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Critical Lapses Resulting in Inadequate Reduction of Poverty Level of the Microcredit Recipients: A Study of the Dhaka City Microcredit Recipients

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Abstract

The performance of micro credit institutions is always under continuous scrutiny. The supporters of micro credit institutions praise their contribution to our economy but some critics always accuse them of being greedy by charging too much interest and say that these micro credit lenders have done very little in reducing the poverty level of our country. In our study, we have avoided this controversy and focused our attention on the issues that can make micro credit more successful in improving the economic situation of the loan recipients. We have selected 250 samples through simple random sampling method from the Dhaka city micro credit recipients. From the analysis, it is found that a borrower's failure to reduce the poverty depends on the absence of proper guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge and inadequate money to invest in profitable business. It is found that 50% explanation of a micro credit recipient's success or failure lies on these variables. On the basis of the findings, we have suggested that micro credit institutions should put in place a rigorous monitoring system to ensure proper utilization of the loan and to provide continuous suggestion about the various aspects of the business and should act as a business consultant also.

Keywords: Debt trap, MFI, Micro credit, Micro loan, NGO

Introduction

Micro credit is the extension of very small loans (micro loans) to impoverished borrowers who typically lack collateral, steady employment and a verifiable credit history. It is designed not only to support entrepreneurship and alleviate poverty, but also in many cases to empower women and uplift entire communities by extension. In many communities, women lack the highly stable employment histories that traditional lenders tend to require. Many are illiterate, and therefore unable to complete paperwork required to get conventional loans. Microfinance has grown rapidly, from a simple anti-poverty program into a major player in the financial industry. Some now view microfinance primarily as an investment opportunity, with reducing poverty as either a secondary goal or not really the goal at all. Microfinance is a multi-headed creature with no agreed-upon strategy or approach. There is no consensus on how to measure "social performance" — for donors to tell the difference between a program focused on poverty

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reduction from one focused on maximizing profit. The evidence that microfinance does bring people out of poverty is mixed. Some say it has helped millions of poor people, mostly women. Others say it hasn't and is, in fact, a debt trap for the poor.

The aim of micro credit is to help the poor and lower income group to get funds for their business activities and to improve their lives. Usually, the loans given are very small, in short term period, no collateral needed and required weekly repayment. However, repayment problems become the main obstacle for the micro credit institutions to continue providing micro credit services. This is because most of the micro credit institutions are Non- Governmental Organizations (NGOs), where they received funds from the government and donors and there are not profits oriented organizations (Nawai and Shariff, 2010). During the last decade micro credit has exploded in Bangladesh, as well as in a large part of the third world. Empirical studies give strong evidence that micro credit has had positive effects on two vital areas of national development; namely, the alleviation of poverty and the empowerment of women. Despite these positive impacts, some critics question the efficacy of micro credit in reaching the extreme poor. Some argue that while micro credit has contributed positively to the well-being of the poor in general, it has failed to reach the poorest of the poor (Datta, 2002).

Against this backdrop, the study seeks to evaluate whether the micro credit lenders of Bangladesh are successful in reducing the poverty of the micro credit borrowers. The study intends to examine the aforesaid question. The study also wants to give a policy suggestion to the micro credit lenders about what should they do to make micro credit more effective in reducing the poverty level of the borrowers.

In the last couple of years, there has been plenty of research undertaken to study micro credit and its impact on women empowerment and also poverty alleviation. In our study, we have focused our attention to identify and to measure the factors that work as a significant catalyst in reducing the poverty of micro credit borrowers which was really missing in past studies. Hopefully this study will explore these untouched areas of micro credit and will provide something that will be helpful for the micro credit concept as a whole.

Literature Review

The main aim of micro-credit is to improve the earnings potential of the borrowers in order to reduce the risk of poverty (Mahmud *et al.,* 2007). It is interesting to note that Schreiner and Woller (2003) give four reasons behind the failure of group lending in the USA. First, "Social capital" (e.g. social networks, norms, values and trust) is not strong compared to low-income countries such as Bangladesh. Second in the USA, poor people are more diverse racially, culturally, socio-economically and demographically so there is less group homogeneity Third, there is a negative perception of joint liability, with it being viewed as "unfair" or "inequitable" for a non-defaulting borrower having to pay the debt of a defaulter. Fourth, poor people in the USA have more access to small loans through credit cards and loan companies (not based on group-lending) (Rahman and Wright, 2012).

Vega (1998) finds that the failure of rural credit agencies established by several LDC governments during the 1960s and 1970s is due to the lack of institutional viability. The UNDP and the United Nations Capital Development Fund (UNCDP), 2005 propose five key indicators to measure the performance of MFIs namely outreach; client poverty level; collection performance; financial sustainability and efficiency. MFIs are quite dependent on the loan repayments to get fund for future loans. Therefore, MFIs must take great precautions to insure that the clients will repay the loan (Nawai and Shariff, 2010).

Saeder and Nabi (2013) find that despite massive success in terms of outreach, employment generation and empowerment of millions of poor, a large number of low-income poor people have remained excluded from the network of the financial services. They concluded that despite many initiatives from Government, private and social sector, one-third of population in Bangladesh is still passing their days in abject poverty. Since poverty is a multidimensional complex problem; microfinance alone cannot eradicate poverty. In fact, effective poverty reduction process needs concerted efforts from Government, private and social sector that include maintaining sustainable growth trend in agriculture, industry and manpower export. It also requires strengthening of local governments, adoption of sustainable measures for mitigation of sufferings of people affected by recurring natural disasters and population controls.

Mamun et al. (2011) showed that a significant number of respondents use the credit they received from AIM for income generating and some non-income generating activities. The findings indicate that there is an association between uses of credit and respondents repayment performance. Respondents who used credit in non-income generating activities have a higher chance to encounter repayment problem. This is one of the reasons which lead to increase repayment problem among AIM's microcredit clients. Moreover, the mean number of gainfully employed members and the number of sources of income is also significantly lower among respondents who encountered repayment problem. This clearly indicates that household's ability to use credit to grasp employment generating opportunities and invest in new income generating activities reduce the chances of encountering repayment problem.

Bhatt and Tang (2001) argued that many U.S. microcredit programs may not be able to rely on the social collateral of peer borrowers to secure their loans; they can explore alternative strategies for assessing the credit risks of low-income individuals, who often lack good credit records and traditional loan collateral. One possible strategy is to use alternative methods for assessing credit risks. Such methods could include landlord references, savings records, and proofs of car payments or utility bill payments. Although it may somewhat increase program administrative costs to access such records, the strategy may help to identify low-income individuals who lack a strong credit history but have demonstrated reasonable repayment discipline in the recent past. In addition, programs might secure their loans with items such as television sets, stereo units, furniture, pieces of equipment, or cars.

Rahman and Wright (2012) find that over half of the borrowers own no land. It is likely that few borrowers (if any) own more than half an acre of land. In addition two-fifth of borrowers report having no formal education or only the ability to read and write. Since landless and low education is perhaps the two main determinants of poverty in low-income agriculture-based societies, the analysis supports the view that ASA is indeed reaching the poor. However, it is interesting to note

that the demand for training is high amongst borrowers. Perhaps this is not surprising given the low education level of the majority of borrowers. Nevertheless, the large gap between demand for training and supply of training will need to be addressed in order to capture the maximum potential benefit of micro-credit as a poverty-reduction policy.

Shil (2009) indentified that the poor are scattered throughout the remote geographical area where the outreach is so difficult and due to the rapidly increasing number of borrowers, a matured institutional set up is required. So, micro finance is required to be commercialized. Application of commercial principles in micro finance becomes a time demanding issue now-a-days with the increase in failure rate also. if the group (target market, loan receivers) is identified rightly, if commercial principles can be applied equitably and if the poor are rightly and timely focused, micro finance may work as a strong and timely intervention against poverty that no laboratory can test and prove. It may work as a cause of smile for a vast majority poor people who suffer from acute poverty level in terms of hunger, illiteracy, ignorance, slavery, insecurity and such other inhumanitarian condition. And if commercialized properly, small business entrepreneurs may find the program worthy for them also.

Anderson (1998) argued that organizations would do well to clarify their relationship to the global market because that relationship has implications for how they should structure their lending program, whether they can become self sustainable, and how they should measure their success. It further argues that, at a more general level, some residual ambivalence is unavoidable because the limits of globalization are unclear and microcredit necessarily is both an extension of, and a remedy for, the logic of the global market.

Although micro credit is working to reduce the poverty, there are lots of debates about its success. According to Mosley and Hulme (1998), despite the popularity of micro credit as a poverty reduction mechanism, there is very little evidence indicating a real positive net effect on poverty reduction.

A major criticism of subsidized microfinance systems is their high default rates (Morduch, 2006; Robinson, 2001). Some critics of micro credit say that the high default is an example of the failure of micro credit institutions of reducing the poverty level among the clients.

Objective of the study

We have carried out this study to find out some key issues about poverty of micro credit borrower. The core objective of this study is to find out what the influential factors in changing the poverty level of micro credit borrowers are.
Some specific objectives of this study are:

1. Whether there is any relationship between the reduction of poverty of micro credit borrower and some selected variables?
2. Which variable or variables are significant in reducing the poverty level of micro credit borrowers?
3. Is there any relationship between the micro credit institution and the poverty level of the borrower?

Methodology of the study

In order to carry out the study, both exploratory and descriptive researches have been used. Exploratory research is used to identify the variables that are significant in poverty alleviation. Questionnaire has been used to collect the data and it has been structured in nature. Personal interviewing method then has been used to collect the data.
In this study, Likert scaling technique has been used to code data. In this likert scaling technique, 5 response categories have been used ranging from 1(minimum) to 5 (maximum). The label of these 5 response categories are like 1= strongly disagree, 2= Disagree, 3= Neutral, 4= Agree and 5= strongly agree.
The target population of this research work is defined as follows:
Element: All the male and female who have received micro credit loan.
Sampling unit: Individual micro credit borrower
Extent: Dhaka City area
Simple random sampling under the probability sampling technique has been used. 250 samples have been chosen from the population for the survey purpose. In order to fulfill the research objectives, two kinds of analysis have been done. One is cross tabulation and another is regression analysis.

Analysis

The study is mainly focused on the extent of the reduction of poverty of the micro credit borrowers. In order to fulfill our research objectives, we focused our attention on regression analysis. We also did frequency distribution and cross tabulation to get some other details.

Table 1 gives an idea about the various numbers of respondents who received loan from different micro credit institutions.

Table 1: Name of the Micro credit Institutions

Name of the Microcredit Institutions	Frequency	Percent	Cumulative Percent
Grameen	70	28.0	28.0
ASA	55	22.0	50.0
BRAC	85	34.0	84.0
other	40	16.0	
Total	250	100.0	100.0

It is found that around 28% respondents received loan from Grameen. 22% respondents received loan from ASA, 34% respondents received the loan from BRAC whereas 16% received the loan from other institutions.

Table 2: Name of micro credit institutions Vs failure to reduce the poverty

Name of the Microcredit Institutions			Failed to Reduce the Poverty					Total
			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
	Grameen	Count	20	30	0	20	0	70
		% within Failed to Reduce the Poverty	44.4%	50.0%	.0%	28.6%	.0%	28.0%
	ASA	Count	10	0	20	20	5	55
		% within Failed to Reduce the Poverty	22.2%	.0%	57.1%	28.6%	12.5%	22.0%
	BRAC	Count	15	25	10	10	25	85
		% within Failed to Reduce the Poverty	33.3%	41.7%	28.6%	14.3%	62.5%	34.0%
	other	Count	0	5	5	20	10	40
		% within Failed to Reduce the Poverty	.0%	8.3%	14.3%	28.6%	25.0%	16.0%
	Total	Count	45	60	35	70	40	250
		% within Failed to Reduce the Poverty	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The above table gives an idea about the respondents' responses about their ability to reduce their poverty after receiving the loan. In our study, 28% or 70 respondents received the loan from Grameen and among those respondents, 20 respondents said that they could not reduce the poverty whereas 50 respondents said that they could reduce the poverty. In case of ASA, out of 55 respondents, 25 respondents said that they could not reduce the poverty whereas 10 respondents said that they could reduce the poverty. 20 respondents of ASA were in neutral position. In case of BRAC, out of 85 respondents, 35 respondents said they could not reduce the Poverty and 40 respondents said they were able to reduce the poverty. The neutral respondents of Brac were 10. Total 40 respondents were related to other institutions and among those 40 respondents, 30 respondents said they could not reduce the poverty. In summary, it can be said that out of 250 respondents, 110 respondents replied that they could not reduce their poverty whereas 105 respondents replied that they could reduce the poverty.

Table 3: Amount of loan vs. failure to reduce the poverty

Amount of Loan			Failed to Reduce the Poverty					Total
			Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	
	Less than 10000 Taka	Count	0	15	20	20	15	70
		% within Amount of Loan	.0%	21.4%	28.6%	28.6%	21.4%	100.0%
	10001 to 20000 Taka	Count	5	30	5	30	10	80
		% within Amount of Loan	6.2%	37.5%	6.2%	37.5%	12.5%	100.0%
	20001 to 30000 Taka	Count	0	5	0	5	5	15
		% within Amount of Loan	.0%	33.3%	.0%	33.3%	33.3%	100.0%
	30001 to 40000 Taka	Count	25	0	25	0	0	50
		% within Amount of Loan	50.0%	.0%	50.0%	.0%	.0%	100.0%
	40001 to 50000 Taka	Count	30	10	0	10	0	50
		% within Amount of Loan	60.0%	20.0%	.0%	20.0%	.0%	100.0%
	More than 50000 Taka	Count	5	0	5	5	10	25
		% within Amount of Loan	20.0%	.0%	20.0%	20.0%	40.0%	100.0%
Total	Count		45	60	35	70	40	250
	% within Amount of Loan		18.0%	24.0%	14.0%	28.0%	16.0%	100.0%

This above chart gives an idea about the relationship between the amount of loan and the poverty reduction of the respondents. Out of 250 respondents, 70 received less than 10000 Taka and among those 70 respondents, 35 respondents said that they have failed to reduce the poverty. Between 10000 to 20000 taka slab, out of 80 respondents, 40 agreed that they could not reduce the poverty. In case of 20000 to 30000 taka loan range, 10 respondents out of 15 said that they were not able to reduce the poverty. Between 30000 to 40000 Taka slabs, 50% said that they could solve the poverty and 50% said that they could not. Between 40000 to 50000 Taka ranges, 80% said that they were able to reduce the poverty. In case of over 50000 taka loan receiver, 60% said that they failed to reduce their poverty.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.706	.499	.442	1.034	1.981

a. Predictors: (Constant), Absence of Proper Guidance from the Lender, High Interest Rate, Not Properly Investing the Micro credit Loan, Lack of Proper Business Knowledge, Inadequate Money to Invest in Profitable Business
b. Dependent Variable: Failed to Reduce the Poverty

This model gives an overall idea about the applicability of regression analysis. The R value is .706 which indicates the existence of correlation among the selected variables. From the value of R, it can be concluded that a borrower's failure to reduce the poverty depends on the absence of Proper Guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge, inadequate money to invest in profitable business.
The value of R^2 = .499 or 49.9% or **50**% variation in the dependent variables can be explained by the regression model. The value of adjusted R^2 = 0.442 or 44.2%. Adjusted R^2 suggested that, addition of the other independent variables do make a contribution in explaining the variation in the dependent variable.

Durbin- Watson can be used to measure for autocorrelation in the residuals from a statistical regression analysis. The Durbin-Watson statistic is always between 0 and 4. A value of 2 means that there is no autocorrelation. Values approaching 0 indicate positive autocorrelation and values toward 4 indicate negative autocorrelation. In our analysis, it is close to 2. As a result it can be said that autocorrelation does not exist among independent variables or multicollinearity is unlikely a problem.

Hypothesis testing: H_0: $R^2_{pop}=0$ (There is no relationship between failure to reduce the poverty with the absence of Proper Guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge, inadequate money to invest in profitable business.)

H_1: $R^2_{pop}\neq 0$ (There is a significant relationship between failure to reduce the poverty with the absence of Proper Guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge, inadequate money to invest in profitable business.)

Table 5: Anova

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.916	5	9.383	8.769	.000
	Residual	47.084	244	1.070		
	Total	94.000	249			

a. Predictors: (Constant), Absence of Proper Guidance from the Lender, High Interest Rate, Not Properly Investing the Micro credit Loan, Lack of Proper Business Knowledge, Inadequate Money to Invest in Profitable Business
b. Dependent Variable: Failed to Reduce the Poverty

The above ANOVA table will give necessary information to test the hypothesis. Statistically if the ANOVA table shows that the significant value is .0000 then it can be interpreted that the $\mathbf{H_0}$ (null hypothesis) has been rejected. From the ANOVA table, it can be concluded that there is a significant relationship between failures to reduce the poverty with the absence of Proper Guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge, inadequate money to invest in profitable business.

Table 6: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.612	.787		3.317	.002		
	Not Properly Investing the Micro credit Loan	.514	.121	.527	4.266	.000	.746	1.341
	Inadequate Money to Invest in Profitable Business	-.015	.128	-.015	-.117	.907	.684	1.462
	Lack of Proper Business Knowledge	-.438	.140	-.391	-3.134	.003	.730	1.370
	High Interest Rate	-.134	.142	-.112	-.947	.349	.813	1.230
	Absence of Proper Guidance from the Lender	.429	.135	.387	3.181	.003	.768	1.302

Multicollinearity: It refers to a situation in which two or more explanatory variables in a multiple regression model are highly linearly related. Some authors have suggested a formal detection-tolerance or the variance inflation factor (VIF) for multicollinearity. A tolerance of less than 0.20 or 0.10 and/or a VIF of 5 or 10 and above indicates a multicollinearity problem. From the coefficient table, it is found that there is no tolerance value of less than .20. All the VIF values are also less then 5. So in our study, there is no multicollinearity problem

Regression Equation: Failure to reduce the poverty = 2.612 + .514 (Not properly investing the micro credit loan) + -.015 (inadequate money to invest in profitable business) + -.438 (Lack of proper business knowledge) + -.134 (High interest rate) + .429 (Absence of proper guidance from the lender)

Comment on Significance: In this study, five variables have been selected on the basis of exploratory research. Among those five variables, three variables are statistically significant. From the coefficient table, it can be summarized that variables such as not properly investing the micro credit loan, lack of proper business knowledge and absence of proper guidance from the lender are crucial in reducing the poverty level of micro credit lender.

Findings

From the analysis, some important points have been found. First of all, it is found that the Brac is the first choice among the micro credit receivers in the study area. The highest number of respondents have received the loan from the Brac. The second choice has been Grameen. Through the study, we have tried to identify which micro credit institution has performed better in terms of the poverty alleviation of the borrowers. It is found that Grameen bank's performance is much better than other two important lenders namely Brac and ASA. Over 70% of the micro credit lenders of Grameen have replied that they have been able to reduce the poverty. It can be labeled as good performance. The worst performance among the three institutions is from ASA. Less than 20% of ASA's loan receivers replied that they could reduce the poverty. The overall poverty reduction picture is 44% respondents have replied that they have failed to reduce the poverty whereas 42% respondents have replied that they have been able to reduce the poverty.

In the study, we have also tried to find out whether there is any relationship between amount of loan and poverty reduction capability. It can not be conclusively concluded that there is a relationship between these two variables but there is a pattern between this two. It is found that 80% of the respondents who have received the loan between 40000 to 50000 taka have been able to reduce the poverty but in case of over 50000 taka recipients, the percentage is just 50%. In case of 30000 to 40000 taka range, the percentage is 50%. Because of these results, it can not be concluded that recipients who have received higher amount of money have been able to reduce poverty more.

From the regression analysis, it can be concluded that whether or not a micro credit borrower will be able to reduce the poverty depends on the variables such as absence of Proper Guidance from the lender, high interest rate, not properly investing the micro credit loan, lack of proper business knowledge, inadequate money to invest in profitable business. The influencing capacity of these variables is 50%. Another important finding is that all the variables are not significant in reducing poverty of micro credit receivers. Two variables are important and the rest three variables are not properly investing the micro credit loan, lack of proper business knowledge and absence of proper guidance from the lender. Interestingly it is found that high interest rate is not a problem to the micro credit receivers and this variable does not have any impact on the poverty alleviation issue which is contradictory to most other studies.

Suggestions

We have undertaken this study not to undermine the contribution of micro credit in our country. From the last couple of decades, the micro credit institutions are doing great job in reducing the poverty and also empowering women in our society. This study is basically undertaken with one important objective and that is to understand the reasons of a micro credit borrower's possible success or failure to reduce the poverty. There is plenty of research on micro credit of Bangladesh but very few research focuses on this issue which is unthinkable. When we were planning this research, we thought about that and focused our attention on this important but ignored issue.

On the basis of the findings, we have some suggestions to the micro credit institutions.

As it is found from the study that Grameen Bank's performance in reducing the poverty among its loan receivers is better than that of other different institutions, other institutions can study the whole procedure of Grameen Bank to identify any deficiency these institution may have. Although it can not be conclusively said that the Grameen bank's performance is better in the whole Bangladesh as our study area is limited to just Dhaka city. Still, other institutions should study Grameen bank's operational activities.

Second important issue is about the relationship between the poverty alleviation and the amount of loan. From the findings, any conclusive decision could not be made about how much money a borrower should be given. Our general suggestion is to give more than 40000 taka as this kind of money will at least give borrowers a scope to invest in good business. Less than this amount of money may make the investment inadequate for the borrowers.

Third and the most important suggestion is to suggest the issues that lenders should focus on in designing their whole micro credit scheme. As Micro credit institutions envision the poverty free Bangladesh, they will have to do more than just simply giving the loan. They will have to properly monitor the borrowers to make sure that the money is properly invested. From the analysis, it is found that not properly investing the loan is one of the reasons of failure to reduce the poverty. The borrowers should devise a sound plan to make sure that every taka is invested in the business. Second reason of failure to reduce the poverty is lack of proper business knowledge of micro credit borrowers and the third reason is the absence of proper guidance by the lenders. We think the proper guidance by the lenders mean giving the loan receivers all kinds of suggestions about the investment options, giving training about the basics of business, suggestion about the reinvestment scenario etc.

If the micro credit institutions focus on the aspects that we have found in our study, success rate of micro credit institutions will be further increased and their contribution to our county will be more consolidated.

Conclusion

Micro credit has been pioneered in our country and we are really proud for this. This concept is now spreading all over the world and also helping to reduce the world poverty. Micro credit institutions of Bangladesh are now getting global and they are providing micro credit loan in different part of the world. The possibility of success of these institutions is huge and these institutions have the necessary experience to make it effective in other countries also. As Bangladesh wants to become middle income country within a short period of time, micro credit is important to fulfill this middle income country aspiration. We want to see that the micro credit institutions are becoming more and more successful and that's why we have initiated this study. They should not take micro credit as profit making tool rather using it to build prosperous Bangladesh. Unfortunately a few institutions are deviating from the basic principles and using it to generate money which is unfortunate and because of the activities of these greedy institutions,

good micro credit institutions are also facing criticism. The government should be careful in issuing new license and should monitor the activities of existing lenders. Finally the lenders should take more responsibility by consistently monitoring the activities of loan receivers not just finishing the task after giving the loan. Consistent monitoring is the key to help reducing the poverty of the loan receivers.

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