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What Impact Does Microfinance Have on Rural Livelihood? A Comparison of Governmental and Non-Governmental Microfinance Programs in Bangladesh

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Summary. — This paper analyzes the impact of different microfinance providers on basic rights and quality of life. Data were collected in two phases from 300 microfinance beneficiaries and 200 control respondents. Descriptive statistics, factor analysis, multiple regression, propensity score matching, and treatment effect models were used for analysis. Microfinance appears to increase the basic rights of respondents and help improve quality of life; the positive changes are consistently higher in non-governmental microfinance recipients. These data may help to formulate new policies that help to improve rural livelihood.
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Key words — microfinance, rural livelihood, governmental organization, non-governmental organization, quality of life, microfinance institutions

1. INTRODUCTION

Bangladesh stands out as a nation that has, in the face of many natural disasters and internal political strife, stayed firmly on the developmental path. Notwithstanding the many external and internal crises that have occurred in the last four decades since independence, per capita income in Bangladesh has risen by over 130%, and steady progress has been made in reducing poverty by over a half (Rahman, 2012). The microfinance program has played a significant role in these successes, contributing to steady economic growth since 1990 (Osmani, Mahmud, Sen, Dagdeviren, & Seth, 2003) by enhancing the income-generating activities of the Bangladeshi poor in both rural and urban areas. However, the World Bank Group (2014) recently reported that, globally, only 50% of adults use formal financial services due to cost, distance, or an inability to meet the requirements for opening accounts. Notwithstanding the impact microfinance has had in Bangladesh, a significant proportion of people still live with uncertainty, and extreme poverty remains a global challenge including in developed economies (World Bank, 2012).

Microfinance providers are primarily non-governmental organizations (NGOs), although a few are non-bank financial institutions (NBFIs). Some of the ministries or divisions of the Government of Bangladesh support large microfinance projects, and some of the commercial banks have established windows for microfinance loans. In this study, the Bangladesh Rural Development Board (BRDB; a governmental organization (GO)) and AID-Comilla (a regional NGO) were chosen as target organizations that have successfully operated microfinance over the last few decades in Bangladesh. BRDB was established in 1982 and the AID-Comilla was established in 1992 with the same mission of improving poverty levels in society.

Poverty is the single most important socio-economic policy challenge for Bangladesh. The country has long been striving to reduce the incidence of poverty and to improve the livelihoods of millions of impoverished citizens. Bangladesh has made substantial progress in this area, and the proportion of people living below the poverty line decreased from over 80% in the early 1970s to 31.5% in 2010 (Ahmed, 2013). However, there is considerable and legitimate concern in Bangladesh about growing income inequality and the distribution of income is much more unequal than the distribution of consumption. During 2000–05, the income Gini coefficient increased from 0.451 to 0.467 due to an increase in rural income inequality (BBS, 2005). The rural income Gini coefficient increased from 0.393 in 2000 to 0.428 in 2005, while the urban income Gini coefficient remained unchanged at 0.497 (BBS, 2005). Overall, income inequality remains a serious problem in Bangladesh and is a major obstacle to achieving Millennium Development Goals (MDGs) by the end of 2015. However, in spite of this, there are significant numbers of people not in receipt of microfinance who live below the poverty line and are neglected by the formal banking sector. They are either unaware of microfinance or have negative attitudes to it; either way, it is essential to try to offer microfinance support to eligible individuals in order to improve their livelihoods.

Livelihood is defined as a set of activities involved in securing water, food, fodder, medicine, shelter, and clothing, and the capacity to acquire the above necessities, working either

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individually or as a group. This is achieved by using endowments (both human and material) in order to meet the requirements of the self and his/her household, on a sustainable basis and with dignity. There remain unanswered questions regarding the impact of microfinance on rural livelihood: does microfinance indeed have an impact and, if so, what is the level of impact and how is this best measured; which financing organization most contributes to rural livelihood; and finally, which factor(s) might influence improvements in livelihood? Here we address these questions by analyzing the impact of microfinance on participants' livelihoods, and in doing so provide suggestions for appropriate measures that can be taken to improve the livelihoods of microfinance recipients.

2. AN OVERVIEW OF SIMILAR RESEARCH FINDINGS

Since the late 1970s, microfinance has come to be seen as an integral part of developmental policy and an effective poverty reduction tool. Littlefield, Morduch, and Hashemi (2003) argued that microfinance is a key tool for achieving MDGs, and microfinance has been shown to have an impact on recipients' income, savings, expenditure, and the accumulation of assets, as well as non-financial outcomes including health, nutrition, food security, education, child labor, housing job creation, and social cohesion (Rooyen, Stewart, & Wet, 2012). Microfinance can also have a positive impact on recipients' livelihoods as defined by their basic rights and their quality of life (poverty level) (Johnson *et al.*, 2009).

(a) *An overview of the impact of microfinance on basic rights*

Microfinance client households appear to have better nutrition, living conditions, and preventative healthcare than non-client households. Littlefield *et al.* (2003) reported that severe malnutrition declined with increased length of microfinance membership in Bangladesh, in part due to smoothening expenditures and allowing more constant access to food. Microfinance improves health and nutrition knowledge and practice and ultimately improves household food security and children's nutritional status (Mknelly & Dunford, 2000). Clothing is another basic need; Ghalib, Malik, and Katsushi (2012) found that there were few significant differences between microfinance groups with respect to changes in household expenditure on clothing. Mknelly and Dunfond (2000) also noted that there were few significant differences across study and control groups in charge of household expenditures on food, clothing, medicine, school expenses, and house repair or business assets. McIntosh, Villaran, and Wydick (2011) noted that access to credit is associated with moderate increases in variables associated with household welfare. Although microfinance intervention does not directly influence clients' level of education, it has been shown to have a positive impact on the education of clients' children, with children of microfinance clients more likely to go to school and stay there for longer than the children of non-clients (Littlefield *et al.*, 2003). Chowdhury and Bhuiya (2004) noted that student dropout rates were much lower in microfinance client households than in non-client households. Chowdhury and Bhuiya (2001) also concluded that MFI client households appear to have better nutrition, living conditions, and preventive healthcare than non-client households. Setboonsarng and Parpiev (2008) showed that microfinance had little effect on other MDGs, such as education, health, and female empowerment, in part due to the fact that 70% of the bank's clients in the survey only had one loan cycle and therefore they were yet to be realized. Montgomery (2005) impact study of Kushrali bank clients in Pakistan revealed a positive impact on educational expenditure for the very poor and a mixed impact in terms of education and health indicators, although in some cases the core poor individuals appeared to benefit more (Duvendack, Palmer-Jones, Copestake, Hooper, Loke, & Rao, 2011). There is therefore conflicting evidence on the effect of microfinance on basic rights, and the effect of the provider (i.e., GO or NGO) is uncertain, since to date there have been no studies directly comparing the impact of GO and NGO microfinance programs on recipients' basic rights using a comparison with non-recipient groups.

(b) *An overview of the impact of microfinance on quality of life (poverty status)*

Khandker (1998) concluded that microcredit in Bangladesh lifts 5% of its borrowers out of poverty each year, while aggregate microcredit reduces the moderate poverty rate by one percentage point per year (Bateman, 2011), equivalent to 40% of the total decline in Bangladesh over the 1990s; extreme poverty is reduced by 1.3 percentage points per year. Despite these encouraging results, other studies are less clear cut. Kan, Olds, and Kah (2005) studied the evolution, sustainability, and management of ten microfinance institutions in Gossas, Senegal and found that while microfinance institutions have helped to create a positive change, there was still no clear and marked evidence of poverty reduction that was attributable to the microfinance programs studied. Morris and Barnes (2005) attempted to provide an overall assessment of the impact of three microfinance programs in Uganda; they also found no clear evidence of poverty reduction in the program areas, although there was some positive impact on participants' entrepreneurial business endeavors, in their households, and in reducing the financial vulnerability of poor individuals through diversification of available income sources and the accumulation of assets. Schroeder (2012) concluded that microcredit is reducing poverty in Bangladesh by allowing households to raise their levels of consumption, and Nawaz (2010) found that microfinance has resulted in a moderate reduction in the poverty of borrowers as measured by a variety of socio-economic indicators but did not reach many of the poorest in the village. A number of studies have found that access to microfinance services reduces the incidence of poverty and improves quality of life (Khandker, 2005), which appears to be greater for extreme poverty than for moderate poverty. In contrast, Hulme and Mosley (1996) concluded that credit schemes are more likely to benefit the "middle and upper poor", and Stewart, Van Rooyen, Korth, Chereni, da Silva, and De Wet (2012) found that there is less risk if services are targeted at those middle and upper poor. There was little evidence to confirm that microfinance was having any real role in poverty reduction (Bateman, 2011). Leo and Alfred (2010) showed that microfinance does not have a large impact on client well-being. There is therefore conflicting evidence with respect to the impact of microfinance on quality of life (poverty level).

Most of the existing research on MFIs has, therefore, focused on the impact of microfinance on alleviation of poverty based on a single financing organization. All of these studies attempted to establish a link between microfinance and rural livelihood, but to date no study has been undertaken that considers both GOs and NGOs as the implementing authorities with non-recipient respondents as the control group. We therefore sought to address these issues in the current study.

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