of financial services for example insurance, savings, deposits including credit. Especially the poor who does not have any fixed salaries, has financial insolvency are the target customers of microcredit. Microfinance institutions are now a reliable source of microcredit provision to the borrowers to meet their need fund at a comparatively low-interest rate.

Microcredit now is disbursed by the NGO-MFIs, Government banks, cooperatives, and other informal groups. Different providers of microcredit have their way of operations. Based on these, microcredit can be classified in the following classes

- Informal microcredit: Informal microcredit is usually given by individual moneylender, pawnbroker, informal money lender's market as well as different informal groups like Rotating savings and credit associations (ROSCAs), susu.
- Formal microcredit: Formal microcredit program is run usually by the specialized or conventional bank, Bank-NGO partnership program, cooperative microcredit program, NGO-MFIs.

Microfinance institution

Microfinance institutions are the organizations that aim to provide financial services to the group of people, especially the poor, who has no access to traditional loan from the bank. They offer different microfinance services to their clients. The most common ones are microcredit, microinsurance, demand deposit account, savings, payment systems. To improve the economic conditions of the poor, who are financially lacking behind the others, different types of organizations have formed to offer microcredit. The most common microfinance institutions are commercial banks, cooperatives, Non-Government Organizations, and different governed projects. Most of these microfinance organization's microfinance operation is designed to assist the economically disadvantaged people so that all over the country a uniform development is achieved. Hence, the major principle of any microfinance institution is distinct. The common principles of microfinance organizations are

- ❖ Contribute to improving economic conditions of the poor letting access to microfinance services
- ❖ Assist to empower women through microcredit loans investing in a self-employment program
- ❖ Evaluate the progress of loan receivers and guide them to invest in a productive small business, agro-business, or agro-farm.

Over the period, microfinance organization has become a viable source for fund needed for the needy people of the society. Hence, the demand for microfinance services increases, as a result now a great transformation has been observed in microfinance organization's philosophy. Now, most of the microfinance organizations have been successful to attract more investors by representing themselves as a profitable organization. Now, most countries have regulatory

authority, responsible for supervising, monitoring, and evaluating the performance of the NGO-MFIs. Hence, all NGO-MFIs has now focused to maintain the standards asked by the regulatory authority and operating its business in a business-centric mindset.

History of microcredit

Today's microcredit is an evolution form of the old traditional loans used to provide the poor to improve their economic conditions. Many years ago, in Asia loans were issued in different forms to the improvised populations. The existence of the provision of loans is also found in Europe in the 15th century through forming Mounts of Piety by a Francian monk to integrate the very poor population into better community life. In the nineteenth century, in 1879 at Rhineland in Germany first loan and savings cooperative was formed to meet the financial need of the working-class people. Over time, this mutualist financial model has developed in European countries. But no such noticeable development is achieved to meet the financial needs of the lower-income people, the poor.

Later a revolutionary change has taken place in the modern microfinance sector with the initiative taken by Muhammad Yunus in Jobra village in the 1970s. To address the problem of insufficient resources especially the financial ones to fight against poverty, Muhammad Yunus assisted 42 women in Jobra village to initiate their self-business with his fund as a loan. This project got a remarkable success. From then, microcredit has been regarded as one of the means of combating poverty, and women are regarded as the target segment of microcredit receivers. When despite having the Jobra village project successful and getting no interest from the banking sector to provide microloans to the needy people to improve their conditions, Muhammad Yunus took his

decision to form a new program called Grameen to meet the need of financial services especially microcredit for the needy without any collateral in return. This project gets tremendous successful as women with an entrepreneurship mindset get the fund to start a small business just committing to repay the loan agreeing with joint responsibility to uphold the solidarity of the beneficiaries. Later in 1983, the Grameen program obtained the status of a bank and started its operation as Grameen Bank. In the decade of 1980 and 1990, a massive response is noticed in other countries, and several microfinance institutions are build-up following the mode of Grameen bank. Also, in Bangladesh, several MFIs are built up to feel the need for it. Gradually, different govt bank and project in Bangladesh has come to microcredit program to help the needy the need for financial services (Alamgir, 2009).

Microcredit in Bangladesh

Microfinance is an essential part of the economic development of Bangladesh. It is regarded is one of the means of poverty alleviation tools for our country. As microfinance aims to reach the poor, small entrepreneurs, and most importantly women, it has created a revolutionary change in equal opportunity to financial services, most importantly microcredit as a means of developing borrowers' life. Now microcredit organization's efficiency has been more noticeable in the country's overall development. Over the time of its origin in the 1980s, the microfinance organization has extended its areas of service. Today, in all rural areas in Bangladesh, several NGO-MFIs including government organizations have reached to assist people with funds needed to invest in productive works as a means of changing their economic conditions. Microfinance organizations in Bangladesh are not only extended its service regions over time, it has extended its services also. It is now not only limited to its core goal of assisting funds to the poor women

for their better life but also aims to create employment opportunities by empowering entrepreneurs with the funds needed to establish a small business. As a result, the role of microfinance organization is diversified now with a greater objective of socio-economic development. Therefore, microfinance institutions have regarded now a means of finance for all. About 30 million people of Bangladesh have directly connected with microfinance organization as a beneficiary member of not only microcredit but also savings scheme, micro insurance, deposits. It is around 65 percent of rural people of Bangladesh get access to financial services through microfinance organizations.

Microcredit has now the most useful source of funds for the poor in developing countries. Bangladesh has facilitated different opportunities, scope, and services to reach the poor to meet their financial need by different microcredit providing organizations. Through this microcredit program, the rural disadvantaged people who usually do not have the scope to get funds from the bank, now get different financial services including microcredit. Mainly in Bangladesh microcredit is offered by the licensed NGO-MFIs, Grameen Bank, Government's different program or institutions undertaken by different ministries, State-owned government banks, specialized banks and private commercial banks. All these microfinance institutions mainly target the landless people of society to make their situation better. Usually, microcredit offered by the microfinance institutions is given to the needy people without any collateral, usually for a one-year term. The loans are provided by the individual receivers forming a group of receivers and setting a center of MFIs. Mostly, repayment of the loan is collected weekly by an assigned officer who is responsible to collect installment from the receivers' group.

According to Microcredit Regulatory Authority (MRA) of Bangladesh, in Bangladesh along several bank and different microcredit programs undertaken by government, 759 NGO- MFIs is running microcredit programs. A short overview of microcredit in Bangladesh is presented in the Table No. 1

Table No 1: NGO MFIs -Microcredit's summarized information in Bangladesh

Particulars	June, 2014	June, 2015	June, 2016	June, 2017	June, 2018
No. of Licensed NGO-MFIs	742 (Canceled 45)	753 (Canceled 56)	758 (Canceled 78)	783 (Canceled 84)	805 (Canceled 100)
No of Branches	14,730	15,609	16,284	17,120	18,196
No. of Employees	109,628	110,781	127,820	139,526	153,919
No. of Clients (Million)	25.11	26.00	27.79	30.82	31.22
Total borrowers (Million)	19.42	20.35	23.28	24.94	25.40
Loan Disbursement (Tk. Billion)	462.00	634.00	787.00	1,046.00	1,201.91
Agri Loan Disbursement (Tk. Billion)	155.73	266.25	353.00	408.88	423.69
Amount of Loan Outstanding (Tk. Billion)	282.20	352.41	459.37	583.62	673.90
Agri Loan Outstanding (Tk. Billion)	115.77	147.60	285.00	354.00	405.00
Amount of Savings (Tk. Billion)	106.99	135.41	171.19	216.71	262.96
Loan Recovery (Tk. Billion)	447.89	522.47	717.00	949.12	1,112.21

Source: MRA-MIS Database, 2018

Several number of microfinance institutions in Bangladesh, specially NGO-MFIs has created a competitive environment in microfinance sector. A short overview of the large 20 NGO-MFI's performance presented in NGO-MFIs report of MRA in 2018 is shown below in Table No. 2

Table No 2: Large 20 NGO-MFI's microcredit performance, 2018

Name of Microfinance Institutions	Numbers of ME Borrower	ME Loan Disbursed Loan (in BDT)	ME Loan Outstanding Loan (in BDT)	Loan Outstanding Loan (in BDT)
BRAC	3,618,242	233,124,089,853	137,037,028,330	184,711,564,850
ASA	268,730	40,746,813,000	24,703,985,445	161,991,988,019
Basic Unit For Resource And Opportunities Of Bangladesh (Buro Bangladesh)	179,082	25,892,140,440	18,078,628,861	39,040,656,741
TMSS	197,976	20,639,716,030	12,149,852,698	24,241,619,452
Society for Social Service (SSS)	94,193	13,005,697,000	6,501,124,376	15,677,552,594
Jagorani Chakra Foundation	106,791	12,588,925,000	9,608,946,749	14,023,092,532
Sajida Foundation	183,893	9,004,331,500	4,954,814,929	11,855,466,311
Padakkhep Manabik Unnayan Kendra	35,120	7,557,125,013	4,266,406,930	10,473,144,530
United Development Initiatives for Programmed Actions-UDDIPAN	35,282	4,321,236,000	2,690,172,163	8,441,302,954
Shakti Foundation for Disadvantaged women	15,015	1,317,300,000	579,856,542	6,920,057,354
Palli Mongal Karmosuchi	39,882	4,886,242,000	3,088,311,476	6,323,756,970
Christian Service Society (CSS)	781	57,695,000	33,292,050	5,613,852,490
RDRS Bangladesh	24,488	2,837,474,000	1,668,393,151	5,236,032,789
Centre for Development Innovation and Practices	188,012	9,487,914,000	4,905,587,692	5,097,557,597
Resource Integration Centre (RIC)	17,529	2,392,025,000	1,385,773,035	5,079,662,960
Gram Unnayan Karma (GUK)	41,372	3,261,545,000	1,810,197,394	5,003,573,376
Bangladesh Extension Education Service (BEES)	42,478	3,920,225,000	2,164,983,318	4,992,118,745
Dushtha Shasthya Kendra (DSK)	34,627	3,384,326,000	1,739,751,886	4,870,295,513
Manabik Shahajya Sangstha	27,502	1,969,844,000	1,209,976,240	4,386,441,376
Rural Reconstruction Foundation	30,871	2,662,731,000	1,678,643,828	4,347,219,242
Total	5,181,866	403,057,394,836	240,255,727,093	528,326,956,395

Chapter 5

Impact assessment of microcredit

Money is an indispensable part of human life. People need money for several reasons to meet their demands. They meet their demand with the money they have earned, saved or they can use the borrowed money from others or money received from purchasing fixed assets. But different individuals have different ways of earning money and so the person to person the need for money varies. It varies from the poor to rich and rural people to urban people. People of the rural areas of Bangladesh faces the struggle of leading their life. As a solution to meet their financial services, the microcredit program is created. To assess **the impact of microcredit on borrowers' life of rural areas**, the assessment of the need for funds is essential.

The book “The poor and Their money” written by Stuart Rutherford and Sukhwinder Arora presents several kinds of needs of money

- To meet the fund, need for childbirth, education, home building, funerals, weddings, etc. as a lifecycle need.
- To meet the fund, need to recover from injury, sickness, theft, unemployment, death or harassment, etc. as personal emergencies need
- To meet the fund, need to recover the loss for cyclones, flood, wildfires, pandemic, war as disasters meeting need
- To meet the fund, need for expanding or starting a business, purchase of a tangible fixed asset like land or

equipment, securing a job, house improvement as investment opportunities need.

As microcredit is offered by microfinance institutions especially the NGO-MFIs to different classes of people in rural areas of Bangladesh, **impact assessment of microcredit on borrower's life should take into consideration the borrower's class based on their financial condition. The impact of microcredit on a borrower's life varies from one class to another.** From my survey and research on secondary data, it is noticed that there are mainly four classes of people in rural areas who usually take microcredit from the NGO-MFIs or other microcredit provider institutions or programs.

- ❖ **Very poor group:** This group of people is most disadvantaged in education, balanced nutrition and good health, good sanitation, and drinking water. They are usually dependent on physical labor and work per basis as day labor to earn money and faces a challenge to lead their life in the off season of working. They possess very little household assets and most often do not have a good house to live and usually have very little or no land for cultivation.
- ❖ **Moderate class poor:** Most of the people in rural areas fall under this class. This group of people usually has their house to live, some small amount of cultivatable land. They usually have more than one source of income (income from cultivation, livestock, or poultry). Adults in this group may have access to education up to primary level or no education. Sometimes, the low salary paid job holders of the young generation of this group are also observed.

- ❖ **Above poor class:** This group of people is usually having at least minimum opportunities to lead their life with a good house, good sanitation, and drinking water, and a moderate amount of cultivatable lands. Usually, the adults of this group are educated and expect to educate their offspring better than them. They possess more than one income from agriculture, fisheries, livestock, and other small business. In many cases, some members of the family of this group have jobs and worked in different organizations inside and some cases outside of the country.

- ❖ **Rural Rich class:** People of this group possess a good amount of cultivatable lands, good houses, and all facilities available in urban areas. Different sources of income from agriculture, business, fisheries, jobs, livestock is common for this group of people.

The impact of microcredit on the different groups of people living in rural areas is not the same. Besides impact assessment is also depends upon how the microcredit loan is utilized in productive activities to generate returns. It also depends upon the loan size a lot. Based on this assumption, a survey of randomly selected 100 people is conducted among the microcredit receivers living in rural areas to assess how microcredit has changed their life-assessing in a neutral position to address perceived positive and negative sides of microcredit.

After analyzing the survey, it is observed that despite classifying the people of rural areas based on their financial situation, another four class of people is found based on the characteristics of

microcredit utilization and microcredit receiver's respective income. Assessment based on the following four groups of people can reveal a neutral assessment of the impact of microcredit on the borrower's life living in rural areas of Bangladesh.

Impact Assessing Group of microcredits:

1. Group of people whose weekly income is above the weekly installment
2. Group of people whose weekly income is less than the weekly installment
3. Group of people who invest a major portion of microcredit received from microfinance organization in productive income-generating activities or small business
4. Group of people who fail to invest received microcredit in productive activities due to various obligation

To assess the impact of microcredit on borrower's life based on their average income (less or more than the weekly installment of microcredit and life the most beneficiary, and most vulnerable group of people who received microcredit, a 2 by 2 matrix is represented as follows.

Picture No. 1: Microcredit's impact group

High investment (in productive money earning activities)	<p>G2: High investment, Low average income</p> <p>Impact of microcredit: Moderate vulnerable group of micro-credit</p> <ul style="list-style-type: none"> • Increase in current debt to meet the weekly installment and other basic needs • Future positive impact on income • Overall impact dependent on future income 	<p>G4: High investment, more average income</p> <p>Impact of microcredit: Most beneficent group of micro-credit</p> <ul style="list-style-type: none"> • No increase in current debt • Future positive impact on income • Overall positive impact • Future improvement of economic condition
Low investment (in productive money earning activities)	<p>G1: Low investment, Low average income</p> <p>Impact of microcredit: Most vulnerable group of micro credit receivers</p> <ul style="list-style-type: none"> • increase in current debt to meet the weekly installment and other basic needs • No impact on income • Overall negative impact 	<p>G3: Low investment, more average income</p> <p>Impact of microcredit: Moderate beneficent group of micro-credit</p> <ul style="list-style-type: none"> • No increase on current debt • No impact on income • Positive impact on current consumption or basic needs • Overall neutral or positive impact
	Less average income (than the weekly installment of micro-credit)	More average income (than the weekly installment of microcredit)

From the diagram “Microcredit’s impact group” we observe that among the four groups, the most vulnerable group is “**Low investment, Low-income group**”. Surprisingly, this group of microcredit borrowers becomes a victim of debt as they cannot invest much of the received microcredit amount due to their financial instability and huge debt obligation and fall into more debt victims because of their low average weekly income than their weekly installment of microcredit. To meet the debt obligation and other basic needs they take a loan from microfinance institutions. Their loan size is comparatively high compared to their income. Due to easy access to microcredit, lack of loan application’s proper verifiability, this group of borrowers take the opportunity of easy access to microcredit to meet their debt obligation and to meet the expenses of basic needs. They take a loan from one microcredit institution and meet the installment obligation in another microcredit institution. Gradually they fall into more debt trap.

Group 2 “**High investment, low-income group**” is those microcredit receivers whose financial situation is not good but has a huge aspiration to change their lifestyle. Though their average weekly income is low than their average installment of microcredit, they invest microcredit’s amount into prospective money-earning activities, which leads to earning money. To meet their weekly installment, due to low income, they somehow manage the money required for the weekly installment of microcredit either for borrowing from neighbors or other sources. Hence, though they become a short-term victim of debt for meeting weekly installment, eventually they become successful to get back debt obligation when their investment in productive activities starts to earn money. So, the future of this group of borrowers gradually changes and so microcredit creates a positive impact in their life.

Group 3 “**Low investment, more average income**” are those groups of microcredit borrowers who have more average weekly income than their weekly installments. Hence, they successfully can meet the weekly installment without borrowing from other sources. But as they invest less in productive money-earning activities, microcredit cannot contribute to their income. They use the received microcredit loan either in meeting the basic necessities or other family purposes, hence microcredit has a positive or neutral impact in their life.

Group 4 “**High investment, more average income**” are those groups of microcredit borrowers who have utilized their received microcredit amount in productive money-earning activities and earn more money weekly than their average weekly installment. Hence, they don’t need to borrow or take other loans to meet the current microcredit’s installment. As they invest more in productive business, they eventually get benefits from it. As a result, microcredit for this group of people plays an important role to change their economic status. They are the most beneficent group of people of microcredit.

The result obtained from a randomly selected survey of 100 microcredit borrowers in rural areas is presented in Table No. 3.

Table No. 3: Microcredit’s impact on borrower’s group

Borrower’s group	Percentage	Microcredit’s impact on income
G1: Low investment, Low average income	5%	Neutral
G2: High investment, Low average income	3%	Positive
G3: Low investment, More average income	48%	Neutral
G4: High investment, More average income	44%	Positive

From the survey result conducted on 100 receivers of microcredit shows that out of 100 receivers 5 receivers are in “low investment, low average income” ; 3 receivers are in the “high investment, low average income” group; 48 receivers are in “low investment, more average income” group; and 44 receivers in “high investment, more average income” group. And the impact of microcredit on the income of the four groups are respectively neutral, positive, neutral, positive.

Hence, microcredit brings a positive impact on some borrower’s life by accelerating their income through investment activities. In the case of some receivers of microcredit, it is observed that microcredit money has no direct impact on their income’s rising due to borrower’s limitation for investing more money in productive works because of their financial instability.

From survey results it is observed that in both cases 1) Microcredit’s direct impact on income increase case 2) No impact in income increase, several fields are found where Microcredit has a positive impact by contributing the fund needed to meet the expenses in that fields. These are presented as follows.

Health: Microcredit has a potential impact on borrower’s tendency to focus more on their health. Due to a lack of money before engaging in a microcredit program, it is not possible to take proper care for good health with good foods and medicine during illness. Microcredit program helps borrowers to use a small segment of money received from microcredit to take good care of their health and nutrition.

Education: Education in rural areas is always lagging than in urban areas. Nowadays, rural people have become more conscious to educate their children. Microcredit helps a lot the borrowers to

expense required money from the received microcredit money for their children's education to make them human capital.

Sanitation and pure drinking water: It are observed that in rural areas most people now become more conscious and feel the necessity of a good sanitary toilet and tube well for the benefits for their health. In this regard, a sum of money is required at a time, money from microcredit helps the borrowers to access this facility.

Housing improvement: To make an initiative to improve and repair the house, earlier the rural people face the challenge to collect a lump sum amount of money at a time. Microfinance now brings the opportunity to the rural people to provide microcredit to improve and repair their houses.

Women empowerment: Now women in rural areas can contribute their family by meeting the fund needed for their family by taking a loan from a microfinance institution. They also now contribute their family from the earnings of poultry rearing. Their voice and decision in the family issues are now regarded with more importance.

Savings increase: In most of the microfinance institutions, the borrowers are recommended to deposit a small amount of money per week. Besides, these savings microcredit receivers are encouraged to open micro insurance, fixed savings scheme. Such savings habits finally create a positive impact on the borrower's life.

Besides these aforementioned positive impacts, microcredit has a positive impact in those borrowers' life who utilize a major portion of received microcredit money in income-generating activities and /or has more average weekly income than their weekly installment of microcredit. The fields of income-generating activities on which microcredit has a positive impact are given as follows.

Agriculture & Agribusiness: Most of the people in rural areas are dependent on agriculture to lead their life. They always face the problem of collecting the requisite amount of money needed to crop cultivation, buying and rearing livestock, or investment in fisheries. Microfinance organization has focused on assisting the rural poor to help in productive activities like such agricultural sector through microcredit. Agrobusiness is now accelerating through microcredit. Overall, microcredit has an immensely positive impact on improving borrower's life through the earning generated from agriculture and agribusiness.

Small business: To start a business whether it is small or big, one of the main resources is financial resources. It was only a dream for the rural poor to start a business when no microfinance institutions existed to provide financial support to them. Today, the dream to start a business is possible to materialize with the financial support from the microfinance institution through microcredit.

Transportation sector: Now several rural people are engaging in the transportation sector as a driver to earn more money besides their earning source of agriculture. They usually work as a driver of rickshaw, van, auto-rickshaw, CNG. In most cases, they try to acquire the vehicles instead of renting it from the owners. A large sum of money at a time is required to buy such vehicles. Microcredit helps them to acquire the vehicles and extends their new earning source to change their life.

Entrepreneurship and employment: Enthusiastic and motivated borrowers are also found among the microcredit receivers. With the proper guidance and financial help with microcredit, they establish their innovative and productive business idea into a successful business. They bring change in many people's lives by creating employment opportunities.

Though it is not impossible to neglect the positive impact of microcredit in borrower's life, a group of microcredit receivers faces the challenge of meeting the weekly installment. Especially, the group of receivers whose average income is low than their weekly installment and who cannot utilize their major portion of their microcredit's money into productive money-earning activities due to financial instability. For this group of microcredit receivers, microcredit has some negative impact on their life. The commonly recognized negative impact of microcredit considering this group of receivers are as follows

Mental pressure: The poor always faces the struggle to meet their basic needs. When they take loans from microcredit institutions and cannot invest in productive activities due to meeting basic needs or earlier debt obligations, they always face the mental pressure to collect weekly installment. It is very common for the low-income group of loan receivers. It sometimes creates problem to sustain peace in the family.

Increase debt: Due to seasonal income, the rural poor of microcredit receivers cannot always collect the weekly installment from their income source, hence many times they borrow from neighbors or other sources. Hence, eventually debt increases.

Consumption high to low: When the family affords to meet the weekly installment of loan from the family earning, many of the poor microcredit receivers increases their consumption expenses with the microcredit's money. This tendency of higher consumption forces them to reborrow from microfinance institutions. Eventually, when the income does not enable them to meet the weekly installment requirement due to the continual habit of a high tendency to consumption, the family is forced to consume less than before. It eventually creates a negative impact on their life.

Cyclic debt trap: Some microcredit receivers when falls into some financial problems, take loans from microfinance institutions. Though they somehow managed to meet the financial crisis temporarily, they are legally bound to repay the loans. As they cannot invest the borrowed money in money-generating activities, their only source of money to repay the loan is their family income. In many families, when the family income falls due to various reasons like natural disasters, fluctuating market demand, or illness of the earning person in the family, the family is again forced to borrow money from other microfinance institutions to meet the demand of the existing loan's installment. In this way, some microcredit receivers fall into a debt trap.

Though microcredit has a positive impact on some groups of borrowers' lives, its benefits are not possible to attain for all groups of borrowers in the same manner. Hence, the overall impact assessment of microcredit on borrowers' life varies from one group of borrowers to others.

Chapter 6

Conclusion

Microfinance institutions play an important role in Bangladesh with their initiatives to reach the poor of rural areas with financial services. Microcredit opportunity has changed the life of the rural poor a lot in different aspects. Microcredit has an influential impact on self-employment, agriculture, and agribusiness, children's education, and overall improved lifestyle of family members of the borrowers. Despite having a positive impact on borrower's life, microcredit sometimes does not suit all the borrowers, especially the financially insolvent very poor people. Their lifestyle improvement is not visible through the microcredit program as they mostly focused to meet their basic needs instead of investing. They face debt increasing and debt trap problem because of their financial instability. To reach the benefits to all classes of people, microfinance institutions should focus on developing different programs targeting a different group of receivers including the very poor people. They should focus to develop collaborative initiatives to create a centralized database of borrowers' credit history to perform proper evaluation of loan application, mitigate loan defaulters, and to refrain the poor people to fall into the debt trap.

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