The role of micro credit in life status improvement process of rural poor people in Bangladesh

Paper within Master thesis within Business Administration
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Abstract

Background

Bangladesh is a developing country located in the southern part of Asia. Almost eighty percent of the total population of Bangladesh lives in rural areas and most of them are poor. These poor people are not qualified to get loan facilities from the formal financial sector due to the collateral requirements. And informal financial sector also make them unattractive due to their tendency of higher profit making. Muhammad Yunus and Grameen Bank jointly awarded Nobel Peace Prize 2006 for the creation of innovative credit idea called “micro credit” for the poor people who are ignored both from the formal and informal financial sector. Micro credit has been introduced in Bangladesh in 1976 that allows the poor people to get small amount capital as loan without collateral for starting self income generating activities with the objective of alleviate their poverty level and gradually improve their life status.

Purpose

The purpose of this study is to explore the role of micro credit in rural poor people daily life status improvement process in rural areas in Bangladesh. This study investigates the role of micro on life status improvement process of these poor borrowers.

Method

The qualitative method has been chosen for this study which is implemented in the form of interview approach. Empirical data has been collected from the Grameen Bank borrowers and its official in Bangladesh.

Results

This study tried to cover how micro credit allows the poor people in financial access, how can affect their income level by starting self income generating activities, asset holdings capacity, basic needs, living standard, poverty level and finally on their life
status. This study also covers how social welfare and other services offered by the micro finance institutions affect the poor people’s life status.

Based on the empirical findings, this study suggests that micro credit has positive impact on borrowers’ income level, asset holdings capacity, basic needs, living standard and their poverty level. Social welfare services can increase human capital skills, personal awareness level of the poor borrowers. And finally all these things gradually improve the daily life status of these borrowers.
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1 Introduction

This chapter, as Introduction Chapter represents the general background information, problem discussion, purpose and the delimitation of this study. This chapter also represents the brief history of Bangladesh with important key information, rural poverty and micro finance sector of Bangladesh. And the finally this chapter presents the brief history of Grameen Bank, its important facts and figures and its different product categories.

1.1 Background Information

The formal financial sectors in developing countries typically serve no more than 20% of the total population (Greuning, Gallardo & Randhawa, 1998). They fail to serve the poor people of the society due to their unfavorable loan qualification criteria. For getting loan facilities they require collateral, minimum level of education, acceptable level of income source and living standard which cannot be fulfilled by the poor people. To overcome these limitations and open the door of financial services for the poor people a new type of loan was first introduced in 1976 by Muhammad Yunus in Bangladesh called Micro Credit. Core principle of this loan is to provide loan to individuals within a group where each individual of this group is mutually responsible for everybody’s repayment. This social collateral replaces the physical collateral which poor people have lacked. Micro credit program is mainly directed towards women. It is a small amount of capital for the poor that can be used for their existing income generating activities or establishes a new entity in developing countries (Nawaz, 2010). It is designed in such a way that covers those poor people who are left out of the formal financial systems (Mahjabeen, 2008). Micro finance is described as banking for the poor (Mejeha & Nwachukwu, 2008). United Nations World Summit Outcome Document, 2005 states that “We recognize the need for access to financial services, in particular for the poor, including through microfinance and microcredit.”

Usually Micro Finance Institutions (MFIs) and Non Government Organizations (NGOs) are involved with the micro credit programs in developing countries. To some extent some public commercial banks and specialized banks are also involved with the micro credit programs. Formal banks especially state owned banks and some specialized banks have similar type of loan scheme but loan amount is bigger than micro credit. Their operational procedures are quite different with the MFIs and NGOs. MFIs are not only providing financial services but also social services related to health, basic education, hygiene, child immunization, skills development, capacity enhancement etc.

Bangladesh is an agricultural country that and almost 80 percent of the population lives in rural areas in the country’s 68000 villages. Around 36.3 percent people are living below poverty line (Central Intelligence Agency, 2010). And the national poverty line of Bangladesh according the government of Bangladesh declaration is who earns below USD 1.25 a day (Zohir, 2010). They have only basic level of education and some people don’t have any minimum level of education. Their main income comes from agricultural business like farming, harvesting, fishing, cultivating, gardening, livestock,
and forestry and also non agricultural business like small departmental store, scrap collector, village restaurant, making handicrafts etc. Highly effective micro credit programs can provide financial services to these poor people without collateral to engage themselves into income generating activities for reducing their poverty level.

There are 540 licensed NGOs, Grameen Bank, some state owned commercial banks and specialized banks which are running micro credit programs in Bangladesh by involving thirty million borrowers (Micro Credit Regularity Authority of Bangladesh, 2011). And the total outstanding loan amount is BDT 200 billion (Micro credit Regularity Authority of Bangladesh, 2009). NGOs and MFIs are playing an active role to reach the credit facilities to the poor in Bangladesh than the formal financial institutions. They help to create rural employment generation, reduce poverty of these poor people who are taking micro credit facilities and utilize it properly. It will improve their living standard and help to fulfill basic needs for their family members by making them micro entrepreneur.

Micro credit programs employ two tiered approach in poverty alleviation. They provide credit to the poor for purchasing capital inputs to make them become self employed and also provide non credit services such as vocational training, civil responsibilities and rights and other social services (Mckernan, 2002). Micro credit programs help to create rural employment and alleviating poverty after adopting more economic activities.

1.2 Problem Discussion

High transaction costs of small loan and lack of collateral make the poor people an unattractive group for formal banks. A high level of transaction costs incurred in lending to the poor, formal lending agencies often leave the poor unbanked (Yunus, 1999). On the other hand informal financial services such as money lenders high interest rate, under value collateral and illegal agreement restricts them to serve the poor people. They are neither able to obtain resources to increase productivity nor reap the benefits of any additional income generated (McKernan, 2002). The drawbacks of formal and informal financial sectors to provide the reasonable credit services to the poor people reinforce the vicious circle of economic, social and demographic structures that ultimately cause poverty (Chowdhury, Ghosh & Wright, 2005).

Industrial establishments are very limited but ample amount of natural resources are available in rural areas. Bangladesh is an agriculture based country. It has fertile lands, rivers, small canals, forests etc. Though rural people are uneducated but they are creative. Rural women can make handicrafts, delicious foods, garments etc. So, there are lots of opportunities to make them employed and reduce their poverty. Credit facility is an important tool to reach the goal. Credit is important in the lives of the rural poor in a developing economy (Chavan & Ramakumar, 2002).

Micro credit has been introduced in Bangladesh by Grameen Bank based on innovative financial practices for income generation and poverty alleviation through enhancing self employment. Major portion of rural poor people in Bangladesh are involving with the credit program. Micro credit is not a panacea to alleviate poverty and improve the life status. It is a tool and the successful user of this loan can only change their life status.
The main objective of this study is as follow:

- To explore how micro credit program improves rural poor people’s life status in Bangladesh.

1.3 Purpose of Study

Around 30 million poor populations out of 162.22 million total populations are involved with the micro credit program in Bangladesh. The main goal of micro credit program is to alleviate poverty as well as improve their life status through step by step process. So, it is important to know whether micro credit really improves the poor people life status or not. It is also important to know whether this improvement either short term or long term basis. The purpose of this study is to explore the role of micro credit program on the rural people daily life status improvement in rural areas of Bangladesh.

1.4 Research Question

To fulfill the purpose of this study the detail investigation will be based on the following questions-

- How is micro credit program helping the rural poor in financial access?
- How is micro credit program influencing the rural poor people daily life status improvement by involving them with the credit program?

1.5 Delimitation

I am using Grameen Bank of Bangladesh and its borrowers for this study. The findings are based on phone interviews from the borrowers and the officials of Grameen Bank. It would be possible to collect more data if I conduct face to face interviews. The distance between Sweden and Bangladesh and financial constrains bound me to phone interviews.

Around 3589 micro finance institutions are working with more than 190 million borrowers all around the world (Reed, 2011). Micro finance institutions differ in their services and basic structures. They are using different micro credit lending models based on their social, cultural and customers demand. Most usable micro finance lending models are Grameen model, co-operative micro finance model, village bank model, credit union and so on. Most of the models are developed based on the Grameen model according to the nature of the customers and country’s socio economic condition. Grameen is the most popular model in Bangladesh for financing micro credit. In this study I focus only Grameen Bank model since I am using Grameen Bank and its borrowers for this study. This is also a limitation for this study.
1.6 Brief History of Bangladesh

Bangladesh is officially known as “The Peoples Republic of Bangladesh.” The present Bangladesh had crossed many steps to reach this position. Until 1947 it was the part of Indian subcontinent. During 15th century many European traders such as Portuguese, Dutch, French and lastly British came to this region for business. But British changed their motive. They tried to impose political rule in that region. In late 1750s they defeated the subcontinent ruler and took power in their hand. They ruled almost 200 years till 1947. When they came back they divided the whole Indian subcontinent into two parts named India and Pakistan based on the two major religions Hindu and Muslim. Pakistan had two parts including East Pakistan and West Pakistan. Bangladesh was in East Pakistan and the present Pakistan was in West Pakistan. Distance between two parts nearly about 1600 km of Indian land. Two parts had two different languages called Bengali in East Pakistan and Urdu in West Pakistan. Bangladesh was the part of Pakistan from 1947 to 1971. From the beginning relationship between two parts was not good. At first West Pakistan leaders tried to impose Urdu as national language in whole Pakistan. But East Pakistan people protested it due to Bengalis cultural identity. Many students died during the protest on 21st February 1952. They deprived East Pakistan people in economically and politically. Unequal distribution in government services, public job facilities, development activities and so on. In 1970s national election Awami League, political party from East Pakistan won the majority seats. But the West Pakistan leaders refused to hand over the political power to Awami League. West Pakistan army had attacked on innocent Bengali people on 25th March 1971. After nine months bloody war by losing 3 million people West Pakistani Army surrendered on 16th December 1971. And finally Bangladesh emerged as world’s 139th independent country in 1971. “Bangla” comes from “Bengali” and “Desh” means “Land or Country”. So, Bangladesh means land of Bengali.

Bangladesh at a glance:

- **Official name**: The People’s Republic of Bangladesh
- **Location**: Southern Asia
- **Area**: 147, 570 sq km
- **Weather**: Tropical
- **Nationality**: Bangladeshi
- **Population**: 162.22 million (as on 2010)
- **Capital**: Dhaka
- **Language**: Bengali
- **Religion**: Mostly Muslim, and also Hindu, Christian, Buddhist, and others
- **Currency**: Bangladeshi Taka (BDT)
- **Type of government**: Parliamentary democracy
- **Natural Resources**: Natural gas, coal, fertile land

(Central Intelligence Agency, 2010)
1.7 Rural Poor People in Bangladesh

Bangladesh is a low income country in the world has 162.22 million inhabitants. Almost 80 percent of the population lives in rural areas in the country’s 68000 villages. Poverty rate in Bangladesh is around 40 percent with 43.8 percent living in rural areas and 28.4 percent in urban areas (Bangladesh economic review report, 2009). Natural disaster is one of the main reasons to make them poor who are living in the rural areas in Bangladesh. Annual flooding destroys crops, livelihoods and homes. They cannot also sell their physical labor since industrial establishments are almost absence in remote areas. Proper banking, education, medical and other required facilities are not widely available in rural areas in Bangladesh.

After the independence poverty reduction situation in rural areas was not good enough though all the government had first priority was to reduce poverty. Rural poverty was not stable until 1980s. Before the independence of Bangladesh rural poverty rate was around 43 percent. After independence the rate went to around 60 percent in 1973-74 due to the liberation war, famines, and floods. After mid 1980s Bangladesh had experienced reducing trend of rural poverty and now the rate is below 40 percent. According to Azam & Imai (2009) and Chowdhury (2008) the poverty trends of Bangladesh are shown by the following table.

Table: 1.1 Poverty trends in Bangladesh in percentage.

<table>
<thead>
<tr>
<th>Year</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>1963-64</td>
<td>-</td>
<td>43.6</td>
</tr>
<tr>
<td>1973-74</td>
<td>37.8</td>
<td>59.9</td>
</tr>
<tr>
<td>1981-82</td>
<td>50.7</td>
<td>79.1</td>
</tr>
<tr>
<td>1983-1984</td>
<td>40.9</td>
<td>53.8</td>
</tr>
<tr>
<td>1988-1989</td>
<td>35.9</td>
<td>49.7</td>
</tr>
<tr>
<td>1991-92</td>
<td>33.6</td>
<td>52.9</td>
</tr>
<tr>
<td>1995-95</td>
<td>35.0</td>
<td>56.7</td>
</tr>
<tr>
<td>2000</td>
<td>36.6</td>
<td>53.1</td>
</tr>
<tr>
<td>2005</td>
<td>28.4</td>
<td>43.8</td>
</tr>
</tbody>
</table>

The developing agencies in Bangladesh engage themselves in developing activities and change the life status of the poor people through social changes and development (Begum, Zaman & Khan, 2004). According to International Development Association (IDA) (2009) micro finance institutions like Granmeen Bank, BRAC has contributed Bangladesh’s progress on economic and social development by reaching microfinance to the country’s 65 percent poor people.
1.8 Micro Finance Sector in Bangladesh

Micro finance is now a country wide program in Bangladesh. There are more than five hundred licensed micro financed institutions, NGOs and Grameen Bank playing dominating role in micro finance sector in Bangladesh. Thirty million borrowers are taking micro credit in Bangladesh where total outstanding loan amount is around BDT 200 billion. After 1990s micro credit sector has grown rapidly but before 1990s only few micro finance institutions were working in this sector. Most of the renowned micro finance institutions in Bangladesh such as Bangladesh Rural Advancement Committee (BRAC), Association for Social Advancement (ASA) were using Grameen Bank lending model at their beginning stage but now they develop their own lending strategy. According to Grameen Bank (2009) and Micro Credit Regulatory Authority of Bangladesh (2009) a brief overview of micro finance sector of Bangladesh are shown by the following table.

Table: 1.2 Microfinance in Bangladesh at a glance as on 2009 (in millions).

<table>
<thead>
<tr>
<th>MFIs</th>
<th>Loans outstanding</th>
<th>Savings</th>
<th>Number of members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grameen Bank</td>
<td>54714.54</td>
<td>44823.49</td>
<td>7.9</td>
</tr>
<tr>
<td>BRAC</td>
<td>45399.62</td>
<td>16989.29</td>
<td>6.4</td>
</tr>
<tr>
<td>ASA</td>
<td>24194.81</td>
<td>7807.94</td>
<td>4.5</td>
</tr>
<tr>
<td>Thengamara Mohila Sabuj Sangha (TMSS)</td>
<td>3428.60</td>
<td>1189.02</td>
<td>0.54</td>
</tr>
<tr>
<td>Others</td>
<td>48858.82</td>
<td>17682.36</td>
<td>8.06</td>
</tr>
</tbody>
</table>

Though there are total more than one thousand micro finance institutions working in Bangladesh but around eighty percent borrowers are served by three major organizations such as Grameen Bank, BRAC and ASA, and have controlled over around eighty percent loan amount and savings. According to Micro Credit Regulatory Authority of Bangladesh (2009) a few facts of NGO- MFIs based micro finance sector of Bangladesh are shown by the following table.
**Table: 1.3** A few facts of NGO- MFIs based micro finance sector of Bangladesh (not included Grameen Bank)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of branches</td>
<td>7733</td>
<td>12156</td>
<td>11461</td>
<td>13636</td>
<td>18022</td>
</tr>
<tr>
<td>Total clients (million)</td>
<td>18.82</td>
<td>22.89</td>
<td>20.83</td>
<td>25.13</td>
<td>24.77</td>
</tr>
<tr>
<td>Total borrowers (million)</td>
<td>13.98</td>
<td>17.18</td>
<td>17.01</td>
<td>20.40</td>
<td>19.50</td>
</tr>
<tr>
<td>Total savings (BDT in millions)</td>
<td>21005.35</td>
<td>27636.12</td>
<td>37759.38</td>
<td>36397.32</td>
<td>43668.61</td>
</tr>
<tr>
<td>Loan outstanding (BDT in millions)</td>
<td>56058.80</td>
<td>75198.71</td>
<td>85872.94</td>
<td>114536.78</td>
<td>121881.85</td>
</tr>
</tbody>
</table>

The table shows that the number of MFIs branches has increased by 133 percent whereas the number of borrowers has increased by 31.48 percent over the last five years.

Micro finance institutions in Bangladesh are becoming independent in terms of fund raising. They are also reducing their dependency on foreign fund. Savings from clients and surplus income from micro credit operations are the two major source of fund for the MFIs. Grameen Bank now finances 100 percent from banks deposits. Other large NGO- MFIs also cover major portion of their finance from their clients' deposits.

According to Micro Credit Regulatory Authority of Bangladesh (2009) fund compositions by the NGO based MFIs are shown by the following table.
Data shows that commercial banks are more interested to give loans to the MFIs but major portions are backed by clients deposit funds. To keep their position strong over the competitors some MFIs are offering other services besides credit services such as insurance products for loan protection and life insurance, remittance transfer services and so on. It means that MFIs in Bangladesh are going to become in sustainable position.

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1 Palli Karma Sahayak Foundation (PKSF) is a government organization who disburse funds to the partner MFIs
1.9 Brief History of Grameen Bank and Micro Credit

Grameen Bank of Bangladesh is established by Dr. Muhammad Yunus. He was the economics professor at the University of Chittagong in southeast Bangladesh till end of seventies. He was also serving as the director of rural research program in that university. He came back to Bangladesh after obtaining PhD degree in economics from Vanderbilt University, United States in 1971 and joined again the teaching profession. He noticed that some people were living with extreme poverty level in the villages surrounding the university campus. He conducted a survey on the village named Jobra\(^2\), a village situated nearby the university campus to know about the reasons of their poverty. He observed that some of the poor women who were bound to sell their handicrafts to the middlemen at a very low rate in compare to market price because these poor women purchased raw materials from those middlemen on credit. They had not enough capital in their hand as well as credit access with the financial institutions. Then he identified there were 42 poor women who had lacked only $ 27 to purchase their raw materials.\(^3\) He realized that unavailability of capital to start up a business was the main reason of their poverty. He lent $ 27 to those 42 poor women from his own pocket and asked them to repay it when they afford it. In the mean while Muhammad Yunus contracted with the formal financial institutions for giving small amount loan to those poor women. All of them refused to give loan due to their lack of collateral. They also argued that the interest income from small amount of loan would not cover their operating cost.

To overcome the credit problem and reduce the poverty level of those poor people Muhammad Yunus discovered a break through idea for lending small amount of loan without collateral with weekly small repayment system called micro credit. In 1983, Grameen Bank became a specialized formal financial institution by a special ordinance of the government of Bangladesh. The word Grameen comes from Bengali word “gram” means village. It is now controlled by the central bank of Bangladesh. Grameen Bank is administrated by the 13 member of board of directors including nine members are the poor borrowers of the bank and three member nominated by the government and one Managing Director of the bank.

By providing small amount of loan to the extremely poor, the Grameen Bank creates the chance of these recipients to become entrepreneur and come out from the poverty cycle (Sengupta & Aubuchon, 2008). But in other countries like Bolivia they incorporate micro credit concept into their formal financial sector and they give micro loan to the urban people as well to start up their own small business to reduce their unemployment level. Though operational procedures may vary from country to country but the objectives of micro credit program is the same to everywhere. The main objective of micro credit program is to alleviate poverty by giving financial support to the poor people to make them employed.

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\(^2\) A village adjacent to Chittagong University, Bangladesh

\(^3\) US Dollar exchange rate rate based on the year of 1976
From its establishment Grameen Bank has experienced tremendous growth rate. As of January 2011, it has 8.35 million borrowers, 97 percent of them are women. According to Grameen Bank (2009), its membership trends by the following figure.

**Figure: 1.1 Grameen Bank Memberships**

Grameen Bank reaches with its services almost 97 percent villages in Bangladesh. It has almost 97.38 percent loan recovery rate (Grameen Bank, 2011).
1.10 Historical Data Series of Grameen Bank

Grameen Bank has crossed long historical journey from its creation in 1976 to achieve its great objective that is a poverty free Bangladesh. Grameen Bank has started its journey with only 10 members from Jobra village. The program was extended to Tangail\(^4\) district with the sponsorship of central bank of Bangladesh and support of nationalized commercial banks in 1979. After the success of Tangail district the project was extended to other districts in Bangladesh and after long journey Grameen Bank come to its present position. Some historical data have shown by the following tables.

**Table: 1.5** Historical data series of Grameen Bank from 1976 to 1990 (in million BDT\(^5\)). (Source: Grameen Bank, 2009)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding loan</td>
<td>0.005</td>
<td>0.054</td>
<td>0.24</td>
<td>1.88</td>
<td>13.19</td>
<td>21.32</td>
<td>31.63</td>
<td>72.07</td>
<td>177.03</td>
<td>225.68</td>
<td>301.51</td>
<td>457.74</td>
<td>723.87</td>
<td>996.95</td>
</tr>
<tr>
<td>Total deposits</td>
<td>-</td>
<td>-</td>
<td>0.00</td>
<td>0.22</td>
<td>1.48</td>
<td>4.23</td>
<td>7.37</td>
<td>18.51</td>
<td>38.33</td>
<td>79.82</td>
<td>122.67</td>
<td>221.88</td>
<td>324.46</td>
<td>566.65</td>
</tr>
<tr>
<td>No. of total members</td>
<td>10</td>
<td>70</td>
<td>290</td>
<td>2200</td>
<td>14830</td>
<td>24128</td>
<td>30416</td>
<td>58320</td>
<td>121114</td>
<td>157248</td>
<td>24128</td>
<td>490363</td>
<td>642263</td>
<td></td>
</tr>
<tr>
<td>No. of village covered</td>
<td>8</td>
<td>2</td>
<td>4</td>
<td>17</td>
<td>363</td>
<td>433</td>
<td>745</td>
<td>1249</td>
<td>2268</td>
<td>3666</td>
<td>5170</td>
<td>7502</td>
<td>10552</td>
<td></td>
</tr>
<tr>
<td>No. of branches</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>6</td>
<td>24</td>
<td>24</td>
<td>54</td>
<td>86</td>
<td>152</td>
<td>226</td>
<td>295</td>
<td>396</td>
<td>501</td>
<td></td>
</tr>
</tbody>
</table>

**Table: 1.6** Historical data series of Grameen Bank from 1991 to 2004 (in million BDT). (Source: Grameen Bank, 2009)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding loan</td>
<td>1270.8</td>
<td>1585.42</td>
<td>3168.88</td>
<td>6166.98</td>
<td>7933.38</td>
<td>8298.88</td>
<td>8639.68</td>
<td>10590.28</td>
<td>1231.68</td>
<td>11035.58</td>
<td>10435.98</td>
<td>11068.08</td>
<td>11395.12</td>
<td>15086.21</td>
<td>18874.64</td>
</tr>
<tr>
<td>Total deposits</td>
<td>851.43</td>
<td>1381.03</td>
<td>2176.32</td>
<td>3150.21</td>
<td>413.56</td>
<td>4767.20</td>
<td>52011.95</td>
<td>5804.35</td>
<td>5404.45</td>
<td>6013.62</td>
<td>6611.85</td>
<td>7697.14</td>
<td>59424.15</td>
<td>14715.75</td>
<td>20717.79</td>
</tr>
<tr>
<td>No. of total member</td>
<td>86953.8</td>
<td>106642.6</td>
<td>142439.95</td>
<td>1814916</td>
<td>2013130</td>
<td>20665.61</td>
<td>2059510</td>
<td>2272503</td>
<td>2368347</td>
<td>257083</td>
<td>2378356</td>
<td>2378601</td>
<td>2488006</td>
<td>3123802</td>
<td>4059632</td>
</tr>
<tr>
<td>No. of village covered</td>
<td>19536</td>
<td>25228</td>
<td>30619</td>
<td>33669</td>
<td>34913</td>
<td>35533</td>
<td>36420</td>
<td>37937</td>
<td>39045</td>
<td>39706</td>
<td>40225</td>
<td>40475</td>
<td>41666</td>
<td>43681</td>
<td>48412</td>
</tr>
<tr>
<td>No. of branch(es)</td>
<td>781</td>
<td>915</td>
<td>1015</td>
<td>1040</td>
<td>1045</td>
<td>1055</td>
<td>1079</td>
<td>1105</td>
<td>1137</td>
<td>1149</td>
<td>1160</td>
<td>1173</td>
<td>1178</td>
<td>1195</td>
<td>1358</td>
</tr>
</tbody>
</table>

\(^4\) A district north of Dhaka, Bangladesh

\(^5\) 1 USD = 73.18 BDT (as on May 19, 2011)
Table: 1.7 Historical data series of Grameen Bank from 2004 to 2009 (in million BDT). (Source: Grameen Bank, 2009).

<table>
<thead>
<tr>
<th>Performance indicator</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total outstanding loan</td>
<td>27357.06</td>
<td>32941.31</td>
<td>36336.3</td>
<td>44396.63</td>
<td>54714.54</td>
</tr>
<tr>
<td>Total deposits</td>
<td>31659.56</td>
<td>44274.47</td>
<td>51918.71</td>
<td>64177.25</td>
<td>82953.62</td>
</tr>
<tr>
<td>No. of total members</td>
<td>5579399</td>
<td>6908704</td>
<td>7411229</td>
<td>7670203</td>
<td>7970616</td>
</tr>
<tr>
<td>No. of village covered</td>
<td>59912</td>
<td>74462</td>
<td>80678</td>
<td>83566</td>
<td>83458</td>
</tr>
<tr>
<td>No. of total branches</td>
<td>1735</td>
<td>2319</td>
<td>2481</td>
<td>2539</td>
<td>2562</td>
</tr>
</tbody>
</table>

These data indicates that Grameen Bank cannot come to its existing position not by one day. They are working since last few decades by fulfilling the borrowers demand. They have tried to establish their faith in the illiterate poor people heart that credit can help to reduce their poverty by creating self income generating activities. As of February 2011, it has 8.36 million borrowers with 2565 branches.

1.11 Types of Grameen Bank Loan

Grameen Bank offers different types of loan products for their customers based on the customer’s choice and needs. They believe that loan should be distributed according to the borrowers’ affordability. They designed their loan products in the following categories.

1. Basic Loan
2. Housing Loan
3. Higher Education Loan
4. Struggling Members (Beggars) Loan Programs and
5. Micro Enterprise Loan.

1.11.1 Basic Loan

Basic loan is also called general loan offered by the Grameen Bank to their borrowers that should be used in the income generating activities. This is the most popular and common type of loan of the Grameen Bank. According to the bank policies this loan should be invested in the income generating activities within one week after getting the loan. And the loan installments supposed to repay from this income. They offer this loan at 20 percent simple interest rate on declining balance method which is less than government ceiling rate 22 percent. Total outstanding loan amount of basic loan up to December 2009 was BDT 51111.96 million (Grameen Bank, 2009).

When the borrowers fell in a position that they are unable to repay the weekly regular installments then the basic loan is converted into flexible loan or reschedule loan, where borrowers have the provision to repay their loan installments at tolerable installment
size. But this provision is only valid till the borrowers are able to go back in the basic loan. At the end of year 2009 only four percent borrowers were in flexible loan. The loan treated as defaulter when the borrowers are unwilling to go flexible loan category and at the same time they are unable to repay their regular installments. After three years loan would be written off and then rate of recovery of total outstanding basic loan amount is close to one hundred percent.

1.11.2 Housing Loan

People fell them secure, pride when they have an own house. It also increases the social status of a person. Grameen Bank also wants to ensure well-mannered but inexpensive housing for the poor people. They introduced housing loan scheme in 1984 for their borrowers at affordable interest rate. The maximum amount for this loan is BDT 25000 at 8 percent annual interest rate for five years tenor repayable at weekly installments. This is also a popular loan scheme of the Grameen Bank. Total outstanding amount of housing loan was BDT 200, 79 up to December 2009 (Grameen Bank, 2009).

1.11.3 Higher Education Loan

Education is one of the basic human needs. It is also the backbone of a nation. Education makes a person civilized and valuable asset for the development of a nation. Due to the financial insolvency sometimes talented students cannot continue their study. To solve this problem Grameen Bank introduced higher education loan in 1997 for the talented children of its borrowers who are perusing higher education in bachelor and masters level. This loan covers admission fees, course fees, accommodation costs, food costs, stationery costs and other related costs during the entire study period. Loan repayment installments starts after finishing the education with the 5 percent annual simple interest rate. Total outstanding amount of higher education loan was BDT 1451, 33 among 40804 students up to December 2009 (Grameen Bank, 2009).

1.11.4 Struggling Members (Beggars) Loan

Begging is the last option of the poor people when they cannot survive themselves unless involve with any illegal activities. Grameen Bank introduced a new loan scheme in 2002 for the beggars to start up the small business activities. This loan is offered at 0 percent interest rate and repayable with very tiny weekly installments. The main goal of this scheme is to transfer these people from this socially neglected profession and reduce their poverty level and gradually promote themselves as general borrowers. Grameen Bank disbursed BDT 142.43 million to 92296 beggars as of December 2009 (Grameen Bank, 2009).

1.11.5 Micro Enterprise Loan

Some of the borrowers of Grameen Bank are performing very well in their business field and want to expand their existing business or start large business. To keep their
growth smooth a new type of loan is introduced called micro enterprise loan. There is no ceiling for this loan. Loan amount is approved based on the valid purpose and requirement. Around 2,179,300 members took this loan amounting BDT 560,68,87 million as of December, 2009 (Grameen Bank, 2009).

1.12 Other Services Offered by Grameen Bank

Besides loan products Grameen Bank provides some additional services for their borrowers. Some services are written below.

1.12.1 Insurance

There are two types of insurance facilities offered by the Grameen Bank for their borrowers. These are 1) Loan insurance and 2) Life insurance program. Loan insurance is an optional program that covers all outstanding loan amounts in case of death of the borrower. For this facility borrowers need to pay 3 percent of the loan and is deposited into the bank’s insurance savings account. If the borrower is alive this amount will be returned to her with interest when she will leave the group permanently. This service also cover borrower’s husband if she pay additional money for insurance. Borrowers need not to pay outstanding loan if their husband died. Grameen Bank also offers life insurance facility for their borrowers but they need not to pay any premium for this facility. Borrowers are covered automatically for being a shareholder of the bank. They get benefit for any serious decease and accidental death.

1.12.2 Pension Fund Program

Every people are worried about their old age when they cannot work or even earn more. This problem is more serious for the poor people. To minimize this problem Grameen Bank is introduced pension fund program for their clients. Here clients can deposit small amount of money monthly basis for a period of ten years. After the period depositors will receive almost double amount money they saved. This is very popular and attractive program to the clients.
2 Frame of Reference

This chapter, as Frame of Reference Chapter focus on micro credit related literature, theories and previous studies. This chapter discuss about micro credit, micro finance institutions and its difference from formal and informal financial institutions, poverty, basic needs, rural savings, social welfare services offered by micro finance institutions, poor entrepreneurship and different micro finance model. These theories are used for understanding and formulating the thesis problem. Based on these theories I developed a conceptual framework that shows the role of micro credit in life status improvement process of rural poor people.

2.1 Formal Financial Sector and Rural Poor People

Formal financial institutions (i.e. banks, leasing companies and other financial institutions) in developing countries are urban based. They prefer to set up their bank branches and service centers in urban areas. Their target market for collecting deposit and lending activities is urban area. They require significant collateral, preference for high income and high loan clients, and have lengthy and bureaucratic application procedures. Poor infrastructure and communication system also discourage the formal financial institutions to serve the poor area in developing countries (Chowdhury, Ghosh & Wright, 2005).

Most of the people in developing countries like Bangladesh live in rural areas and most of them are uneducated. They have not enough knowledge about the formal banking systems. It is not possible in terms of economic consideration for the formal financial institutions to select qualified customers from the rural areas as well as monitor them individually. Due to lack of education and knowledge, rural people do not know about the value of collateral. Collateral is an important factor for getting loan from formal financial institutions (Chowdhury, 2008). And the value of the loan also determine based on the value of the collateral. But the poor people do not have enough physical assets as collateral to get a loan. When the formal financial institutions sanction a loan first they think about the security option means the recovery options of the loan and this is backed by the collateral.

Another requirement for getting credit facilities from formal financial institution is minimum level of education. For getting loan customers must have some minimum level of education. The minimum level of education varies from organization to organization. In general primary level of education is compulsory for all the customers of the formal financial sectors. But most of the people in rural areas are uneducated or cannot satisfy their minimum level. Due to literacy requirement poor people are also keep outside from their services (Yunus, 1999).

Another important requirement is acceptable level of income source and living standard. Most of the rural poor people are engaging with firming related works or even some of them have no fixed income source. They live below the poverty line. Due to their
inability to fulfill this requirement they are not getting credit facilities from the formal financial institutions (Yunus, 2003).

2.2 Informal Financial Sector and Rural Poor People

Financial dualism is an important characteristic in developing countries. Informal financial sector emerges in developing countries to fulfill the gap of formal financial sector and develop the economy. Informal financial intermediation is the mobilization of capital from savers and its simultaneous transformation and allocation to meet the needs of borrowers, as performed by informal financial agents (Christensen, 1993). It tends to be smaller and shorter duration than formal (Ghate, 1992). They are working outside the government regulation and control. Informal financial agents may be neighbor, friends, relatives, landowners, professional money lenders, merchant and shopkeepers, and also money keepers.

Money lenders in informal financial sector usually charge high interest rates, undervalue collateral, and often racist or sexist attitudes in lending decisions (Chowdhury, Ghosh & Wright, 2005). Lenders of informal credit are more interested in interest earnings rather than recovering principles. Lenders in remote areas in developing countries fix high interest rate that encourages the borrowers to make defaulter. And even sometimes borrowers cannot adjust their loan by collateral due to under valuation. It is like a circle. It is very difficult to come out from this cycle though borrowers repay the loan. Ultimately poor people become poorer and have less assets.

So, informal financial sector also fail to serve the rural poor people in developing countries due to their extra profit making objectives.

2.3 Micro Credit

The word micro credit did not exist before the seventies. Traditionally the poor have had little access to credit (Mckernan, 2002). Micro credit is a grass roots development policy that provide small amount of loan to the poor people in developing countries. It is a small amount of collateral free loan to groups of jointly liable borrowers in order to foster income generation and poverty reduction through self employment (Chowdhury, Ghosh & Wright, 2005). This social collateral removes the physical collateral that poor people have lacked (Nawaz, 2010). It is a new approach to fight poverty (Nieto, Cinca & Molinero, 2005). Micro credit loan mainly directed towards women because they are good in organization, more conscious about the credit, and high propensity to repay the loan, restricted access to the wage labor market, and inequitable share of power in household decision making (Goetz & Gupta, 1996; Pitt, Khandker & Cartwright, 2003). Though women are the participants of micro credit but in most cases this loan is used for the family purpose (Goetz & Gupta, 1996).
This innovative credit program for the poor people was first introduced by Muhammad Yunus in 1976 in Bangladesh.

Group based micro credit program provides an innovative and promising mechanism for delivering credit to the poor (Mckernan, 2002). Interested members form small group usually five members in a group by their own choice with similar socio economic status and from the same village. They select one person from the group as leader who collaborate with MFIs. This joint liability encourages the group members to monitor each other to ensure that loans are repaid. It follows small amount of weekly repayment system. All lending decisions, repayment, group formation have done in weekly meeting. Micro credit that help the poor become self employed and generate income (Khandker, 2005).

2.4 Micro Finance Institutions (MFIs)

From my previous discussion it is clear that formal financial institutions are not interested to provide credit facilities to the poor people due to their inability to fulfill the requirements. But poor people have the ability to create income generating activities and reduce their poverty and make them employed. To meet this demand a new type of financial intermediaries has been emerged called micro finance institutions. Micro finance is an institution whose aim is to provide financial services especially to the poor women who have not access to the formal financial institutions. It includes credit unions, non government organizations (NGOs), co-operative society or specialized banks (Greuning, Gallardo & Randhawa, 1998). Grameen Bank of Bangladesh is the first micro finance institute in the world, established by Muhammad Yunus in 1983.

Micro finance institutions have shown their diversified roles to reach poor populations. They are not only involved with loan but also collecting money as deposit, insurance and fund mobilization among the borrowers. They provide credit facilities as well as social services to borrowers (Nieto, Cinca & Molinero, 2005). This is one of the major
differences between the formal financial institutions and MFIs. Group lending, weekly small amount repayment are the distinguish characteristics of micro finance institutions compare to formal financial institutions. They have proven that poor people are bankable (Yunus, 1999). Because MFIs loan recovery rate is very satisfactory which is almost 98 percent (Microcredit Regularity Authority of Bangladesh, 2009)? This is one of their major achievements. They help the poor people to change their fortune by reducing poverty that ultimately affect their whole life.

2.5 Poverty

Poverty is a multidimensional concept (Chavan & Ramakumur, 2002; Nawaz, 2010). There is no exact definition of poverty. Poverty varies from country to country, family to family or even individual to individual. So, it is very difficult to describe what poverty is in a single sentence.

Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one’s life (Haughton & Khandker, 2009).

A person or family is defined as poor if its resources fall short of the poverty threshold (Foster, 1998). So, a person can be called poor when he lacks the resources that cannot secure his diet, good health, education, social security, indebtedness, clean water and sanitation and other basic needs (Jitsuchon, 2001). Poverty can be measured by comparing resources to needs (Foster, 1998). It is also the issue of inequality (Sen, 1983).

Poverty broadly categorized into two types. These are relative and absolute poverty. Relative poverty is mostly visible in developed countries due to inequality of income distribution. Relative poverty is the deprivation in terms of a person or a household being able to achieve less than what others in the society do (Sen, 1983). Most serious type of poverty means absolute poverty is visible in developing and under developed countries. According to Gordon (2005) absolute poverty is “a condition characterized by serve deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services.” Absolute poverty mostly happens in under develop and developing countries. People having absolute poverty live under the poverty level. And micro credit only concentrates on absolute poverty in the developing countries like Bangladesh.

2.6 Basic Needs

“Everyone has the right to a standard of living adequate for the health and well being of himself and of his family, including food, clothing, housing and medical care and necessary social services (United Nations, 1948).” A household is defined as poor if their food, clothing, medical, education and other needs are not met (Glewwe & Gaag,
1990). There is a close relationship exists between basic needs satisfaction and income level (Goldstein, 1985).

Everybody has the right to live in this world by fulfilling at least all the basic needs. But millions of people still lack the basic human requirements for living. It is essential to develop our self as a human being. Poor people of developing countries are mostly suffering in this problem due to the lack of income source. Government supports are also not adequate for all the poor people in developing countries. Fulfilling basic human needs are the major goal for alleviating poverty. A acceptable level of income source help the poor people to ensure all the basic human needs for themselves and their family members as well.

### 2.7 Micro Credit Program Promotes Micro Entrepreneurship and Self Employment

Entrepreneurship is about the creation of new business entity or updating the existing business entity by taking risk, in order to take the new business opportunities (Barringer & Ireland, 2006). Micro entrepreneurship is the creation of small business entity or updating existing small business entity by investing small amount of capital. For example: small restaurant, small departmental store, repair stores, handicraft shops, bakeries etc. The poor people have the entrepreneurial skills but due to proper financial support they cannot start their own business entity to make them employed and alleviates their poverty.

Finance plays an essential role in the economic development (Drioadisuryo & Cloud, 1999). Without access to financial capital poor people face a tremendous problem to establish and expand business, increase their labor productivity and increase their income (Woller & Woodworth, 2001). Micro credit has become a popular instrument to promote economic empowerment among poor entrepreneurs (Roy & Alliance, 2005). Micro credit programs increase self employment productivity (McKernan, 2002). There are two types of employment opportunities available in rural areas. People can do agricultural activities such as farming, fishing, gardening, and livestock and so on. They can also do non agricultural activities such as small enterprises, street vendors, and small restaurants and so on. Micro credit programs mainly help the landless people who are holding less than half of an acre of land by providing credit facilities to startup a new activity or expand old ones. It allows the poor people to become self employed who sell their labor in the labor market. Though micro credit is given to women but they use this loan in their husband’s or other family member’s self employed activities by setting up micro credit financed small enterprises. Because, these enterprises require male labor for marketing and other purposes (Khandker, Samad & Khan, 1998).

### 2.8 Micro Credit Program and the Poor Empowerment

“Empowerment is the expansion of assets and capabilities of poor people to participate in negotiate with, influence, control, and hold accountable institutions that affect their lives (Prem, 2002).” From the previous discussion it is clear that poverty is multidimensional. Poor people are power and voice less against the rich in the society
due to their poverty. To empower the poor men and women it is necessary to remove the formal and informal financial sector barriers and ensure credit facilities to make them employed. Micro finance institutions are working to ensure the credit facilities for the rural poor people by micro credit program.

In developing countries women participations in the labor market are considered to hinder for social and cultural norms. These restrictions bound the women not to participate in the income generating activities to improve their living standard. Micro credit programs make the women as an active person in the family. Women use this loan in their family income generating activities that will alleviate their whole family’s poverty level, improve living standard. Micro credit program increase the economic and social empowerment of the poor people. It will increase their ability to make personal and collective decisions, access to cultural, social, and political events (Mahmud, 2003).

2.9 Micro Credit Program and Social Welfare

Micro finance institutions not only provide loan facilities but also different social welfare services to their borrowers. BRAC6 focus also on human capital development such as functional literacy, skill promoting training, and awareness and so on other than their credit services (Khandker, Hussain & Khan, 1998). MFIs provide credit as well as non credit supports such as vocational training, suggestions and so on to the poor to initiate self employment activities, which increase their income and consumption. However, borrowers should have some entrepreneurial skills to engage them income generating activities to generate enough income to pay off the loan and personal saving. Income and employment also depends on country’s economic growth (Khandker, Samad & Khan, 1998).

Micro credit program is also improves nutrition, health care, and educational opportunities for the children (Sengupta & Aubuchon, 2008). Some micro finance institutions also provide family planning services, night school for aged people’s education and so on. This is one of the major distinctions between formal financial institutions and micro credit institutions. Formal financial institutions provide only credit facilities to their borrowers. That’s why micro credit program is a new innovation for the rural poor. It fulfills financial needs as well as social needs.

2.10 Micro Credit Program and Rural Savings

Micro credit program is a combination of savings and credit programs. Micro finance institutions offer saving services to the poor besides the credit services. Some micro finance institutions offer saving facilities to the poor who are not member of their organization. After paying off the loan installment and consumption expenses rural poor can save some of their earning with the MFIs for future purposes. Increase in income and alleviation of poverty on a permanent basis depends on the savings by the poor people. Every member of the group deposit money in weekly basis. Members can take

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6 Bangladesh Rural Accelerated Committee (BRAC) is a NGO in Bangladesh
interest free loan up to half of the total group savings by the approval of all members of that group. Savings increase their self confidence and self worth (Maclsaac, 1997).

There are two types of savings products are available in MFIs. One is Obligatory savings and other is flexible savings (Dowla & Alamgir, 2003). Compulsory savings means it is compulsory for all the members to deposit money as savings for getting loan. But in case of compulsory savings members can not withdraw the savings unless the members decided to leave the organization permanently. This savings works like cash collateral of the loan. And flexible savings includes other saving schemes besides the compulsory savings. People need not go far to deposits money with banks. They get this service at their door. They can also withdraw money easily when they need.

Savings is both important for the borrowers as well as MFIs. Poor people can use their savings in expanding their businesses or setup a new business or for family purposes. It is also important for the MFIs. They mobilize this savings among the borrowers. It will increase the sustainability of the MFIs and also reducing the dependency on the donor agencies.
2.11 Conceptual Framework

A lot of research work has been done on micro credit, while here I am focusing on the role of micro credit and how it helps to improve the life status of its borrowers and their families since most of the borrowers are rural poor people who are neglected from formal financial services. For my thesis work I have studied how borrowers use this loan, what kind of income generating activities they are adopting, how to reduce their poverty level, how to influence the services other than credit offered by MFIs such as savings program, pension fund scheme, social welfare services in the poor people’s life to improve their life status.

The main objective of micro credit is to reduce poverty and improve life status of the rural poor people by providing capital for starting income generating activities. I have compared theories which are discussed above with the empirical data and tried to find out how micro credit plays an important role to reduce the poverty and improve the life status of the rural poor people in Bangladesh.

Most of the borrowers are investing this loan either in the existing or developing new business entity. It helps the poor people to be a micro entrepreneur.

The basic conceptual frame work of my thesis work has shown by the following graph.

Figure: 2-2 Conceptual framework
3 Methodological Considerations

This chapter, as Methodological Considerations chapter represents the method which is adopted in this thesis. This chapter gives argument why interview method and qualitative approach is perfect for this thesis work.

“Research is a process of planning, executing and investing in order to find answers to our specific questions (Ghauri & Grønhaug, 2010, pg. 45).” According to them it is very important to do the investigation in a systematic way to get the reliable answers to the questions. It will increase the understandability and reliability of the report to the others.

3.1 Choice of Method

It is necessary to state an approach to make the study understandable and important to the reader. Research methods are working as a tool to solve problems (Ghauri & Grønhaug, 2010). Qualitative research is multi method in focus. A variety of empirical materials could be used such as case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts in the qualitative research (Denzin & Linquen, 1994). According to the Miles and Huberman (1994) qualitative research is conducted through an intense contact with a field or life situation.

The purpose of this study is to explore the impact of micro credit program on rural poor people’s daily life status improvement in rural areas of Bangladesh. Primary data were collected from the participants of micro credit program means from the borrowers of micro credit program and also from the bank personnel. Moreover, secondary data were also important for this study. Relevant secondary data were collected from different available sources such as websites, annual reports, and publications and so on.

Qualitative approach was more appropriate for this study. Because, qualitative data usually in the form of word rather than numbers. And the words are based on observations, interviews or documents (Miles and Huberman, 1994). Qualitative data also emphasis on the people lives including their assumptions, perceptions, prejudgments etc. To fulfill the purpose of this study it was important to talk with the borrowers of micro credit program to know how is micro credit influencing their everyday life including income generation, poverty alleviation, savings, and basic needs and so on. It was important to talk with bank personnel to know about the micro credit program, policies, and operational procedures. Both the information was helpful in the whole discussion. All these reasons encouraged me to select qualitative approach for this study.
3.2 Data Collection

3.2.1 Primary Data Collection

Primary data are collected to answer the research question. Primary data enable the author to deal the problem at hand. Primary data are more consistent and accurate to the research questions and objective because they are collected for the particular project at hand (Ghauri & GrØnhaug, 2010). Primary data also give us the background information which is very essential for better output of the study. If we want to know about people’s attentions, attitudes primary data is the perfect solution for us. There are several ways to collect primary data such as observation, experiment, interview or survey. The purpose of this study is to assess the impact of micro credit program on rural poor people’s daily life status improvement in rural areas of Bangladesh. In this case primary data were collected from the borrowers and the bank personnel by conducting telephonic interview. I thought interview was the best option to collect more information because interview demand real interaction between the researcher and the respondents (Ghauri & GrØnhaug, 2010).

3.2.2 Interviews

Interview is the favorite methodological tool of the qualitative research (Denzin & Linclon, 1994). It is the art of asking questions to the respondents and listening answers from them. According to Ghauri & GrØnhaug (2010) interview is the best method for primary data collection. It is also the most powerful way to understand human beings. It also gives an opportunity to the researcher to collect data as much as required. Interview has wide variety of forms and uses. It can be conducted by mail, telephone or in person.

**Figure: 3-1** Typology of interviews (Ghauri & GrØnhaug, 2010, pp 125).

Interview has both advantage and disadvantages. The advantageous site of interview is that we can get more clear and accurate data about the respondent. Researcher is free to
ask any questions as per his own choice and thinking. If the respondents are unable to understand anything about the interview topic the interviewer can explain it more to the respondents. I will ensure to accuracy and reliability of the data. Drawback of interview is that it takes more time to answer the questions. Sometimes the respondents become bore that may lead to inappropriate answers. Success of interview also depends on the quality of interviewer. In interview lots of junk information may be exists with the useful information. Accuracy of data also depends on the data filter ability of the researcher.

According to Ghauri & GrØnhaug (2010) there are two types interview in the research. These are survey research or structured interviews and unstructured interviews. I use standard format of interview where as unstructured interview the respondents are free to give their own answer and there are no predefined questions and format. Another type of interview also discussed in the literature called semi structured interviews. In semi structured interview topic and issue to be covered, sample sizes, people to be interview and questions to be asked have been selected by the beforehand to reduce bias.

### 3.2.3 Process of Interview

It is necessary to follow some steps for an effective interview. Total output of a study depends on the empirical data. Interview is the most important tool for collecting empirical data in qualitative research method. Ghauri & GrØnhaug (2010) have been suggested some process for an interview. I have followed their process of interview in this study and these processes are written below.

### 3.2.4 Preparing for Interview

It is necessary to take preparation before going to start a work. Preparation for taking an interview can be divided into the following steps.

#### 3.2.4.1 First Step of Preparing Interview

The first steps in preparing for interview are to: 1) analysis the research problem, 2) understand what information really need to have from interview, and 3) select appropriate person would be able to provide information. Research question of this study was clearly known to me. I knew very well which types of information have required for this study. To answer my research question I have selected centre manager of Grameen Bank because they are always involving with the borrowers and they know very well about the borrower. I have also selected branch manager to know about the bank’s products, policies and procedures. I have selected 10 borrowers from Mazira Branch of Grameen Bank to know about how micro credit influencing in their daily life improvement. I have chosen borrowers based on random sampling from Mazira Branch for two reasons. First is most of the borrowers of this branch improved their life status by joining micro credit program and another reason is easy accessibility.
3.2.4.2 Second Step of Preparing Interview

The second step in preparing for interview is to draft an interview guide or interview questions. It is very important to prepare the interview question based on the research question. I tried my best to prepare questionnaire in simple way and make it understandable to borrowers because most of the borrowers was not educated. Because it is very important to make the research question clear to the respondents while conducting an interview. Before conducting the final interview I have tested my questionnaire on two borrowers to check its understandability. And it was found satisfactory.

3.2.4.3 Third Step of Preparing Interview

Now it is the time to contact with the target respondents. Respondents may be busy with their regular work. So, it is better to contact with them few days before the final interview. It is also necessary to disclose the purpose the interview, estimated time for interview, type of interview, materials to be used such as tape recorder, video recorder. I have talked with the centre manager and branch manager of Mazira Branch\(^7\) of Grameen Bank over telephone and discussed about my thesis. They were very interested about my thesis. They agreed to give time at weekend. With the help of my friend in Bangladesh I have also talked with the borrowers of Grameen Bank over the telephone and told them about my thesis. They agreed to give time for interview at any suitable time.

3.2.5 Pre-Interview

After getting appointment from the respondents the interviewer should take in home preparation for the interview. Interviewer needs to consider how to talk with the interviewee, how to manage his time, how should dress and so on. As I conducted my interview over telephone, so it was important for me how to manage my time, my language, conversation during the interview session. I prepared myself before conducting the final interview.

3.2.6 The Interview

Empirical material for this study was collected through interview. I have conducted two types of interview for this study. Structured interview was for the borrowers and unstructured interviews for the bank personnel of Grameen Bank.

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\(^7\) Mazira is a place under the district of Bogra situated in the northern part of Bangladesh
3.2.6.1 Structured Interview

Structured interview is a situation where an interviewer asks a series of predefined questions to all the respondents with a limited set of response categories. All the respondents receive same type of questions with same order. Interviews by telephone, face to face interviews in households, shopping malls, and parks are included in this method (Denzin & Linclon, 1994).

I have chosen structured interview method for the borrowers because most of them were uneducated. It would be very difficult for them to answer the unstructured questions. They could not be understood the academic terminologies. So, there was a chance to misunderstand the questions. It is very important for a research work to ensure every respondent suppose to understand all the questions in the questionnaire. Otherwise the ultimate result of the work cannot be achieved. Structured interview method is perfect for both educated and uneducated. Here everything is structured and predefined. Borrowers felt comfortable to give their answers during the interview session. It is important to mention that all the interviews with the borrowers were conducted through local language. I was so alert while converting the question so that the original meaning remain same.

Table: 3.1 Process of structured interview

<table>
<thead>
<tr>
<th>No of Borrowers</th>
<th>Name of the borrowers</th>
<th>Interview date</th>
<th>Sex</th>
<th>Age (years)</th>
<th>Duration (min.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>Bulbuli Akhter</td>
<td>May 01, 2011</td>
<td>F</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>02</td>
<td>Zulekha Hasan</td>
<td>May 01, 2011</td>
<td>F</td>
<td>33</td>
<td>15</td>
</tr>
<tr>
<td>03</td>
<td>Sumitra Rani</td>
<td>May 01, 2011</td>
<td>F</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>04</td>
<td>Silpi</td>
<td>May 01, 2011</td>
<td>F</td>
<td>24</td>
<td>13</td>
</tr>
<tr>
<td>05</td>
<td>Sokhimon Begum</td>
<td>May 03, 2011</td>
<td>F</td>
<td>40</td>
<td>15</td>
</tr>
<tr>
<td>06</td>
<td>Joshna Begum</td>
<td>May 03, 2011</td>
<td>F</td>
<td>33</td>
<td>12</td>
</tr>
<tr>
<td>07</td>
<td>Momotaz Badsha</td>
<td>May 03, 2011</td>
<td>F</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>08</td>
<td>Sahara Banu</td>
<td>May 05, 2011</td>
<td>F</td>
<td>45</td>
<td>14</td>
</tr>
<tr>
<td>09</td>
<td>Sefali Banu</td>
<td>May 05, 2011</td>
<td>F</td>
<td>28</td>
<td>13</td>
</tr>
<tr>
<td>10</td>
<td>Jahura Begum</td>
<td>May 05, 2011</td>
<td>F</td>
<td>45</td>
<td>15</td>
</tr>
</tbody>
</table>

I used both open ended and closed ended questions in the questionnaire. The main reason was to give flexibility to the respondents so that they could able to give more
information about how to influence micro credit program in the daily life status improvement. I tried to cover all the aspect in the questionnaire from general to specific information about the borrowers’ daily status improvement by involving with the micro credit program. I have spent 15 minutes for each interview over the telephone. Interviews were smooth without any interruption.

### 3.2.6.2 Unstructured Interview

Unstructured interview is a situation where interviewer does not ask any predefined set of questions to the respondents during the interview session. This method provides a greater breadth idea about the selected issue than any other types of method of interview (Denzin & Linclon, 1994). Unstructured interview gives opportunity to the interviewees to discuss all the aspects that have found similar with the selected topics. Here respondent is given full liberty to discuss reactions, opinions and behavior on a particular issue (Ghauri & GrØnhaug, 2010).

<table>
<thead>
<tr>
<th>No of Interviewees</th>
<th>Interview date</th>
<th>Name and position</th>
<th>Duration (min.)</th>
<th>Issue Discussed</th>
</tr>
</thead>
<tbody>
<tr>
<td>01</td>
<td>May 06, 2011</td>
<td>Golam Sarwar, Branch Manager</td>
<td>50</td>
<td>Loan approval procedure, repayment system, bank’s rules and policies</td>
</tr>
<tr>
<td>02</td>
<td>May 06, 2011</td>
<td>Enamul Haque, Centre Manager</td>
<td>45</td>
<td>Group formation, group meeting, borrowers motivation, how to use loan of the borrowers and so on</td>
</tr>
<tr>
<td>03</td>
<td>May 07, 2011</td>
<td>Abdus Samad, Second Officer</td>
<td>30</td>
<td>Bank’s rules and regulations</td>
</tr>
</tbody>
</table>

I have interviewed centre manager and branch manager of Mazira Branch of Grameen Bank by unstructured interview method with open ended questions. I have asked them to know about micro credit, its working procedures, interest rates, repayment schedule, savings programs, insurance facilities and other services besides credit facilities and so
on. I have also asked them about the history of Bank, their financial condition, product categories, and outreach strategies to cover more poor people with their services.

3.2.7 Post Interview

After completing my interview session I have written all the important points and other practical details, respondents’ personal opinion from the interview. All these information will be helpful to the researcher when he writes report (Ghauri & GrØnhaug, 2010). These may also help the researcher when he needs extra information besides questionnaire. I called the bank personnel to give my greetings for their cooperation during the interview process.

3.3 Secondary Data

Secondary data were collected for this thesis work from scientific and news articles, books, webpage of Grameen Bank, World Bank, United Nations, Microfinance Gateway, central bank of Bangladesh, microcredit regularity authority of Bangladesh and their publications to know more about the micro credit, roles of micro credit and micro finance institutions like Grameen Bank. All those information helped me to draw my research problem, research questions, and frame of reference more relevant.

3.4 Analysis of Empirical Material

Huberman and Miles (1994) state that material collected from interview is not immediately ready for analysis, therefore a process is required to use the information in the analysis. Data collection and analysis are often conducted simultaneously in qualitative research. Every data carries information. Data collected through interview are like raw material. Analysis process is required to convert these data into information. But all the data are not relevant for the research work. Research may be overwhelmed by the mass of data. In the analysis process researcher dissects, reduces, sorts and reconstitutes data for better understanding, clarify problems and test hypothesis (Ghauri & GrØnhaug, 2010). Huberman and Miles (1994) developed an approach for analysis qualitative consisting of three main process.

First is data reduction. Data reduction refers to the process of selecting, focusing, simplifying, abstracting, and transforming the collected data into meaningful objects. This process starts after the field work and continues until the completion of final report (Huberman and Miles, 1994). Data reduction decision has taken by the researcher based on which data is more appropriate for drawing final conclusion. It is a very sensitive process and the researcher must careful about the originality of the data. After collecting all the empirical data I read all of them and then made summary of those data.

The second step is data display. Data display refers to organize, compress and assembly of the selected data that will be used in the conclusion drawing and action process in the study. Data display can be in the form of data matrices, graphs, charts and networks (Huberman and Miles, 1994). Data display reduces the complexity and make the data
simple because it is quite impossible for a human being to analyze large amounts of information within a short time. We can make immediate comment by seeing a graph for a particular situation.

Figure: 3-2 Components of data analysis interactive model (Huberman and Miles, 1994, pp 12)

The third and final step of analysis activity is drawing conclusion and verification. Here researchers draw the conclusion of their study from the displayed data. At the initial stage conclusion of a study is in vague position and becomes explicit and grounded and the final conclusion can be drawn when the data collection is over. After drawing the conclusion data will be verified to ensure its originality and validity.

3.5 Trustworthiness

To ensure the reliability of a qualitative research, it is crucial to examine trustworthiness of the study (Golafshani, 2003). Trustworthiness consists of validity and reliability.

Validity refers to whether the findings are really about what they appear to be about (Saunders, Lewis & Thornhill, 2007). In another words validity ensures the truth of the findings (Silverman, 2000). It is very important to use non biased questions in the questionnaire to ensure the validity of the collected data. It is also important to ensure that the respondents are not influenced by any behavior of the interviewers. To keep the data valid interviewers must understand all answers of the collected data and also the interviewees must understand all the questions delivered by the interviewers (Saunders et al., 2007).

Reliability refers to ensure that the techniques of data collection and analysis procedures will produce consistent and reliable results of a study if other researchers do the same research with the same data (Saunders et al., 2007). So reliability of a study depends on when another researcher conducts same types new of research with same objectives and
methods. High degree of reliability of a study means the results are repeatable (Golafshani, 2003).

I used interview approach in this thesis work for collecting primary data. So it was like a challenge for me to prepare an easy and understandable questionnaire. Since the borrowers are not educated enough to understand the academic words. The questionnaire was carefully formed to avoid the biased questions and was in neutral position during the interview session to ensure the actual picture of the borrowers’ feedback. Validity of this study mostly depends on their feedback.

3.6 Generalization

There are around thirty million borrowers are involving with the micro credit program in Bangladesh. Empirical data have been collected from ten borrowers of Grameen Bank for this thesis work. This number is very small in compare to all the micro credit borrowers in Bangladesh. So, it would be wrong to claim that the findings of this study are applicable for all the borrowers. However, I cannot see any reason why the findings would be substantially different among all the borrowers since all the borrowers have been selected from same country and same socio economic conditions and main motive for all the borrowers to join in the micro program for alleviating poverty and improves the life status by doing self income generating activities.
4 Empirical Findings

This chapter as Empirical Findings chapter represents the empirical data collected through interviews of borrowers and officials of Grameen Bank in Bangladesh. And the last part gives a brief summary of this chapter.

4.1 Borrowers of Grameen Bank

In order to know the role of micro credit in rural poor people’s life status improvement process I have interviewed ten Grameen Bank borrowers. From the interview I have seen that most of the borrowers along with their husband invest micro credit for starting self income generating activities. After conducting interview of the borrowers data was analyzed according to Huberman and Miles data analysis model. The stories of these borrowers are written below.

4.1.1 Bulbuli Akhter

Bulbuli Akhter is 38 years old female living with her husband in Mazira, Bogra, Bangladesh. She has completed primary level of education and has two daughters and one son. Her husband has a small medicine store in the nearest village market. Her children are studying in school. Now she has very happy time with her husband and children.

Bulbuli Akhter’s family condition was not same as now in few years back. They have suffered huge financial crisis and could not ensure foods and other basic needs such as clothing, medicine, good housing, and education for Childs and so on. Her husband had been working in a medicine store with small payment. His income was not sufficient to maintain their family. To relief from financial crisis Bulbuli joined Grameen Bank in 2005 and obtained initial amount BDT 10000 Basic loan. She gave this loan to her husband for starting own medicine store. Though BDT 10000 was very small amount for doing the medicine business, but good relationship with the wholesaler made it possible. His store locates in the centre point of the market. Within very short time his store became popular. After adjusting the first loan successfully Bulbuli applied for higher amount loan to expand the business. Due to the good repayment history Grameen Bank sanctioned BDT 25000 Basic loan in 2007 for expanding her husband’s business. Her husband expanded his existing business after getting the loan. And at the same time his business volume also increased. She also adjusted second loan successfully in 2008. As business increased, demand for products also increased. To catch that opportunity Bulbuli and her husband planned to expand the business again. She applied again for loan and has obtained BDT 35000 Basic loan in end of 2009 and BDT 40000 Micro Enterprise loan in January 2010. Now almost all the major items of medicine are available in his shop. Both loans are repaying regularly in every weeks. As her comment they are now financially solvent and living a prestigious life in the society.
Bulbuli is taking monthly saving scheme of BDT 500 and has a plan draw this money in their daughters’ marriage ceremony.

4.1.2 Zulekha Hasan

Zulekha Hasan is 33 years old female living with husband in Mazira, Bogra, Bangladesh. She has completed high school level education and has two sons. Both of her sons are studying in the school. Her husband has departmental business in the nearest market and she has poultry firm in her house.

Eight years before Zulekha got marry when her husband had a small tea shop in the village market. They lived in a rented house. Her husband’s income was not sufficient enough to bear family expenses. Sometimes she was also working in neighbors’ house for extra income. But they could not escape poverty. In 2005 she joined Grameen Bank and applied for micro credit. She obtained BDT 10000 Basic loan and gave it to her husband for doing something. Her husband had modified his tea business and included some bakery items with tea. His business was going well after modification. His earning from business was also increased. Zulekha adjusted her first loan on due time. In 2008 she applied again for higher amount of loan in Grameen Bank for the expansion of his husband’s business. She got BDT 20000 Basic loan and used that loan in her husband’s business. He introduced more cookies items in his shop. As per Zulekha’s comment “it was the turning point of their financial solvency.” Because her husband’s business was grew more rapidly after introducing bakery items. Gradually he stopped to sell tea due to higher demand of bakery items. She also adjusted her second loan successfully on due time. To expand the business more, she took again Basic loan of BDT 30000 in 2010. Now her husband is an established departmental business man. They are now living in their own house. Zulekha took BDT 20000 Micro Enterprise loan in January 2011 for doing poultry firm in her house. She is expecting satisfactory earnings from this firm. Her two sons are studying in the school. They can now at least fulfill all the major needs of their life. As per her comments they are now in more better position than before in terms of financial, social issues. They never thought they will able to come out from the poverty cycle. She is also taking Grameen Bank’s saving scheme as well for their future benefits. She is grateful to Grameen Bank for providing loan without any security which brings a positive change in their family.

4.1.3 Sumitra Rani

Sumitra Rani is 38 years old female living with husband in Mazira, Bogra, Bangladesh. She has no formal education at all and has one son and one daughter. Her daughter is married and living with husband and her son is studying in the college. She has a poultry firm in her house and professionally her husband is a farmer.

Sumitra and her family passed a very miserable life because her husband had not any fixed income source. She was working in neighbors’ house with small payments which was not enough to survive her family. According to her comments sometimes they passed a day without having food in three times. But now they can reduce their poverty level by creating income generating sources by her and her husband. She told that “her husband always wanted to do something but due to lack of capital he could not do
anything.” She joined Grameen Bank in 2005 and applied for loan. She got BDT 10000 Basic loan in the same year. After getting this loan her husband started to cultivate crops by taking few lands from other person as lease. Cultivating business is a good source of income for rural poor people in Bangladesh. First year he made some profits by selling crops. She adjusted the first loan successfully on due time. To take more lands she applied again in Grameen Bank for loan in 2007 and got BDT 30000 Basic loan. Her husband took more lands and started to cultivate different kind of crops. Now he is earning money all around the year by selling these crops and also personal use as well. The second loan also adjusted in 2008. He can now fulfill the most basic needs for his family. To be more financially solvent Sumitra took again Basic loan of BDT 70000 from Grameen Bank in 2010. She bought three high quality cows and started to poultry firm in her house. She is expecting a good return from his firm by selling milk. She is also taking saving scheme of BDT 200 per month. As per her comments they are not fully come out from the poverty but they can able to improve their condition in terms of financial and social issues. But she believes that very soon they will come out from the poverty cycle and Grameen Bank creates this dream in her mind.

4.1.4 Silpi

Silpi is 24 years old female living with husband in Mazira, Bogra, Bangladesh. She has primary level of education and has one daughter. Her husband is a rickshaw puller.8 They are now passing better time than before in terms of financial and social issues.

Few years before Silpi’s husband had not any fixed income source. They were passing a bad time due to financial crisis. They could not meet up their basic needs. Socially they were also ignorant person. To be self employed her husband wanted to buy a rickshaw but he had no capital in his hand. Silpi joined in Grameen Bank in 2010 and applied for loan. She got BDT 10000 Basic loan and gave it to her husband for purchasing rickshaw. Her husband is now earning on regular basis. He can bear all his family expenses and repay the loan installment from his earnings. Her family condition improves a bit than before when her husband was unemployed. Only two months left to adjust her loan. Silpi told that “it is true that my family is still in poverty cycle but I am confident one day I must able to come out from the poverty cycle if I will get proper capital support.” She has a plan to take another loan for poultry firm after adjusting the existing loan. She is also taking monthly savings scheme of BDT 200. Silpi and her husband have a plan to open a small restaurant business in next year by taking Micro Enterprise loan from Grameen Bank.

4.1.5 Sokhimon Begum

Sokhimon Begum is 40 years old female living with husband in Banani, Bogra, Bangladesh.9 She has no formal education at all. She has two daughters who are

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8 Rickshaw is a human wheeler transport

9 Banani is a place under the district of Bogra situated in the northern part of Bangladesh
married. Her husband is physically disabled and cannot do anything. She was a beggar before but now selling cosmetics items to the door to door in the village.

Sokhimon’s husband was working in a factory as labor. They were passing happy life. Due to an accident he is now physically disable. They had no other income sources. To bear the living expenses they sold everything except a small land where they are living now. She knew begging is a neglected profession but due to not find any other alternatives she involved in that profession. She always wanted to leave that profession from her heart. Finally she joined Grameen Bank in 2008 and obtained BDT 2000 Beggars loan. After getting this loan she left begging and started to sell cosmetics. She told that “now I am so happy because people cannot say me a beggar.” She has no mental pressure to repay the loan within fixed tenure but she pays installment in every week. She is not paying not only loan installments but also depositing money in her savings scheme. She has a dream to open a small cosmetics store in the village market in near future. She is very grateful to Grameen Bank for showing her good track of life.

4.1.6 Joshna Begum

Joshna Begum is 33 years old female living with husband in Sakhpala, Bogra, Bangladesh. She has no formal education at all. She has two daughter and they are living with their husband. Joshna’s husband was a rice seller but now he is physically disable due to a road accident.

Joshna and her family were passing happy time though they were not economically solvent. Her husband was a small rice seller in the village market. His business was going well. To expand her husband’s business she joined Grameen Bank in 2005 and applied for loan. She obtained BDT 10000 Basic loan in the same year. Her husband utilized that loan in his business and also repaid the loan on due time from the earnings of his business. Due to increase number of customer he wanted to expand his business more. Joshna again applied for loan and got BDT 35000 Basic loan in 2008 due to her past satisfactory repayment history. That loan was fully utilized in her husband’s business. A satisfactory amount of income was coming from his business. Their family was financially solvent in that time. Her husband also purchased some property from his income. Loan installments were also regular. But one day everything was changed due to an unexpected road accident in 2009 when her husband was coming back from his store to home. Now her husband cannot do anything and her loan installments are also irregular. Her savings scheme is also stopped. They are now passing their time with a miserable condition. But she is still confident that her husband will recover very soon and start his business again. Then she can start her loan installments and savings scheme again.

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10 Sakhpala is a place under the district of Bogra situated in the northern part of Bangladesh
4.1.7 Momotaz Badsha

Momotaz Badsha is 35 years old female living with husband in Sakhpala, Bogra, Bangladesh. She has no formal education and has two sons and one daughter. Her husband is a rickshaw puller. He is the only earner in her family.

Momotaz and her family is passing their life in financial crisis. Her husband’s income is not sufficient enough to bear all their family expenses. Her two sons are unemployed. Socially their position is also not good. She joined in Grameen Bank in 2008 and applied for loan. She obtained BDT 10000 Basic loan and gave it to her husband for purchasing rickshaw. She adjusted her first loan on due time from the income of her husband. She took again BDT 30000 Basic loan in 2009 and used it for her daughter’s marriage ceremony. She thought that she can able to repay the loan from her husband’s income. But her husband failed to repay the high amount loan installments regularly from his small income. Now the total outstanding loan amount is BDT 45000. She could not also continue her savings scheme as well. Micro credit could not bring any change in their family. Rather she and her family are going to a worst situation.

4.1.8 Sahara Banu

Sahara Banu is 45 years old female living with husband in Banani Bogra, Bangladesh. She has high school level of education. Her one son is studying in bachelor program in a local college and other son is studying in master program in university by taking Grameen Bank Higher Education loan. They are passing very happy time.

Sahara’s husband was working in a factory as a labor. His income was not enough to bear all the family expensances. Sahara joined in Grameen Bank in 1995 and obtained Basic loan of BDT 6000 for poultry firm in her house. She invested the entire amount to start her poultry firm in 1996. After first year she made some profit by selling chickens. She adjusted the loan from her own income and his husband’s income. She applied again for loan and obtained BDT 15000 for extending the firm. Her firm has grown gradually. Their financial problem is becoming reducing. Sahara’s husband decided to leave his job and work together for the development of the firm. After adjusting the second loan Sahara obtained again BDT 50000 Basic loan and BDT 50000 Micro Enterprise loan in 2009 for the expansion of her firm. Now she has a big poultry firm. Sahara told that “capital is a major tool for reducing the poverty that can use it properly.” They can now ensure their basic needs, children education and so on. She is repaying the loan timely and regularly. She also said that “Grameen Bank not only change her life but also my children’s life who is pursuing higher education by taking education loan.” She is also taking savings scheme of Grameen Bank. Finally she said that “I have nothing to say but I can say that Grameen Bank change our life.”

4.1.9 Sefali Banu

Sefali Banu is 28 years old female living with husband in Mazira, Bogra, Bangladesh. She has primary level of education. She has two kids. Her husband is a fish business man.
Few years before Sefali’s husband had no fixed income source. Sometimes he sold fish to the door to door in the village. He had not enough capital in his hand for starting fixed business. Sefali joined in Grameen Bank in 2010 and obtained BDT 16000 Basic loan and gave it to her husband for starting her business. Her husband is now selling fish in the local market. Business is going well. Her loan repayment installments are also regular. She said that “I know poverty cannot be reduced over night but I am hopeful one day I must overcome it.” She also said that “Grameen Bank stand besides us when we were looking for capital in different sources but everybody refused to give money.” She also said that “capital and hard work is essential for all the poor to reduce their poverty level.” She is also taking savings scheme and deposit money in her savings scheme as much as she can.

4.1.10 Jahura Begum

Jahura Begum is a 45 years old female living with husband in Mazira, Bogra, Bangladesh. She has no formal education. She has two sons and one daughter. All of her children are married and living separately. Her husband was a fruits seller.

Jahura joined Grameen Bank in 2005. Her husband was selling fruits in the market. She obtained loan of BDT 10000 in 2005 and give it to her husband for expanding the business. First loan was repaid successfully. She took again BDT 40000 loan in 2007. Her husband invested this loan in his business. But uncertainly his business condition was going bad. Her loan installment is becoming irregular. Another accident has occurred in Jahura’s life. Her husband has been paralysed in 2009 and now he cannot do anything. Now Jahura is working in a local factory with very small payment. Her income is not sufficient to bear her family expenses. Her loan and savings installments are almost stopped. Her total loan outstanding is BDT 70000. They could not come out from the poverty cycle. Micro credit could not bring any positive change in her life even fall her in the credit liability. She has no idea how to repay her loan.

4.2 Summary

Above mentioned borrowers story can be summarized by the following table. This table represent the types of loan taken by the borrowers and the loan amount, occupation of the borrowers or their husband before and after the getting loan, income level, poverty situation and finally the role of micro credit on their life. This table helps the reader to see the role of micro credit on the borrowers’ life very easily and quickly.

<table>
<thead>
<tr>
<th>Name of the borrowers</th>
<th>Types of loan taken by the borrowers</th>
<th>Loan amount (BDT)</th>
<th>Occupation before getting loan</th>
<th>Occupation after getting loan</th>
<th>Income level</th>
<th>Poverty situation</th>
<th>Role of micro credit on borrowers life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulbuli Akhter</td>
<td>Basic and micro enterprise loan</td>
<td>75000</td>
<td>Waged labor</td>
<td>Medicine business</td>
<td>Increase</td>
<td>Reduce poverty level</td>
<td>Positively affects</td>
</tr>
<tr>
<td>Name</td>
<td>Loan Type</td>
<td>Amount</td>
<td>Occupation</td>
<td>Business Activity</td>
<td>Economic Impact</td>
<td>Social Impact</td>
<td></td>
</tr>
<tr>
<td>-----------------</td>
<td>------------------------------------</td>
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<td>----------------------------------------</td>
<td></td>
</tr>
<tr>
<td>Zulekha Hasan</td>
<td>Basic and micro enterprise loan</td>
<td>50000</td>
<td>Small tea store</td>
<td>Bakery business</td>
<td>Increase</td>
<td>Reduce poverty level Positively affects</td>
<td></td>
</tr>
<tr>
<td>Sumitra Rani</td>
<td>Basic loan</td>
<td>70000</td>
<td>Unemployed</td>
<td>Cultivating crops and poultry firm</td>
<td>Increase</td>
<td>Reduce poverty level Positively affects</td>
<td></td>
</tr>
<tr>
<td>Silpi</td>
<td>Basic loan</td>
<td>10000</td>
<td>Unemployed</td>
<td>Rickshaw puller</td>
<td>Increase</td>
<td>Reducing Positively affects</td>
<td></td>
</tr>
<tr>
<td>Sokhimon Begum</td>
<td>Beggars loan</td>
<td>2000</td>
<td>Begging</td>
<td>Cosmetic seller</td>
<td>Increase</td>
<td>Reducing Positively affects</td>
<td></td>
</tr>
<tr>
<td>Joshna Begum</td>
<td>Basic loan</td>
<td>35000</td>
<td>Rice seller</td>
<td>Nothing due to physical disability</td>
<td>Increased before disability Reduced before disability Positively affected before disability</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Momotaz Badsha</td>
<td>Basic loan</td>
<td>30000</td>
<td>and used it in daughter’s marriage ceremony</td>
<td>Increase poverty Negatively affects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sahara Banu</td>
<td>Basic, micro enterprise and higher education loan</td>
<td>100000</td>
<td>Her husband worked in a factory and she was unemployed</td>
<td>Poultry firm Increase Reduce poverty Positively affects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sefali Banu</td>
<td>Basic loan</td>
<td>16000</td>
<td>Small fish seller</td>
<td>Increase fishing business Increase Reduce poverty Positively affects</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jahura Begum</td>
<td>Basic loan</td>
<td>40000</td>
<td>Fruits seller</td>
<td>Increased business and now paralyzed Increased before paralyzed Reduced before paralyzed Positively affected before paralyzed</td>
<td></td>
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</tbody>
</table>

From the above mentioned stories of Grameen Bank borrowers it is clear that micro credit is a tool to improve the life status of poor people. It is not ensure that every borrower will be benefited from this loan. Success depends on its proper utilization. Here we can see that those borrowers who have and also her family members (mainly husband) have prior knowledge could change their life. However, some borrowers take this loan for personal consumption or use it for non income generating activities. Micro credit put an extra burden for these borrowers. Improvement is a step by step process. We can see that most of the borrowers take more than one loan after adjusting previous loan. In one sense it is good because experience makes them perfect in the specific business field. After expansion of one step successfully then the borrowers go for another step of the business by taking another higher amount of loan. Grameen Bank believes that loan should be given as per borrower’s ability and usability. It can also reduce the loan default rate. Successful borrowers can achieve their financial and social success by proper utilization of micro credit loan.
5 Analysis

In this chapter as Analysis Chapter, I analyzed the empirical findings based on the conceptual framework. Based on the analysis I derived life status improvement model of micro credit. And the last part of this chapter represents the criticisms of micro credit.

To know the impact of micro credit on rural poor people’s life status improvement, I interviewed ten borrowers of Grameen Bank with multiple varieties of questions. I tried to find out how micro credit affect in different parts in poor people’s daily life. They were asked about their education level, family members including their education level, occupation and income. They were also asked about their past occupation, their purpose of taking the loan, their present occupation. They were also asked, can they able to increase their income level from the present occupation and their present income affects their poverty level, basic needs and social status. I have also asked them about their loan amount, loan installments, and their future plan to take more loans and so on. I have also asked them about the optional services offered by the Grameen Bank like pension fund, savings program, social welfare services and the reason why they take these services. And finally I have asked them, do they think micro credit help to improve their overall life status? If I can able to prove that micro credit help the borrowers to increase their income level then it will affect the other parts of the borrowers’ life, for example their consumption level, basic needs, savings, social status, ability to send their child to the school, expansion of business and so on. So, first task of the borrowers is to create income generating activities by using micro credit. And if it will give return to the borrowers then we can say that micro credit positively affects in the borrowers’ daily life status.

5.1 Micro Credit and Financial Access to the Poor People in Bangladesh

Bangladesh had experienced a higher poverty rate after its independence in 1971. Rural poverty rate were went to 59.9 percent in 1973-74 (see section 1.7). Six national commercial banks, three specialized banks, two insurance companies and few foreign banks were operated the financial sector of Bangladesh. All the government after the independence tried to provide proper financial services for their employment generation for the country’s socio economic development. But they failed to reach their destination properly. Because financial institutions could not cover all the rural people due to their inability to fulfill all the requirements. Informal financial institutions also failed to serve due to their tendency of higher profit making. Rural development mostly depends on the country’s overall development. A tool for rural poor people’s status improvement was most important for the Bangladesh after the destruction of liberation war.

In the theoretical framework part to show that micro credit helps to increase the income of the borrowers through involving them with the agricultural and non agricultural income generating activities. Bangladesh is a potential market for micro credit since 80
percent people are living in the rural areas and most of them are poor. Micro credit sector grows tremendously in Bangladesh from its inception in terms of MFIs number, borrowers and service quality. Around 68 percent out of total Grameen Bank borrowers’ families have crossed the poverty line means USD 1.25 incomes per day (Grameen Bank, 2009). And according to Zohir (2010) around 9.43 million poor in Bangladesh people have crossed the poverty line of income USD 1.25 a day over the period of 1990 to 2008 by using micro credit. Around 64 million (forty percent of total 162.22 million Bangladeshi populations. see section 1.7) people are living below the poverty line in both rural and urban areas in Bangladesh. So, micro credit contributes a lot for poverty alleviation of the poor people.

Micro finance institutions in Bangladesh has crossed the rural areas boundary and extending their operations in the semi urban and urban areas to cover these poor people. Loan disbursement rate has increased around 55 percent and number of borrowers around 31percent over the past five years (see section 1.8). In the same time poverty reduction rate also tremendous. MFIs including Grameen Bank and NGO based MFIs now serving 30 million (see section 1.8) poor people in Bangladesh. So, still more than 50 percent poor people are left out from the financial services to make them employee. According to centre manager of Grameen Bank, micro finance institutions in Bangladesh are becoming more sustainable and customer oriented. They are spreading their operations to the uncovered areas for the poor people’s improvement. Though some of the public commercial banks and specialized banks in Bangladesh introduce some micro schemes for the rural poor people but their success rate is not satisfactory. Long procedures and uncooperative relationship of the employees are one of the main reasons for their failure. Another reason is that MFIs provides services to the door step of their borrowers. Human capital development programs and social service other than financial services offered by MFIs are more important for the poor people. All these factors make interested the poor people in Bangladesh to the MFIs. Does micro finance sector in Bangladesh increase in terms of only business volume or poor people’s welfare? Does micro credit actually helps the poor people in their status improvement or fall them in the credit loop? So, it is important to analyze whether micro credit improves the borrowers life status.

5.2 Role of Micro Credit on Poor People’s Income Level

Income is treated as the economical and financial solvency of the borrowers. When a borrower achieves financial freedom then s/he can afford to fulfill all the household consumption. It will also give power to the borrowers for future consumption. A fixed and continuous income source ensures the basic needs of the borrowers and thus affects their daily life. In other words we can say that increase in income level ensures food, cloth, housing, medicine for the borrowers and their family members. When the borrower exceed a certain level of income after meeting all the household expenses and loan installments, then it leads to purchase the household assets like furniture and fixtures for the house, land and other fixed property or make savings.

After conducting the interviews of Grameen Bank borrowers and officials, I observed that majority of the borrower used their loan in the self income generating activities either by them or by their family members such as husband. Mostly they are involved with agricultural and non agricultural income generating activities. Some of them have
previous experience and some of them have no experience at all. Those borrowers and their husband who are educated and have previous working knowledge they prefer to start the same business. Some of the borrowers’ husband use this loan in human wheeler transport those who are not educated and don’t have previous working experiences. Micro credit explores the entrepreneurial skills of the poor borrowers and make them micro entrepreneur.

During the interview session most of the borrowers replied that they have potentials and skills to do something but due to the capital problem they could not able to start income generating activities. And micro credit helps to create income generating activities and has increased their income level. One of the borrowers named Bulbuli Akhter, she told that her husband has good knowledge in medicine business but due to capital problem he couldn’t start business and was bound to work in other store with small payment. But after getting loan he started his own business and increases the income level. Some borrowers said that sometimes they bought products with credit but in that case suppliers charged higher amount and gave low quality products. That affects their profitability level. But micro credit has changed that situation and gives the chance to buy raw materials where they feel comfortable and buy at cheap rate. It also increases the power of the poor people in the society.

5.3 Role of Micro Credit on Poor People’s Asset Holdings

Assets holding indicate the income level of the borrowers. I have written before that when the borrowers’ income excesses a certain level then s/he is going for holding assets either physical or financial. Asset holding secures the future consumption and financial crisis of the borrowers. It will also increase borrowers’ personal competency level, social and political involvement, risk facing ability. Micro credit helps to increase the asset holding ability of their borrowers. According to my observation from the interview, almost all the borrowers are taking the savings facilities. Those borrowers who have consistent income, they are maintaining a very good savings scheme. Some of the borrowers like Zulekha Hasan were living in rented house but now she along her family is living in their own house which is purchased from her husband’s income. So, micro credit positively affects the asset holding ability of the borrowers. And increase amount of assets ultimately positively affect the borrowers’ life status improvement.

5.4 Role of Micro Credit on Poor People’s Basic Needs

If micro credit positively affects on the borrowers income level then it would also affects on their basic needs and living standard. In my theoretical part it has shown that according to United Nations, basic needs include food, clothing, housing and medical care and necessary social services. And the fulfilment of basic needs mainly depends on the borrowers’ income level. From the above discussion it is clear that micro credit increase the income level of borrowers. In developing countries like Bangladesh government supports are not enough for the needy people who are not able to fulfill their basic needs. Without income source poor people cannot ensure all the basic needs
for themselves and their family members. They cannot ensure education for their child, medicine, shelter for their family members. From the empirical findings it is clear that almost all the borrowers send their children to the school. Some of the borrowers like Sahara Banu maintain their children education cost by taking Grameen Bank higher education loan. Education is the most important basic needs. Educated family can enhance their family status in the society. Education brings both financial and non financial benefits. Not only education most of the borrowers replied that after taking micro credit they can now fulfill most important basic needs which was not possible before. When the borrowers fulfill the basic needs it will also increase the living standard of their households through income generating activities and asset holdings. Micro credit also helps the beggars to improve their life status by involving them with the financial access. It was totally unrealistic thinking that beggars can use financial services but micro credit makes it possible. From the empirical findings we can see that Sokhimon Begum was a beggar but now she is a cosmetics seller. Micro credit helps her to leave the neglected profession and live with the prestige and dignity in the society.

5.5 Role of Micro Credit on Poor People’s Social Welfare Services

In the theoretical frame work part I have argued that social welfare services offered by MFIs are one of the important factors to make them attractive to the poor people. From the empirical finding it is clear that only some of the borrowers and their husband are literate and have previous working experiences. Those borrowers and their husband who do not have education and working experiences mostly they use their loan in low income generating activities or sometimes they consume it for personal purposes. But micro finance institutions always try to improve this situation and convert them to the better profession by providing technical and non technical trainings and suggestions to the borrowers and their husband as well.

NGO based MFIs in Bangladesh are providing social welfare services to their borrowers at a large scale. BRAC is a large NGO based MFIs in Bangladesh who are providing free education for the rural poor children, free night school for the aged poor people’s literacy, selling high quality agricultural products at cheap rates. Some NGO based MFIs also provide health care services for their borrowers as well as non borrowers. Centre manager and branch manager of Grameen Bank replied it is a limitation for them that they are providing small scale of social services compare to NGO based MFIs. They told that Grameen Bank is a financial institutions and mainly focus on the micro credit but NGO based MFIs they receives government subsidized fund and donor fund for operating such kind of activities. They also told that all the MFIs including NGO based and Grameen Bank are working together in the micro finance sector in Bangladesh for the poor people’s life status improvement. Borrowers are becoming more skill and efficient in their professional life by taking this human capital training program and also increase the success rate of the borrowers.

Some of the MFIs provide medical services for their borrowers in addition to the financial services. Grameen Bank provides housing loan for their borrowers to ensure the basic human needs and improvement the life status in the society. Micro credit borrowers who were not allowed to get services from formal financial institutions; they
can now open bank account with the formal financial institutions after improving their life status. So, micro credit directly or indirectly helps the poor people to ensure their basic needs and social welfare services and improve their living standard in the society.

5.6 Role of Micro Credit on Poor People’s Poverty Alleviation

In the above discussion I have analyzed that micro credit helps to create income generating activities of the poor people and has positive impact on the borrowers’ basic needs, living standard and asset holdings. If micro credit has positive impact on these things then it has also positive impact on the poor people’s poverty alleviation process. Absolute poverty means not only financial lacking rather it includes all the things which are related to our daily life. Borrowers of micro credit living with absolute poverty and micro credit only focus on the absolute poverty. I have asked the borrowers during the interview session about their poverty status before and after joining with the micro credit program. Most of the borrowers replied that micro credit helps to reduce their poverty level through self income generating activities by providing loan facilities. Borrowers were argued that poverty alleviation is not an overnight process. Micro credit starts this process and its success mainly depends on the borrowers’ ability to continue their income generating activities. Those borrowers who are recently joined with this program, most of them are in poverty alleviation process but those borrowers who are engaging with this program since long time, some of them can able to alleviate their absolute poverty level and improve their life status. Micro credit also helps to increase the poverty adoption ability by income and asset holdings capacity of the poor people.

5.7 Misuse of Micro Credit and its impact

When the borrowers use micro credit for personal consumption or unproductive sector instead of productive and income generating activities then it bring negative result to the poor people. Reason is that poor people have limited or no other sources to repay the loan. They become poorer and loan defaulter after getting micro credit. From empirical findings we can see that one of borrower named Momotaz Badsha used her loan for daughter marriage ceremony and now she is defaulter. To get the proper benefits of micro credit its proper utilization should be ensured.
When the borrowers can able to break their poverty level and come out from the poverty cycle, then it will be easy for them to change his life status. Financial solvency helps the poor people to improve their living standard. From the above analysis and empirical findings we can see that micro credit helps the poor people to create their income sources and reduce their poverty level of the poor people, minimize poverty risk by savings program, increase their asset holdings capability, ensure basic needs for their family, increase the social status. And all these things finally affect positively in their daily life status improvement process. So, it is a sequential process and finally we can say that micro credit finally affect on the poor people’s life status improvement process.

5.8 Criticisms of Micro credit and MFIs in Bangladesh

I have written several times in the previous chapter that micro credit is not a panacea to reduce rural poverty but it is a major tool for reducing poor peoples’ poverty level and improve their life style. Success of micro credit mainly depends on the long term sustainability of wealth accumulation by the borrowers. From the empirical findings we can see that sometimes borrowers use this loan for personal consumption instead of invest into the income generating activities. Borrowers can do this kind of activities due to the lack of strong monitoring system of the MFIs. Another criticism of micro credit is that sometimes borrowers need higher amount of capital for starting business but initially small amount is approved by the MFIs and for rest of the amount borrowers need to go another sources such as friends, family or money lenders. So, ultimately the poor people involve themselves with the more credit burdens. Another criticism of
micro credit is that generally field officers and centre managers are mainly responsible for collecting installments from the borrowers. If the borrowers cannot pay installments for any reason, field officers sometimes behave very rudely with the borrowers that create a negative social impact to the borrowers. When the MFIs in Bangladesh disburse loan to the borrowers they charge first installment from the loan amount during the disbursement time. So, borrowers actually do not get full approved amount and pay first installment without using the loan. There is also not central database of MFIs in Bangladesh. Some borrowers take this opportunity and obtain loan from different MFIs at the same time. It affects negatively to the objectives of micro credit means they obtain higher amount of loan that should not suppose to be obtained. It affects their repayment capacity and leads them to be defaulter.
6 Conclusion and Further Research

In this chapter as Conclusion Chapter represents the final conclusions based on the previous analysis. And the last part of this chapter represents the discussion of further research.

6.1 Conclusion

In this study I have tried to assess the role of micro credit in rural poor peoples’ daily life status improvement process in Bangladesh. Poverty is a main problem in rural areas of Bangladesh. Now a day’s micro credit is playing a very important role in Bangladesh not only in the rural areas but also in semi urban and urban areas. Through the innovative group lending micro credit program, micro finance institutions can able to serve the poor people without physical collateral. Micro credit allows the poor people in financial access that leads to change their life status through increase their income level. Though some borrowers think that amount of micro credit is very small for starting a business. But as per my observation during the interview session this complains comes from only few borrowers but in general small amount with small weekly repayments system makes micro credit attractive to the poor borrowers. As micro finance program grows, micro finance institutions are offering this product in more innovative and attractive way to the poor people such as insurance, pension fund schemes and so on. It is important to know that micro is not the only way of improving life status of rural poor people in Bangladesh. Micro credit is using besides other public and private policies for rural development in Bangladesh.

Micro credit is like an integrate credit program that covers all the aspects of the poor people’s daily life. It provides startup capital to start their self income generating activities. Besides financial services MFIs offering non financial services for the improvement of their borrowers life status. Micro finance institutions provide vocational training besides the credit for doing their business effectively and confidently. I observed that micro credit program helps to make poor people micro entrepreneur that leads to increase their participation in the social, cultural, political events. Those people who were either unemployed or wage employee they become self employed after getting loan. They can fulfill their basic and fundamental needs for themselves and also for their family members.

I also observed that micro finance institution’s social welfare services including immunization, family planning, human development training, and also social awareness programs and so on are very effective in the poor people’s daily life. They become more conscious about their daily after joining with the micro credit program. They can ensure education for their child due to their financial soundness. Savings is an important tool for future safety. Micro finance institutions are offering different kinds of savings facilities to their borrowers and non borrowers’ that increase poor people’s asset holdings capacity.

Micro credit program is more than the credit services offered by the formal financial institutions. Formal financial institutions give their attention mainly on the credit
services. Their target customer’s living standard is higher than the poor people. That’s why they don’t need to offer other services to their customers. Because their customers are able to fulfill other needs by themselves. But micro credit is fulfilling financial, social needs of the poor people. Poor people are ignored from many sectors in the society due to their poverty level. Micro credit enhances their socio economic condition by financial support. It is like a complete package for the poor people to change their life status. This success of micro credit only goes to these borrowers who use it properly in the productive sectors and can produce income from this sector. Otherwise micro credit appears as the main obstacles instead of remedy tools to the poor people for alleviation of their poverty level and improve life status. Due to strong dedication and enthusiasm level, 68 percent of the Grameen Bank borrowers in Bangladesh able to come out from the poverty circle and improve their life status. Based on my over all observation finally I can say that micro credit is a very important tool in developing countries like in Bangladesh for providing financial services to the poor and extreme poor people for improving their life status.

6.2 Suggestions for future studies

The main research on the role of micro credit in life status improvement process of rural poor people in Bangladesh was conducted based on only limited number of Grameen Bank borrowers from its one branch. Bangladesh is a country where currently thirty million poor people are directly involved with the micro credit program and still there are so many uncovered areas for its further expansion. So, further study on this topic can be conducted with bigger sample size from different micro finance institutions in Bangladesh. So that, it would give more detail result about how micro credit helps the poor people in their life status improvement process.

Now a day’s micro credit is working all most all the developing countries in the world. More results and findings can be found on this topic if the further study would be conducted in different countries and in different geographical regions.
7 References


Appendix A

Study on “Role of micro credit in life status improvement of rural poor people in Bangladesh”

Questionnaire

1. Name of the respondent.
   ………………………………………………………………………………….

2. Age. …………………..

3. Sex. □ Male □ Female

4. Marital status. □ Single □ Married □ Divorced □ Separated □ Widow

5. Highest level of education of the respondent. □ Primary school □ High school □ University □ No education at all

6. Detail information about family members:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Education</th>
<th>Occupation</th>
<th>Income</th>
<th>Relationship</th>
</tr>
</thead>
</table>

7. How much amount you have taken from MFIs?
   Answer:

8. Is this your first loan?
   Answer:

9. Why you take loan from MFIs?
   Answer:
10. Occupation before taking the micro credit loan from MFIS.
   Answer:

11. Present occupation after taking the loan.
   Answer:

12. Can you increase your income from present occupation?
   □ Yes □ No

13. Did you consider yourself as a poor before taking the loan (per day income below USD 1.25)?
   □ Yes □ No

14. Do you think this micro credit program will help to alleviate your poverty?
   Answer:

15. Can you ensure basic needs (including food, clothing, housing, education and medical care) for you and your family members after getting loan?
   Answer:

16. Can you increase your social status after getting the loan?
   □ Yes □ No

17. Do you think MFIs saving facilities will help in your future life?
   □ Yes □ No

18. Are you taking pension fund scheme?
   □ Yes □ No

19. Do you think that services other than credit (including human development, skill promoting training, education and nutrition programs, and so on) offered by the MFIS are important for your life?
   □ Yes □ No

20. How many installments you have left to adjust this loan?
   Answer:

21. Do you have any loan with other MFIs?
   □ Yes □ No
22. Do you think your income is enough to repay the loan installments?
   □ Yes □ No

23. Do you need to sell any property to repay the loan installments?
   □ Yes □ No

24. Do you have any plan to take further loan after adjusting your existing loan?
   □ Yes □ No

25. Do you think that micro credit program help you to improve your overall life status?
   □ Yes □ No

26. Do you want to share anyother information?
   Answer:
Appendix B

Map: 1.1 Bangladesh

(Central Intelligence Agency, 2010)
Appendix C

Map: 1.2 Bangladesh in the world