Evaluating the Impact of Microfinance Participation on Living Conditions: Evidence from Bangladesh

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Introduction

- This study examined the effect of participation in microfinance on living conditions in Bangladesh.
- Government and NGOs usually give out monetary assistance to target populations which are the same group of people targeted by most microfinance programs. From most macro-level data, it is obvious that people in Bangladesh have better quality of life with assistance programs in the last decade.
- Microfinance, as a financial service for entrepreneurship and small businesses, often has a low return. But it helps people to start business faster. People living in rural areas are less mobile and dependent on their land, so the lender bears less risk to bad debts. Traditional microcredit targets vulnerable population in poverty because they are less likely to get commercial bank loans.
- Bangladesh is a partner country of Feed the Future Initiative (FTF). Microfinance could be an efficient tool to fight against hunger and poverty in countries like Bangladesh.

Data & Methodology

- One popular system that works very well is called ROSCAs, the Rotating Savings and Credit Associations.
- I used Women’s Empowerment in Agriculture Index (WEAI) survey data collected by USAID.
- The full survey was piloted in Bangladesh in November 2011. It included individuals from 450 households.
- My sample includes adult individuals who are householders or spouses of householders. Children under 17 are not included in my sample since they are not capable of making decisions about borrowing.
- Ordered Logit Model:
  \[ Y = \beta X + \beta LoanType + \nu > 0 \]
- X represents a vector of demographic and other characteristics like gender, age, income, plot size the household has and etc.
- Y is the dependent variable which represents the probabilities of living in poor, moderate or good houses.
- Loan types are three sources of loan: informal, formal and non-government.
- Informal loans include money borrowed from friends and local lenders. Non-government includes all non-government programs and ROSCAs.

Condition of Dwelling

- Non-government loans reduced the likelihood of low quality housing versus medium and high quality housing.
- Non-government loans increased the likelihood of high quality housing versus medium and low quality housing significantly.
- Household type played an important role in my study. Households with female heads of the family were in worse condition compared with families with both female and male heads.
- Education level also made a significant impact on housing although the highest level of education is 3rd grade.
- Plot size is another crucial factor which improve living condition.

How Microfinance Works

- One popular system that works very well is called ROSCAs, the Rotating Savings and Credit Associations.
- ROSCAs help their group members to buy things faster. Most participants are driven by the need of school fees, medical expense and food expense. Compared with loans like mortgage, the loan amount is much smaller, so it gets repaid very soon.
- Benefits:
  1. People will not rely on the microcredit program but try to work hard and repay their loan or they will lose the access of microcredit as a punishment.
  2. Microfinance is an efficient way to solve some inherent issues of informational problems in the credit market: adverse selection, moral hazard and strategic default.

Results

- Under-reporting of benefits in microfinance programs is a limitation of my study. Since the WEAI survey is one year data, I was not able to calculate the return of loans on other material hardship in Bangladesh, the true impact of microfinance programs could be underestimated.
- Another problem is that programs are not randomly allocated in rural area in Bangladesh. In fact, programs were often placed in poorer and more flood prone areas as well as areas with more service requests. Unmeasured village attributes and household attributes could also affect the demand and outcomes of credits (Pitt, 1998).
- These problems could be solved by using more comprehensive data with multiple time periods and using instrumental variables. The World Bank panel data 1991/92 and 1998/99 household surveys are good examples. But the World Bank dataset has a more than 15 years of history, the economic status has changed rapidly in 15 years.
- Non-government microfinance programs has largely improved living condition in Bangladesh. Households holding non-government loans are more likely to live in better houses.

Discussion & Conclusion

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