

ROLE OF MICROCREDIT ON THE RURAL POOR: EVIDENCE FROM GAIBANDHA DISTRICT OF BANGLADESH

Author Name ¹Md. Abdur Rashid, ²Dalowar Hossan, ³Anika Parvin

Affiliation: ¹ Department of Business Administration, Bangladesh Army University of Engineering & Technology (BAUET), Qadirabad, Natore-6431, Bangladesh.

² School of Business and Economics (SBE), University Putra Malaysia, 43400 Serdang, Selangor, Malaysia

³ Department of Business Administration, Atish Dipankar University of Science and Technology, Dhaka, Bangladesh

Email: rashidsarkar@gmail.com

DOI No. – 08.2020-25662434

Abstract

This paper aims to know the role of microcredit on the rural poor in case of Gaibandha district, Bangladesh. This study also attempts to identify the major problems of living standard of deprived people in affected area. A cross-sectional survey design was used for the study featuring a self-administered questionnaire and data were collected from 100 respondents of 100 poor families of Gabindaganj upazila of Gaibandha district, Bangladesh. Data were analyzed using both qualitative and quantitative approach and the findings revealed that the microcredit help in combating poverty and playing a role of harbinger to save the victim of misery. This study shows the policy implications for regulatory bodies, microcredit providers, NGOs, business community, citizen, investors, and other stakeholders.

Keywords: *Microcredit, Poverty, NGOs, Gaibandha*

INTRODUCTION

Microcredit is treated as the giving loan to the poor people for income generation as well as development of their living standard. It is also called the micro lending which means providing the small working capital to the self-employed people. The role of micro credit is recognized as the noteworthy instrument of reducing the poverty all over the world. Government, donors, development agencies, banks, universities, consultants and philanthropist has shown significant interest about it. By the term microfinance is meant to the provision of providing the financial service like deposits, loans, payment services, money transfers and insurance to the lower income households as well as small enterprises (Sharma 2001, p. 1).

Poverty is the mixture of economic, social and political deprivations, it means not to have the sufficient food, cloth, land, schooling and health facilities for the people. It also indicates the insecurity, powerlessness and omission of individuals, households and communities (Gordon, D. 2011). Microcredit credit has the far-reaching impact that mainly focuses on the women matters as well as self-financial reliance (Hashemi 1996). Micro credit increases the mobility and women networking who are confined to the home in past (Carr et al. 1996). Bangladesh is hugely concerned with the uses of microcredit and different impacts are seen in this regard. Therefore, the first objective of this study is to know the role of microcredit on the rural poor people of Gaibandha district in Bangladesh. The second objective is to identify the major problems of living standard of people in affected area. This study is structured as follows first, literature review, second, methodology, third, results of data analysis and discussion, and finally conclusions.

LITERATURE REVIEW

The poor people use the loan in different purpose special for consumption and investment in low risk activities. It also indicated that microcredit may be less effective or counterproductive (Mosley and Hulme,1996). Mknellyet al. (1996) focuses on positive impacts for the borrowers of microcredit. The microcredit reduces the poverty by 5% based on the credit program of Grameen, Bangladesh and Bangladesh Rural Advancement Committee (BRAC), Khandker (1995), Bangladesh Government and Non-Government Organization (NGO) always try to reduce the poverty. Many NGOs are providing micro credit to the poor people and they believed that poverty is being alleviated day by day with benefits of microcredit. (Hashemi et al 1996), (Bhattacharya, et al. 1996), (Hossain,M.,1988), (Khandker, S. R., 1998), (Yunus, M., 1999). The micro credit programs are not reaching people until they become the relatively wealthy people (Coleman, 1997). Microfinance helps in combating with extreme poverty more than modest poverty (Khandker, 1995). Lack of access to financial service for the poor people does not mean that they have no access to any financial aids (Collins et al. (2009).

The study of Mosley and David Hulme (1996) presented that in many cases the impact of microcredit is negative. They surveyed on successful microcredit program of seven countries where they found that the average income of poor is increased, the wealthier the borrower , the earning increases from credit. On the other hand, borrowers become the poor through microcredit. The reason of it not specified.

METHODOLOGY

The target population of the study was the rural poor in the Gaibandha District. Data were collected from 100 respondents of 100 poor families who were confined to the microcredit and monthly income was not more than TK. 5000. Nine villages of Gabindaganj upazila of Gaibandha district of Bangladesh was purposively selected and the simple random sampling design was used in this study. This study is both qualitative and quantitative in nature.

DEMOGRAPHIC PROFILE

Among the respondents 30% were male and 70% were female. In terms of age, a large number of respondents which comprised 75% were at the age range 30-35 years old while the remaining 13.9% 36-40 years old, 8.3% of respondents were 41-45 years old and 2.8% were 46-50 years old. In terms of the marital status 91.6% were married, 5.6% widowed and 2.8% respondents were divorce. In case of education, approximately 80.5% of the respondents had the primary education and rest of them did not have any formal education.

ANALYSIS AND DISCUSSION

Self-employed people are targeted by the microcredit program in Bangladesh. Generally, in rural areas people are engaged in four broad categories of employment these are on-farm self-employment, wage employment, self-employment in non-farm activities, and salaried jobs. On-farm self-employment activities include crop production, home gardening, raising poultry and livestock and pond-fishery etc. which is not paid for the labor and not translated into cash. On the other hand, returns are paid for the wage employment and salaried jobs. Therefore, the maximum poor people of Gaibandha which is a northern part of Bangladesh are landless and they are engaged in wage employment during harvesting and self-employment on non-farm activities in the rest of the time of year. But the portion of this kind of people is very little and wage employment opportunity is limited. They depend on the

informal loan and other NGOs loan when they have no work in the month of non-agriculture. Hence, it is significantly seen that the trend of those people is to take the government aids or relief and other NGO supports for subsistence. So, with the help of micro finance they are not able to change their lives as they have no scope for investment in right place and in right time. Hence, if the formal loan or microfinance is properly used then some changes are happened for short term period. This study focused on the life style, financial condition, formal and informal loan, savings and investment, wealth, self-employment, influence of natural disaster and calamities, attitude of poor people toward the participation of micro credit activities and various supports of government and NGO.

THE ROLE OF MICROCREDIT ON THE POOR PEOPLE

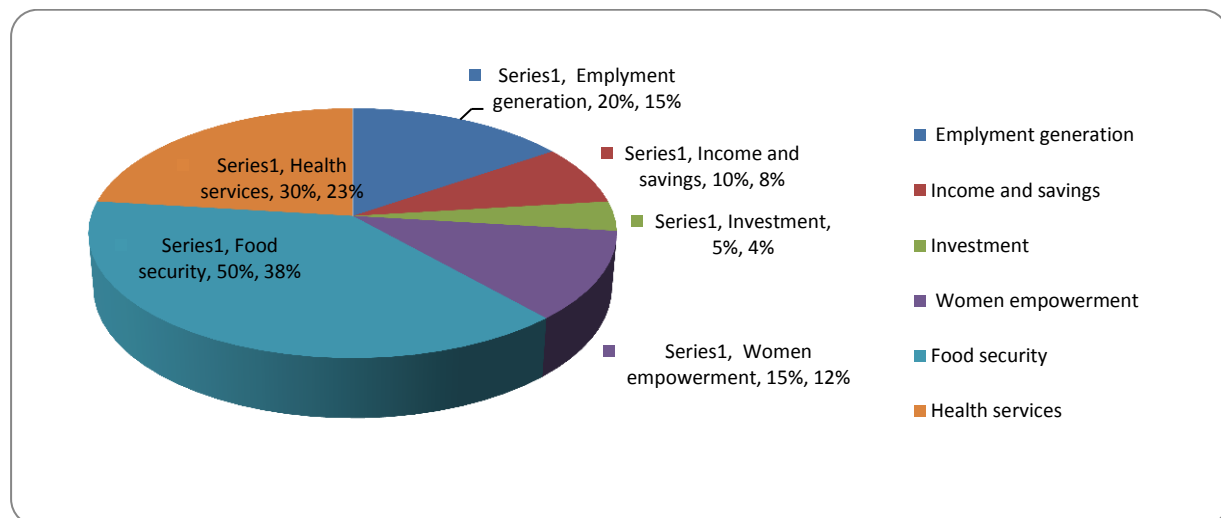


Figure 1: In this paper it is seen that people who are included in the micro credit program and maximum are not interested to participate in the microcredit program for next time. Because they have argued that they are sufferer for microcredit and they are not affordable to bring the desirable change in their life. It is seen that the recipients of microcredit of households use the credit for non-productive purpose like food, cloths, health, house repairmen and other social activities. So, the impact on employment is not mentionable. Here it is found that 50% money of microcredit is used in food purpose and rest of the uses are as follows 30% in health services, 20% employment generation, 15% women empowerment, 10 % income and savings, and 5% investments activities. So, it is clear that microcredit is used to meet up the urgent need of people so the scope of earning by engaging credit in prescribed objective is very little. This study finds that 85% households have not used the credit in specified purpose as well as investment and income generation activities for which the loan is provided. Generally, the main microcredit is given for women empowerment which is not used properly because they engaged in wage employment rather than self-employment. At the time of harvesting the people who have access to self-employment they are able to preserve their food for the entire year but when they face any financial difficulties, they sold it as a result they use microcredit for food purpose.

PROBLEMS IN AFFECTED AREAS

The maximum people in those areas are landless. So, there is little chance for self-employment, as a result they are engaged in wage employment or stay without working. At the time of starvation, they use the microcredit in consumption or daily use purpose.

Therefore, there is limited opportunity to produce the seasonal vegetables and other crops. Usually they are not self-driven as they have no basic education and unaware of the destiny of their life. That is why there are narrow opportunity to be trained up and bringing consciousness in their mind. Again, it has become a custom of depending on the various kinds of donation and supports to maintain the family and other occasional purposes. In this case, the informal loan, NGO loan, relief etc. are used in this regard. The people do not have any proper knowledge about youth development activities for which training is required but they are reluctant to be included in the training program of youth development and other support from local institutions. Majority portion of microcredit holders do not know the ways and means of using credit in productive sectors. As they are always in different need of personal consumption, marriage of child, building or repairing of house, payment of informal loan and other crying needs like sudden illness, accidents, loss of money, victim of robbers, death of domestic animal etc. for which borrowed money is used and it is similar to the findings of (Khandker, 1995). To fulfill this need they also depend on the informal loan at higher rate of interest from village money lenders that causes the unlimited sufferings. Another problem is found in the study which is lack of monitoring and evaluation of microcredit program. Finally, the informal loan, price hike and natural disaster create sufferings for the people mentioned in (Figure2).

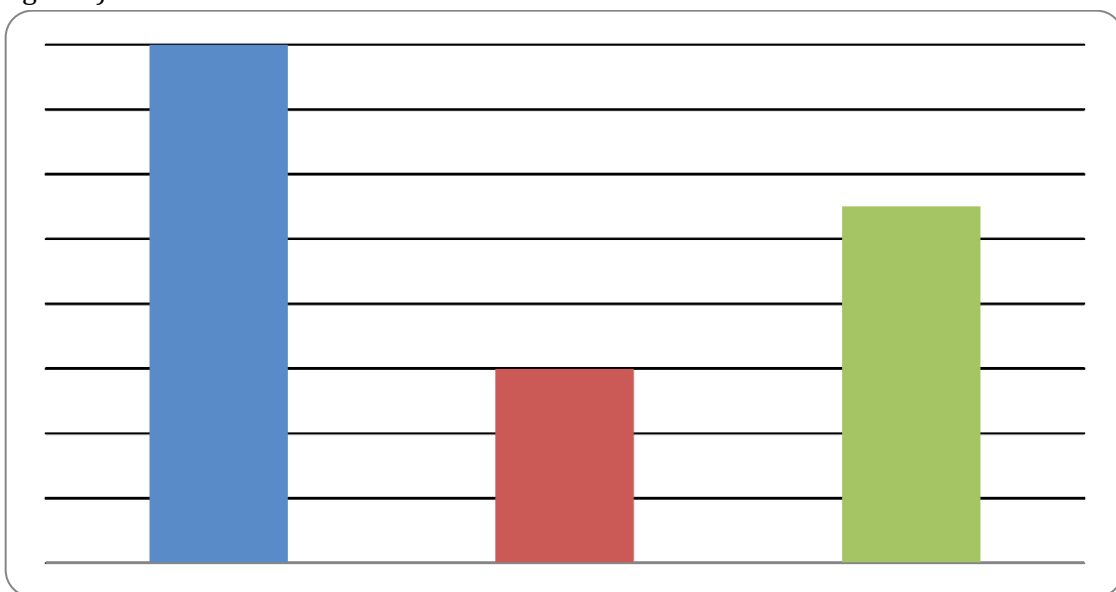


Figure 2: Level of financial crisis due to unavoidable incidents

CONCLUSIONS AND LIMITATIONS

Microcredit generally helps to create an employment for the distressed people but it is not treated as the long-lasting means of survival. Because the sustainable capacity of people is not enough. The microcredit assists in combating poverty but the fruitful effect in poverty alleviation is not come in to reality yet. It is just playing a role of harbinger to safe the victim of misery. In this study it is found that there are some barriers of reducing poverty that are creating the huge sufferings for the poor people which is identical to the study of (Mosley and David Hulme 1996). All the programs of government, donors, NGOs and other institutions will not come in true if the basic problem of livelihood of affected people is not figured out. This study proposes the policy implications for regulatory bodies, microcredit providers, NGOs, business community, citizen, investors, and other stakeholders. Moreover, the few issues should be focused like establishing of

agriculture-based industry in rural area, providing proper training, proper coordination among the donors, planners, and NGO workers, awareness of uses of microcredit, capacity of using microcredit, subsidizing the landless farmer. This study has few limitations. First, it did not focus on entire population of research field. Second the data collection was time consuming and respondents had limited understanding about it. The future studies should focus on the broader perspective of microcredit. Researchers may conduct their research in order to measure the consistency of the research results.

REFERENCES

1. Sharma, A. (2001): Developing sustainable microfinance systems, Asian Development Bank
2. http://www.unescap.org/drpad/projects/fin_dev2/adbsharma.pdf (21.10.2003)
3. Gordon, D. (2011). Indicators of Poverty & Hunger, United Nations, Retrieved 2011-05-27.
4. Hashemi, S. M., and S. R. Schuler, et al. 1996. Rural Credit Programs and Women's Empowerment in Bangladesh. *World Development* 24(4): 635-653.
5. MKNelly, B., C. Watetip, C. A. Lassen and C. Dunford (1996). Preliminary Evidence that Integrated Financial and Educational Services can be Effective against Hunger and Malnutrition. Freedom from Hunger Research Paper No. 2, Freedom from Hunger, April.
6. Khandker, S. R., B. Khalily and Z. Khan, 1995. Grameen Bank, Performance and Sustainability, *World Bank Discussion Papers* 306.
7. Hossain, M., 1988. Credit for Alleviation of Rural Poverty: The Grameen Bank in Bangladesh, *Research Report*, 65, IFPRI, Washington, D.C.
8. Khandker, S. R., 1998. Micro-credit Program Evaluation: A Critical Review, *IDS Bulletin* 29(4), 11-20.
9. Yunus, M., 1999. *Banker to the Poor*, The Autobiography of Muhammad Yunus, Founder of the Grameen Bank. Aurum press limited. London.
10. Coleman, B. E. (1997). The Impact of Group Lending in Northeast Thailand, *Journal of Development Economics*, Volume 60, pp.105-141.
11. Carr, M, Martha C and Renana J (1996). Speaking Out: Women's Economic Empowerment in South Asia, *London: IT Publications*, 1996.
12. Collins, Darryl, Jonathan Morduch, Stuart Rutherford, and Orlanda Ruthven (2009) *Portfolios of the Poor: How the World's Poor Live on \$2 a Day*, Princeton University Press
13. Hulme, David and Paul Mosley. Finance Against Poverty, London: Routledge, 1996.