

The Impact of Microcredit Program on Socio-
Economic
Condition of the Households of Dropout Borrower

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Abstract

This paper investigates the nature and extent of borrowers' dropout from different micro-credit institutions (MCI). The changes in the socio-economic conditions of the borrower households, which had happened in between borrowers' enrollment and dropout from credit institutions has been extremely unpleasant. The study is based on primary survey data and both the qualitative and quantitative tools have been used to deepen the understanding about various aspects of MCI and make some policy prescriptions.

1. Introduction

Micro-credit has come to light as the latest alternative approach to alleviating rural poverty after the failure of the previous approaches. The main belief of group-based micro-credit program, initiated by Nobel laureate Dr. Yunus, has been acknowledged as a model of poverty alleviation. It has created a notion of high expectation since early 1990s as a powerful instrument of creating freedom and self-employment opportunities for the distressed rural poor. Through captivating publicities Grameen Bank (GB) has drawn global attention and then micro credit (MC) program got recognition as a very successful approach to poverty alleviation. At present, micro-credit program following 'Grameen Bank

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** The author is alone responsible for any shortcomings of the study.

Model' is being run in more than eighty countries of the world, including super power U.S.A., for the eradication of massive poverty from the countries in question. According to CDF statistics till December 2007, the member borrowers of only Grameen Bank and 535 recognized Mico-credit institutions is a total of 47,100,000, which is more than one-third of the total population and almost half of total households of our country.

However, despite the tremendous growth in the number of institutions, amount of loan disbursement, and the number of borrowers, the incidence of unemployment and malnutrition situation in Bangladesh has reached precarious level at present. A huge number of borrowers are found to be dropping out from the institutions. The causes and extent of borrowers' dropout and the socio-economic changes of the borrower households during the period of using micro-credit are analyzed in the present study.

2. Methodology

The focal point of this study is the impact of the credit program on the households of dropout borrower. A total of 70 credit receivers, who had already left the micro-credit institutions, have been interviewed through using a well-designed

Table 2.1: The Description of the Study Area and Sample Borrowers

Rajshahi District		
Name of Upazila	Number of Respondents	Percentage
Ghodagari	09	32.14
Paba	10	35.71
Mohanpur	09	32.14
Total	28	100.00
Comilla District		
Name of Upazila	Number of Respondents	Percentage
Shahrasti	14	58.33
Laksham	10	41.67
Total	24	100.00
Noakhali District		
Name of Upazila	Number of Respondents	Percentage
Laxmipur	08	44.44
Chatkhil	10	55.56
Total	18	100.00
Grand Total	70	100.00

Source: Field Survey

questionnaire. Sample borrowers were selected from four largest micro-credit institutions covering seven Upzilas under three districts of Bangladesh. These micro-credit institutions are: (a) Grameen Bank, (b) BRAC, (c) ASA, and (d) PROSHIKA. A number of 28 Grameen dropout borrowers and another 32 dropout loan receivers of BRAC, ASA, and PROSHIKA were interviewed from June to September 2008 from Comilla and Noakhali district regions. The distribution of sample is shown in Table 2.1.

A uniform pre-designed questionnaire was used for the sample borrowers belonging to all the four institutions. The data have been collected randomly; the purposive method has been applied to exclude the borrower who had been taking loan for less than three years before send-off. The trend of borrower dropouts is

Table 2.2 : The Trend of Borrowers Dropout from the Sample Branches of Institutions

Number of Branches/Centers	Period	% of Annual Dropout on an Average
5 Branches of Grameen Bank	July 2001 to June 2007	20.25
5 Centers of BRAC	July 2001 to June 2007	18.99
5 Centers of ASA	July 2001 to June 2007	17.22
5 Centers of PROSIHKA	July 2001 to June 2007	24.25

Source: Field Survey

*** This trend is measured by considering annual new enrollment and actual growth rate of borrowers at branch/center level.*

shown in Table 2.2.

3. Data Analysis

In this section, individual profiles of the dropout borrowers and the socio-economic condition of the respective households are analyzed so as to show the effect of credit programs on them during the use of loan. In that pursuit, the field survey data have been used.

3.1 Age Structure of the Respondents

The age structure of the dropout members is shown in Table 3.1

Table 3.1 shows that the majority of the dropout borrowers were over-aged during joining and using GB loan.

3.2 Marital Status of the Respondents

Table 3.1: The Age Structure of the Dropout Borrowers

Age in years	At the time of leaving GB		At the time of joining GB	
	No. of Respondents	Percentage	No. of Respondents	Percentage
Up to 30	01	01.43	02	02.86
31-40	17	24.29	49	70.00
41-50	44	62.85	17	24.28
51 and above	08	11.43	02	02.86
Total	70	100.00	70	100.00

Source: Field Survey

Table 3.2 : Marital Status of Respondents

Marital Status	At the time of leaving GB		At the time of joining GB	
	No. of Respondents	Percentage	No. of Respondents	Percentage
Unmarried	01	01.43	01	01.43
Married	47	67.14	61	87.14
Separated/Deserted	06	08.57	02	02.86
Widow	08	11.43	03	04.28
Divorcee	08	11.43	03	04.29
Total	70	100.00	70	100.00

Source: Field Survey

The Marital status of the dropout borrowers is shown in the Table 3.2.

Table 3.2 reveals that divorce and separation has increased among the dropout borrowers after their enrollment in the GB, which indicates that the status of the dropout women were degraded after their joining the GB.

3.3. Occupation of the Respondents

Table 3.3 : Occupation of the Respondents

Occupations of the dropout borrowers	At the time of leaving GB		At the time of joining GB	
	No. of Respondents	Percentage	No. of Respondents	Percentage
Only Housewife	58	82.85	66	94.29
Housewife and House maid	06	08.57	02	02.85
Daily labourer	06	08.58	02	02.85
Total	70	100.00	70	100.00

Source: Field Survey

The occupation of the respondents is shown in Table 3.3.

It is seen from Table 3.3 that most of the respondents were only housewives at the time of joining and leaving the GB. Although a very few of the total respondents were found to be employed after joining the GB, the field of these employment is independent of GB loan.

3.4. Amount of Cultivable Land Owned by the Respondent Households

Table 3.4 : Amount of Cultivable Land Owned by the Respondent

Amount of land owned by the respondents households	At the time of leaving GB		At the time of joining GB	
	No. of Respondents	Percentage	No. of Respondents	Percentage
Below 50 decimals	52	74.29	55	78.57
51-100 decimals	18	25.71	15	21.43
Total	70	100.00	70	100.00

Source: Field Survey

The amount of cultivable land owned by the households of the dropout borrower is shown in Table 3.4.

Table 3.4 shows that 73.33% and 80% of the sample households were functionally landless at the time of joining and leaving the GB, respectively.

3.5. Occupations of Households of the Dropout Borrowers

Table 3.5 : Occupations of Respondent Households

Occupation of the respondents households	At the time of leaving GB	At the time of joining GB
Only Agriculture	12(17.14)	22(31.43)
Agriculture and daily laboring	41(58.57)	40(57.14)
Petty business	09(12.86)	05(07.14)
Rickshaw and Van pulling	08(08.58)	03(02.86)
Total	70(100.00)	70(100.00)

Source: Field Survey

* Figure in parenthesis shows the percentages

The Occupation of the dropout borrowers at the time of joining and leaving the GB is shown in Table 3.5.

From Table 3.5 it is seen that the occupation of the households of the respondents remained almost the same at the time of joining and leaving the GB.

3.6. Duration of Using GB Loan

Table 3.6 : Duration of Using GB Loan

Years	Number of Respondents	Percentage
Below 5 years	04	05.71
5-6 years	08	11.43
6-7 years	54	77.14
10 years or more	04	05.71
Total	70	100.00

Source: Field Survey

The period for which the borrowers could continue the membership in GB is shown in Table 3.6

Table-3.6 shows that major part of the dropout borrowers continued the membership of the GB for a period below five years.

Table 3.7 : Nature of Dropout

Nature of dropout	Number of Respondents	Percentage
Willingly stopped borrowing	08	11.43
Expelled by GB	62	88.57
Total	70	100.00

Source: Field Survey

3.7. Nature of Dropout

The nature of dropout of the selected borrowers is shown in the Table 3.7.

Table 3.7 shows that 88.57% of the respondents were expelled by GB, and the rest 11.43% stopped GB borrowing willingly.

Table 3.8 : Causes of Expulsion

Causes of expulsion	Number of Respondents N=28	Percentage
Inability to repay weekly installments	67	95.71
Violation of other discipline	02	02.86
Others	01	01.43
Total	70	100.00

Source: Field Survey

3.8. Causes of Expulsion

The causes of expulsion of the respondents by GB are shown in Table 3.8.

Table 3.8 reveals that 95.71% the respective borrowers were expelled by the GB due to their inability to repay the weekly installments in time.

Table 3.9 : The Number of Installments the Borrowers Failed to Repay Before Expulsion from the GB

Number of Installments	Number of Respondents	Percentage
01	14	20.00
02	54	77.14
03 or more	02	02.86
Total	70	100.00

Source: Field Survey

3.9. The Number of Installments Failure before Expulsion from GB

The number of weekly installment failures for which the borrowers were expelled from GB is shown in Table 3.9.

It is seen from Table 3.9 that among the dropout borrowers, 77% were expelled by the GB due to the failure of two weekly installments.

Table 3.10 : Number of Respondents, who got Notice before Expulsion

Information	Number of Respondents	Percentage
Got notice	02	02.86
Did not get notice	68	97.14
Total	70	100.00

Source: Field Survey

3.10. Number of Respondents that got Notice before Expulsion from GB

The number of respondents who got notice before expulsion from GB is shown in the Table 3.10.

From Table 3.10, it is seen that a large majority of the expelled members (97.14%) did not get any previous notice regarding their dismissal from GB.

3.11. Information Regarding Share and Dividends

It was seen during field survey that no dropout borrowers got share certificates or

Table 3.11: Amount of Unpaid Loan

Amount in TK.	Number of Respondents	Percentage
Up to 1000	06	08.57
1001-2000	18	25.71
2001-3000	22	31.43
3001-4000	08	11.43
More than 4000	16	22.86
Total	70	100.00

Source: Field Survey

dividends against their membership in GB. Even GB does not maintain any relation with these dropout borrowers.

3.11. Amount of Unpaid Loan

The amount of unpaid loan, for which the respondents were expelled from GB, is shown in Table 3.11.

Table 3.11 shows the amount of unpaid loan of the expelled respondents at the time of their leaving the GB. It is seen that the amount of unpaid loan was upto

Table 3.12 : Sources of Repayment of the Unpaid Loan

Sources of repayment	Number of Respondents	Percentage
Adjustment with the obligatory savings, that was deposited in GB	39	55.71
Selling assets	10	14.29
Did not repay	00	00.00
Borrowing from other sources	21	30.00
Total	70	100.00

Source: Field Survey

TK. 1000, TK. 1001-2000, TK. 2001-3000, Tk.3000-4000 and more than TK. 4000 for 8.57%, 25.71%, 31.43%, 11.43% and 22.86% of the borrowers.

3.12. Sources of Repayment of the Unpaid Loan

The sources of repayment of unpaid GB loan by the dropout borrowers are shown in Table 3.12.

Table 3.12 reveals that GB recovered 55.71% of the unpaid loan by adjusting it

Table 3.13 : Amount of Obligatory Savings

Level of obligatory savings	Number of Respondents	Percentage
Up to 1000	10	14.29
1001-2000	29	41.42
2001-3000	14	20.00
3001-4000	17	24.29
Total	70	100.00

Source: Field Survey

with the obligatory savings that were deposited by the respondents in GB fund. About 30% of the unpaid loans were repaid by the borrowers by borrowing from other sources, and GB recovered 14.29% of the unpaid loans by selling the borrowers' assets.

3.13. Amount of Obligatory Savings

The amount of obligatory savings deposited by the respondents to GB till losing

Table 3.14 : The Amount of Loan used from GB before dropout

Amount of borrowing in TK.	Number of Respondents	Percentage
Up to 20000	17	24.29
20001-30000	29	41.43
30001-40000	24	34.28
Total	70	100.00

Source: Field Survey

the membership is shown in Table 3.13.

Table 3.13 shows that the amount of obligatory savings deposited by the respondents till their dropout from GB were more than Taka 2000 in most of the cases.

3.14. Amount of Loan used from GB

The amount of loan used by the respondents until their dropout from GB is shown

Table 3.15 : Information Regarding the Borrowing on Interest

Information regarding borrowing on interest	Before Joining the GB		After Joining the GB	
	Number of Respondents	Percentage	Number of Respondents	Percentage
Did not borrow on interest	60	85.71	16	22.86
Used to borrow on interest and interest-free	06	08.57	09	12.86
Used to borrow on interest	04	05.71	45	64.28
Total	70	100.00	70	100.00

Source: Field Survey

in Table 3.14.

It is seen from Table 3.14 that most of the dropout borrowers used more than Taka 30000 GB loan before their dropout from GB.

3.15. Information Regarding Borrowing on Interest:

The use of non-institutional loan on interest by expelled borrower households

Table 3.16 : Changes in the Level of Assets

Type of assets	Increase	Decrease	Constant
Cultivable land	00	20(28.57)	40(57.14)
Homestead	00	08(11.43)	62(88.57)
Dwellings	04(05.71)	01 (01.43)	65(92.86)
Livestock	00	12(17.14)	58(82.86)
Poultry	00	48(68.57)	22(31.42)
Furniture and home articles	02(02.86)	20(28.57)	48(68.57)
Capital goods	00	12(17.14)	58(82.86)
Investment in business	00	10(14.28)	60(85.71)

Source: Field Survey

before and after joining the GB is shown in Table 3.15.

From Table 3.15 it is seen that the use of non-institutional loan on interest has increased among the borrowers after their joining GB.

3.16. Changes in the Amount of Assets of the Households of Dropout Borrowers

The changes that occurred in the level of assets of the households of the expelled borrower during the use of GB loan are shown in Table 3.16.

It is seen from Table 3.16 that the amount of assets decreased among the expelled borrower households while using GB loan.

4. Summary and Conclusions

From the foregoing analysis, it is seen that micro-credit institutions expelled all of the dropout borrowers due to their inability to repay the weekly installments of loan. Like the active borrowers, all of these expelled borrowers were found to be female and majority of them were over-aged. Majority households of these dropout borrowers were functionally landless. Most of these respondents had used GB loan for a period of more than five years before leaving GB. No positive impact of micro credit loan was found on the borrowers and their dependents in terms of self-employment and income generation. The assets of most households of these dropout borrowers has declined during the use of loan. The overall indebtedness of the respondent has increased significantly. A stark revelation of the study is that the GB's claim that the ownership of GB rests with its member borrowers is totally false. No respondents were found to have been given share certificates or annual dividends. To bring down the number of dropout borrowers and make the micro-credit program effective the following policy prescriptions

are suggested here.

- ** To ensure the declared ownership of member borrower (as the GB pioneer sternly mentions that the land-less member borrowers own 94% shares) in the micro finance institutions (MCI), the member borrower must be given share certificates, and the annual dividends must be distributed among them.
- ** The correct statistics regarding borrowers' dropout from different MCIs must be maintained and published from branch/center level.
- ** The number of borrowers overlapping in different MCIs must be identified and published from branch level to disentangle the contribution of master MCI from others.

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