

## Role of Microfinance in Economic Development of Bangladesh: Study on Sylhet

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### **Abstract**

Micro-finance means transactions in small amounts of both credit and saving, involving mainly small-scale businesses and producers. The main objective of the microfinance is to reduce the poverty and make stable income of the poor people. The main objective of this study is to express the current scenario and find at how microfinance helps to economic development of the society. Primary and secondary data are used here. Non probability sampling method is used and 10 NGO-microfinance institution and 30 respondents are chosen for sample. Now a days 724 MFIs operating in Bangladesh and 15 in Sylhet region. The loans provided by the organizations are collateral free and usually have a maturity of 46 weeks with weekly repayment. In every case women have been able to gain some access to land, they have also taken loans for firming activities, livestock etc. which empowered them and make them conscious about health care, family planning and children education. The growth rate of microfinance borrowers is increasing day by day. 73%of the respondents mentioned that their economic condition improved to some extent due to the involvement in microfinance program. Microfinance had also positive impact on changing the housing condition. Their standard of living is improved through microfinance activities. Those who can utilize the loan perfectly can borrow larger amount of loan than that of borrowed before. So, one can step up in a higher stage by borrowing extra loan. The study revealed that a significant number of members used their credit in unplanned areas. The study recommended establishing the effective monitoring and evaluation systems on utilization of microfinance by the beneficiaries, appropriate training to the beneficiaries, increase credit size and increase full time employment opportunity. The utilization of microfinance helps poor people to improve their financial condition.

**Key words:** Microfinance, NGO, Role, Economic development

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### **I. Background**

Micro credit is using to reduce poverty all over the world. In Bangladesh, micro credit was introduced late seventies. Microfinance as we know it today effectively started out with the provision of small credits to the 'entrepreneurial poor', but today it is a major 'industry' providing not only microfinance but also savings, insurance and other financial services to poor individuals. The way it is institutionalized differs, going from NGOs, donor founded entities to specialized commercial microfinance banks. Some of the commercial banks are directly related to provide Microfinance, but others are indirectly related to providing Microfinance.

Microfinance as an empowering agent, powerful weapon and a fundamental right helping in the development of socio- economic conditions of the poor who have been kept out of banking orbit. It is like a social safety net that helps poor through short-term stress and calamities.

In Our country, there are mainly four types of organizations convoluted in micro-finance activities. These are 1) Grameen Bank (GB), a member owned specialized institution, 2) around 1500 Non- Governmental Organizations (NGO) 3) Commercial and Specialized banks like Bangladesh Krishi Bank (BKB), Rajshahi Krishi Unnayan Bank (RAKUB) and 4) Government sponsored micro finance projects/ Programs like BRDB, Ministry of Women & Children Affairs, Ministry of Youth & Sports, Ministry of Social Welfare etc. All the platforms are basically for rural landless poor people. All the MFIs offer mostly small, un-collateralized one-year term loans to individuals belonging to jointly liable peer groups, and they use similar on-site credit payment and weekly collection methods by starting village administrations or centers.

Grameen bank was the pioneer of MFIs in Bangladesh. The main objective of the microfinance is to reduce the poverty and make stable the income of the poor people. Since a large portion of the people in Bangladesh live below the poverty line, the micro credit plays an important role. Microfinance programs target those without landless and the poor women. Almost 91 percent of the micro credit recipients are women.

Men at the rural areas are directly or indirectly engaged in agricultural activities. However, female members are used to remain idle in their houses due to a number of social and other barriers. They are

discouraged to work outside their houses because of religious bar, barriers, lack of access to fund, lack of knowledge of agro-based technology, lack of market knowledge and lack of support from the family members. In last three decades, micro credit programs have been operated by the government and non-government organizations (NGOs) in Bangladesh. The prime objective of these programs is to enhance income-earning potentials of female members of the rural families and empower them socially and economically. Rural women can work in paddy husking, poultry farming, petty trading, pond aquaculture, animal husbandry, weaving, mini-garments, handicrafts, dairy farming, plant nursery etc. which are primarily home based. These programs are contributing a lot to the socioeconomic development of the rural women in Bangladesh.

Development has long been a continuous issue, both in how it is defined and in how it is achieved and sustained over time. While development suggests progress, growth and improvement, it is often measured in economic terms, providing a distorted, inaccurate and incomplete picture. The economics of development may be more easily quantifiable, and hence measurable, but the social and environmental aspects of development and issues of sustainability are equally important in defining and measuring development. Microfinance is the most powerful tool for rural development of the country. If the large part of our population is economically solvent, then the country will be automatically developed.

## II. Literature Review

Khandker (1998); Khalily, Imam, and Khan (2000); Morduch (1999); Yaron(1992), stated in their study that Microfinance organizations in Bangladesh have made great steps in distributing financial services (savings and credit) to the poor, especially women, at a small loan default cost. Giving loan by a group and motivation to pay loan helps MFIs to cover default loan cost. The transaction costs are significant, and donor helps them to tolerate the risks.

There are three C's of micro credit program such as **Character, Capacity and Capital**. *Character* is elucidated as the past records of the borrowers such as, how a borrower has handled his past debt responsibilities, what about his or her background, honesty and reliability to pay the credit etc.

Khanam et al. (2018) in their study stated that micro-loans have a statistically significant positive impact on the poverty alleviation index and consequently improve the living standard of borrowers by increasing their level of income.

Ahmed, Salehuddin (2006) argues that Microfinance program has substantial impression on income and economic safety on the socioeconomic lives of people. Self-employment activities had more than 50% influence to total income for the participants as against 43 percent in case of non –contributors .

Biswas, Kabir and Roy 2008 identified that it helps to increase household income that improves the consumption patterns and lifestyles of the families. Micro credit encourages women borrowers to save from the profits of their projects for the future, which is an important source of capital accumulation for the economy as well. The main objective of microfinance providers is to create self-employment opportunities for the unemployed and underemployed people especially for rural women. Under this approach, 38 percent of the households in program area as compared to 54 percent in control area were living below the poverty line indicating that 16-percentage point's poverty reduced due to microfinance. Microfinance programs have created opportunity for them to participate in economic activities and reduced their dependency on others. The immediate effect is to reduce the labor supply and consequently raise wage rate, given the local demand for labor.

Mehjabeen Rubana (2010), identified in her study that commercial banks are reluctant to provide microfinance because of assessment difficulties in their credit worthiness and lack of manpower at the root level. Interest in the social impact of microfinance has led to a number of impact studies published in scholarly journals. Ten of these studies assess microfinance programs in Bangladesh.

McKernan (1996) finds that micro finance helps to self-employment, while Pitt and Khandker (1998) find that it is more helpful when the recipients of micro credit is women.

Seven other studies in Bangladesh (Hashemi et al. (1996); Goetz and Gupta (1996); Schuler and Hashemi (1994); Hashemi and Riley (1996); Schuler et al. (1997); Schuler et al. (1998); Steele et al. (2001)) focus on the question of female empowerment. The impact study failing to find significant impacts is done by Goetz and Gupta (1996), who find that significant portions of the women's loans were controlled by male relatives.

James C. Brau, Gary M. Woller, (2004) in their study also finds the same things.

Mahbub Hossain [Hossain1988] has done the pioneering impact study on the microfinance program of the Grameen Bank. He evaluated it using the indicators like reaching the target groups, size of loan disbursed, loan utilization, accumulation of capital, generation of employment, and income, and poverty status, and used 'before' and 'after' as well as comparison between borrowers and non-borrower control groups to see the impact of microfinance. This was conducted in a backdrop of skepticism about the success of Grameen Bank and whether the poor borrowers really invest in the loan and actually earn enough to repay the loan as well as

enhance family income. Methodologically this study was probably the most robust that used statistically valid sample as well as had an opportunity to compare with control group at a time when microfinance was not so widely available. The data were collected through field surveys in 1985 conducted in five selected projects and two control villages in the area of operation of 5 branches of the Grameen Bank. The sample size consisted of 975 borrowers and census of all households in seven villages.

Mahbub (1984) and Hossain (1988) has done an earlier study. The study reported a number of concrete contributions of microfinance from the bank. They specified that borrowers have increased their business capital by an average three times within a period of 27 months; Asset in the form of livestock increased by 26% per year; About one third of members who reported to be unemployed became self-employed after joining microfinance program of the bank; Grameen Bank members had incomes about 43% higher than target groups in control villages, and 28% higher than the target group non-participants in the village projects. The enhanced income is from the income generating activities undertaken by using microfinance. The program in general enhanced overall income of households in the village projects: average household income is about one-sixth higher in project villages than in the control villages.

Thus microfinance has reduced poverty.

### **III. Objective:**

The main objective of this study is:

- To have an idea about the current scenario of microfinance in Sylhet.
- To look at how microfinance helps to economic development of the society.

Other specific Objectives include:

1. To know the role of microfinance in poverty mitigation;
2. To identify and explain the factors related to microfinance programs;
3. To be familiar with the prospect of microfinance in socio-economic advancement of Bangladesh;
4. Recommend a policy framework for the credit providers to develop entrepreneurship in Bangladesh.

### **IV. Methodology**

This research report is descriptive in nature. It is based on some documents and some practical observations. Both primary and secondary data has been used in this report. As it is a regional study and enough secondary data was not available, simply more emphasis was given on primary data. Through preparing a set of questionnaire primary data have been collected from the survey of rural and urban people. A survey has been conducted among the borrowers to collect information about the impact on economic development of micro credit programs with the help of a structured questionnaire. Since different micro-finance Providers and regulatory institutions conduct survey on microfinance. I have collect information from some of these surveys. I have also studied my research at branch offices of these institutions in Sylhet. Besides, in order to make the report more meaningful and presentable, I have gone to the root level to find out the actual scenario. MS Excel is used for analyzing the data.

**Population of the study:** I have taken the borrowers and micro-finance Providers of entire Sylhet district as the population of this study. There are 15 MFIs operating in Sylhet.

**Sampling method:** While collecting data, I followed convenience non-probability sampling method.

**Sample Items:** I categorized the sample items in two categories as follows,

1. Microfinance providers
2. Borrowers

**Sample size:** I have chosen 10 microfinance providers and 30 beneficiaries as respondents.

**Sources of primary data:** The primary data have been collected through

- Questionnaires
- Personal interviews

**Sources of secondary data:** The sources of secondary data are,

- Different reports
- Annual reports of the institutions
- Official documents
- Various journals, magazines, articles, newspapers etc
- Websites

**Study period:** From 2015- 2019

## V. Data Analysis And Findings

### Employment

Microfinance institutions have a great consequence on the employment generation in our country especially in Sylhet region. It is a huge source of employment. It creates opportunities of employment directly as well as indirectly. Total 1.54 lakh people are working in the country and 18,196 branch offices throughout the country. Microfinance organizations engage people in various types of occupations like as fieldworker, manager, controller, coordinator, executive director and so on. A list of number of employees of different microfinance institutions of Sylhet region is given below:

**Table 1: Number of employees of microfinance institutions of Sylhet**

Name of the Organization	Number of employees
IDEA	15
READO	50
VARD	264
ASA	415
BRAC	395
FIVDB	53
SWF	345
SARA	23
Grameen Bank	443
Nabil Rahman Foundation (NRF)	26

**Source: secondary source**

### Recovery System

In microfinance recovery rate is a very important factor. From our survey, we have found that, in microfinance institution institutions there are three types of recovery methods are used:

- ❖ Daily
- ❖ Weekly
- ❖ Monthly

I have found that most of the micro finance institutions use weekly method to collect their loans and advances. A few of them use daily method to collect their loans and advances. One thing is note here that most of the loan provided by microfinance institutions are for short term.

However, in terms of special loan or long-term loan all of them use monthly method to collect their loans. After analyzing the data of 10 different institutions, we have found that 7 of them use only weekly method and the other 3 uses both weekly as well as daily method. All of them in case of long-term loan use monthly method.

Recovery method	Percentage (%)
Daily	<b>3</b>
Weelky	<b>85</b>
Monthly	<b>12</b>

### Sources of Funds

Fund is an indispensable part of microfinance. Without fund, an entrepreneur is simply unable to take initiative steps for his or her microfinance establishment.

We know that, mainly the source of fund varies from institution to institution. The sources of funds are shown in a table in below:

Table 2: Sources of funds of microfinance institutions of Sylhet

(All figures are shown in %)

MFI	Client's deposit	Cumulative surplus	Donor's Grant	PKSF's Loan	Bank loan	Others	Total
IDEA	7.35	16.68	35.45	0	31.73	8.79	100
READO	22.92	19.36	6.61	0	34.50	16.61	100
VARD	13.00	7.00	45.00	7.00	19.00	9.00	100

ASA	25.49	69.86	0	0	0	4.66	100
BRAC	34.86	17.99	4.05	2.03	40.65	.87	100
FIVDB	30.00	34.00	17.45	4.55	10.12	24.12	100
SWF	21.45	19.89	05.00	9.45	4.20	40.01	100
SARA	32.19	28.1	0	0	0	39.71	100
Grameen Bank	42.36	33.72	11.31	0	3.88	8.73	100
NRF	20.56	17.89	36.48	0	13.45	11.62	100

**Source: secondary source**

### Growth rate and Number of Borrowers of Microfinance

Microfinance provides advances to both male and female members. But it places great emphasis on lending to women. Total number of women microfinance borrowers has reached 30 million with a total micro credit loan disbursement of tk.1,201.91 billion. Total fund is 741.91 billion in June 2018. Micro credit provided by government departments or agencies or NGOs or Micro finance institutions has given many benefits for village women, by increasing their mobility, income generation, decision-making in the family and community.

Integrated report of the collected data from year 2015 to 2018 is given in the clustered column below. The growth rate of microfinance borrowers is derived from the base year 2014. In 2014, the number of borrowers was 550,870.

**Table: Growth rate and Number of Borrowers of Microfinance in Sylhet region**

Year	No. of Borrowers	Growth rate%
2016	568965	3.28%
2017	992975	7.64%
2018	1560321	19.87%
2019	2106433	35%

### Sector Wise Disbursement of Microfinance

In Sylhet, the microfinance institutions are innovating new ways of doing business or initiating change in invention function, exploring market opportunities and ultimately change the business environment. Therefore microfinance institutions have provided credit to 28% in small business, 17.73% in agriculture, 18.30% in transport and 19.93% in livestock has been getting priority (Table:3). A big portion of microfinance goes to micro borrowers. Through their operations the micro borrowers have not only done well for themselves, but also have contributed to the sustained growth of the economy of Bangladesh and helped lessen poverty.

Microfinance institutions offer to landless and asset less women whose monthly income does not exceed tk. 2000 and who own less than 100 decimals of cultivable land. This loan may be increased by tk. 5000 to tk. 20000 depending on the clients who qualify for a repeat loan. On the other hand the small business loan is significantly larger in size. The initial small business loan amount is tk. 20000, which may be increased annually .MFIs provide loan up to tk. 500000. This loan is offered to an existing business, which needs the additional capital either to expand or to buy equipment for modernizing its product.

**Table 3: Sector wise disbursement of microfinance in Sylhet**

Sectors	Percentage
Agriculture & Forestry	17.73%
Live stocks & Fisheries	19.93%
Food Processing	7%
Small Business	28%
Cottage Industries	2.28%
Transport	18.30%
Padding	1.28%
Others	6.48%
<b>Total</b>	<b>100%</b>

**Source: primary source**

**Borrowers of Microfinance**

From the survey, I found that most of the borrowers are housewives. Among 30 respondents, 27 are housewives. The next bigger portion is worker, they are 1 in numbers. Respectively 2 are entrepreneur.

borrowers from various jobs	Percentage (%)
Housewives	92.00
Workers	2.00
Entrepreneurs	5.00
others	1.00

**Source: primary source**

We can easily see the portion various occupation using microfinance from the following senerio. Among our 30 respondents, 10 are borrower of ASA, 7 are of BRAC, 6 are of Grameen Bank, 5 borrowers are from READO of Bangladesh, and rests 2 are from FIVDB. The Highest amount of loan them is 500,000 taka and the lowest amount is 5000.

**Utilization of Loan**

Microfinance is self-targeting and hence cost-effective. Utilizing loans in productive activities requires entrepreneurial skills that most people lack. Microfinance programs must target only those poor who have some ability to initiate activities with growth potential but lack capital. Lack of training programs, too long borrowed money getting period, woman’s’ less control on their income, high interest rate; etc are also some of the basic constraints during the path of proper utilization of the loan.

In my study, I have found that, in most of the cases the borrowers provide wrong information about the motives of their loans to microfinance institutions. They took the loan for a purpose but they use it for another one. As one borrower’s husband said to us that, “We took a livestock loan. Half will be spent to pay off old debts, and another half will be invested in money lending. If the manager comes to see our goat, we can easily borrow from the neighbors.”

Among the 30 respondents, 4 of them are using loan in livestock, 6 in business, 2 in fisheries, 3 in housing, 4 in agriculture, 4 in buying vehicles and 7 in other purpose.

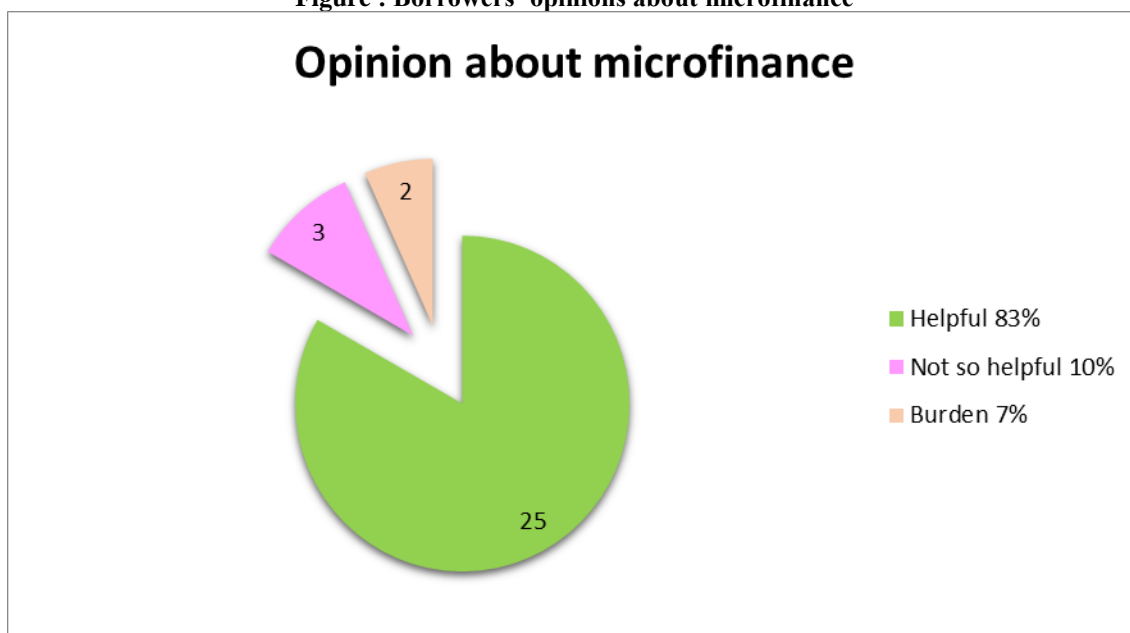
Area	User	Percentage (%)
Livestock	4	13.33%
Business	8	27%
Fisheries	2	6.67%
Housing	3	10%
Agriculture	4	13.33%
Buying vehicles	4	13.33%
Others	5	17%

**Source: primary source**

**What Borrowers think**

From this study, we are able to know about what are borrowers’ opinions about microfinance. Among 30 loners, 25 think that microfinance is helpful for them. They think so, because they can properly utilize the money and improve their life standard. Another 3 loners think that this loan is not so effective for them, because they can’t use the loan in right place & right way. Rests 2 of our 30 respondents believe the microfinance is burden for them. As reason they explained they not only failed to manage the money but also fail to repay the loan properly which was a burden for them.

Figure : Borrowers' opinions about microfinance



### Impacts of Microfinance

From the different point of view, micro credit plays a vital role in the socio-economic development in Sylhet as well as Bangladesh. Since micro credit is related with the root level of an economy, so it is so important for the financial market of any country. Aid donors in particular want to make sure that their money is well spent. Measuring impact is difficult, as well as costly, and the results are vulnerable to various interpretations, depending on how concepts are defined. Anyway, in this study, the Impact of microfinance has been assessed in the following manners:

**Employment:** The microfinance participant households are better able to ensure more employment on own farms due to microfinance. Wage and self-employment in non-agricultural sector is also higher for the participant households due to their access to microfinance program.

**Income:** Microfinance helps to generate income of the borrowers. Compared to non-borrowers, the borrower's households were better able to cope with any disaster; sustain their income and achieve higher purchasing power and consumption level.

**Poverty Alleviation:** Micro credit helps to remove the poverty. When the poor people get micro credit, they can create the business opportunity, which results the economic solvency of the poor.

**Health and Nutrition:** Some of the micro finance institutes also provide health education and service. The institutes give advice to the rural people to drink safe water, pre natal and post natal care, sanitation and housing.

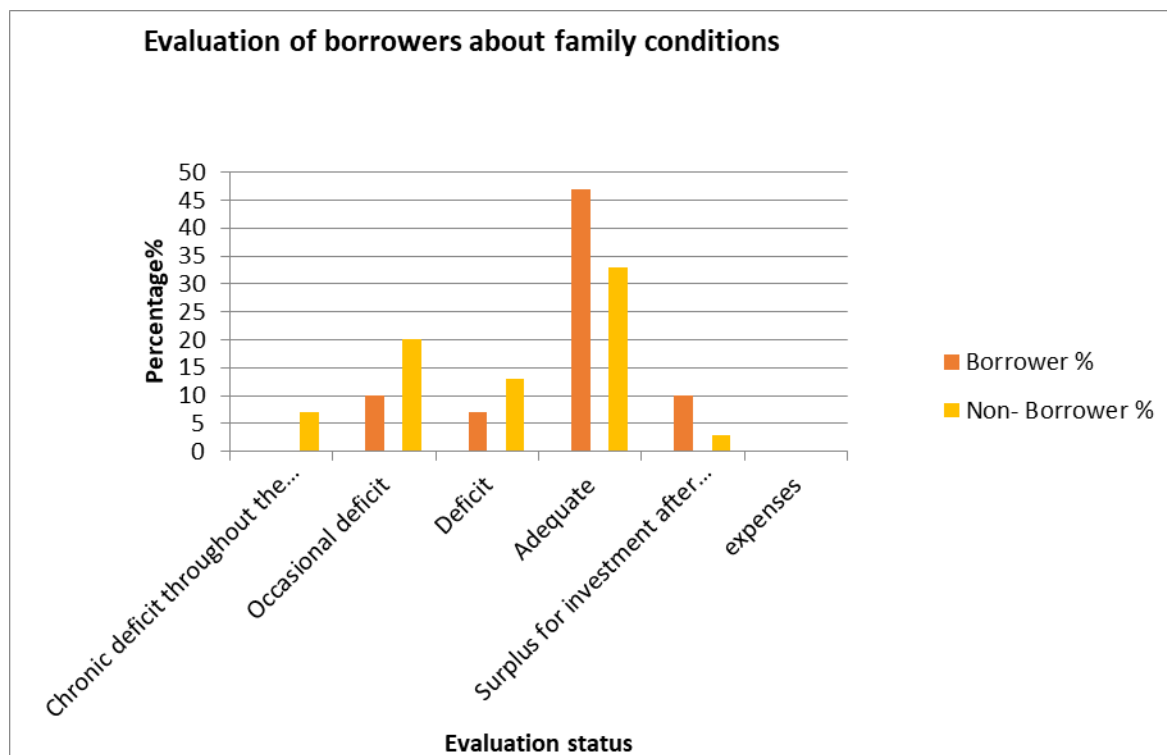
**Increasing Literacy rate:** Some Microfinance organizations provide loans only those who are literate. This is why literacy rate is significantly higher among the eligible loners. Microfinance helps to take initiative for the parents to send their children to school.

**Empowering Women:** In Sylhet as well as Bangladesh, most of the organizations are giving emphasis on the rural poor women. There are strong evidences that, microfinance programs contribute to women's empowerment in decision making. All of the organizations think that women are more responsible than the men to repay their loans. Such type of thinking make the micro finance institutes interested to provide loan to the women rather than men.

**Asset and Capital Formation:** Through utilization of microfinance the members formed assets like cattle, rickshaw, sewing machine, shop, tractor, fishing net, household furniture, television, CD player, hygienic toilet, etc.

### Self-Evaluation of Borrowers and Non-Borrowers about Family Condition

From this study, 33% borrowers said that they have adequate money to lead their life. In a developing country like ours, microfinance really help the poor to eradicate poverty. To understand clearly, we can use the graph below:



### Problems of microfinance

Though micro credit is wellbeing for our whole society but it has some problems. We can organize the problem as follows:

- ❖ The most significant problem of the microfinance is to turn the profit in to the loans. In this case, the borrowers should bear the cost of the loan as well as the interest .Sometimes investment can't make profit, then the borrower should reduce consumption and loan money from other source to pay the installment.
- ❖ Another problem is that all most all the microfinance providing organizations give loan to the women. For that reason, the male relatives use the female borrowers in front to get the loan. These types of loan may or may not be useful to the family.
- ❖ Lack of training facilities to upgrade microfinance borrowers' skills and technical knowledge is also an important problem mentioned by some clients.
- ❖ Microfinance also suffers from its limited ability to increase the size of the loan per borrower because of the limited capacity of borrowers to absorb loans.
- ❖ Some of the microfinance providing institutions impose high interest for the short-term loan. Since the poor people have no substitute, they have to dependent on those organizations. As a result, they are not able to pay the high interest and supposed to be a loan defaulter.
- ❖ Some respondents mentioned that sometimes they needed to start repaying their borrowed money even before investing the money to earn profit.
- ❖ The factor that contributes to the failure of microfinance institutions as well as government policies for rural development is the inefficiency and even widespread corruption among the Bangladesh bureaucracy.
- ❖ Lack of legal information, regulatory and supervisory system for microfinance organizations is another problem of micro-enterprise in Bangladesh.
- ❖ The natural effects of flood, drought, and cyclones are great problems of microfinance and economic development of Bangladesh.
- ❖ Investment getting period is very long for the borrowers. It takes about 5-6 months to get the loan after application.

### VI. Recommendations

Microfinance is already very well liked, advantageous and organized in Sylhet. But it has some weaknesses too. The following recommendations are made which will help to improve their profitability and prosperity:

- ☑ Microfinance programs target only those poor who have some ability to initiate activities with growth potential but lack capital. For the rural poor who are unable to become self-employed, targeted food programs and wage employment may be more appropriate.



- ☑ Appropriate training to the beneficiaries on concerned income generating activities should be the integral part of microfinance disbursement. Some of the training areas suggested by the respondents are poultry rearing, cattle fattening, tailoring, cottage industries and fish cultivation, etc.
- ☑ Grass root people are not conscious how to save money. It is important to increase consciousness through providing education package in the group meeting. Credit officer can teach them about the advantages of saving program.
- ☑ Develop E-pass book to accelerate the management of microfinance institutions.
- ☑ As the respondents opined that the amount of credit received by them were not enough to generate effective income, sufficient amount of loan should be given to start up the selected enterprises at a lower interest rate.
- ☑ A preliminary survey on assets, liabilities and family history should be conducted before approval of loan.
- ☑ Government should come forward to eliminate the traditional exploitative moneylenders to rescue the poor people.
- ☑ It is better to monitor the enterprises taken by the borrowers at least once a week and prepare a progress report, provide suggestions regarding further improvement.
- ☑ Microfinance should be given sometimes in kind not in cash. So that borrowers will be benefited by getting goods and services in fair prices.
- ☑ Marketing facilities should be given to ensure fair products price for the members.
- ☑ Poverty alleviation should be the main target, not high profit. Microfinance institutions should consider the sufferings of poor people and motivate them when they fail to repay in time.

## VII. Conclusion

I conclude that microfinance has already gained considerable popularity both in developed and in developing countries. It has made inroads around the world. It also lifted the profile of NGOs. Another important role, which MFI's play in an economy, is to act as a buffer, especially in the moments of economic distress.

When borrowers receive financial support from the MFIS, they feel confident to engage themselves in the financial ventures that consequently increase the income of them. Microfinance also provides group identity to the rural poor women as they used to participate weekly meeting. However, many borrowers misused the borrowed money. There is a lack of monitoring and follow-up services provided by the MFIs for their members in executing the loan. Microfinance is not an effective tool for poverty reduction particularly for the poor with previous debt.

Despite how little the comprehensive effect, micro-finance is important in Sylhet for its innovations in rural credit markets and its impact of empowering the poor, particularly women. Though microfinance growth is very slow in Sylhet comparing with the other region in Bangladesh, it is also recognized that microfinance programs reach an awesome majority of the poor and women, to whom banks cannot go.

In our country, MFIs have already passed more than four decades of operation. Although there were some constraints, but the industry has performed remarkably well and their role in the economy should suitably recognize. If they get appropriate support, MFIs will be able to play a more significant role in the economic development of Bangladesh.

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