ASSESSING THE IMPACT ON CONSUMPTION PATTERN DUE TO OF MICRO CREDIT : A CASE STUDY ON DHAKA CITY

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Abstract: This paper explores the critical issues of urban poverty of Bangladesh. It also investigates whether consumption of the urban poor of Dhaka city can be improved through micro-credit offered by the Non Government Organizations (NGO) of Bangladesh. For the study, we have collected primary data by using a structured questionnaire. A total number of 100 respondents were selected randomly who provided usable response. We also used secondary data to develop theoretical background of the study. The study reveals that consumption pattern of the poor of Dhaka city did not improve significantly with the use of micro-credit. If micro-credit could be given in larger amount then it might be more effective to the poor of Dhaka city. It might then be able to improve the consumption pattern of the poor of Dhaka city. The lenders must scrutinize and consult with the borrowers before delivering the micro-credit so that more suitable use of micro-credit can be ensured. Then, these poor of Dhaka city might become capable of improving consumption levels significantly with the help of micro-credit.

Key words: Micro credit, urban, rural, poor, income, consumption, Bangladesh.

Introduction:

Poverty is a common observable fact in Bangladesh, which is one of the world's most densely populated countries. It has 150 million people among whom around 49 percent live below the poverty line (World Bank, 2012). The capital city of Bangladesh is Dhaka which is the fastest growing mega-city in the world where around 300000 to 400000 rural poor migrate per year (BBS, 2007). This order is pacing up the urbanization of the country as well as transferring the rural poverty to the capital city. These poor people migrate to Dhaka and look for employment opportunities. Most of these poor people find their living places in the slums of Dhaka city. From the analysis, it has been found that the number of slums in Dhaka city is increasing (LGED Survey of Slums, 2005). There are more than 22000 slums in Dhaka city (LGED Survey of Slums, 2005). Dhaka city corporation (DCC) has an area of 145 sq. kilometers. The estimated population of DCC is 7.2 million (BBS, 2005). Dhaka Metropolitan Area (DMA) has a 306 sq. kilometers and the estimated population of DMA is 9.1 million which includes DCC and adjoining area (BBS, 2005). 37.4 percent of total population lives in slum areas (BBS, Population census, 2005).

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The number of migrate poor to the cities is increasing day by day. Majority of these poor are choosing Dhaka city for migration as they are anticipating that Dhaka city would be better place to get different types of employment. This increases the urbanization of Dhaka city allied with poverty. Most of the peoples (especially women) usually migrate to Dhaka city to try to get jobs in ready-made garment industry of Bangladesh. This industry attracts a significant number of rural poor to Dhaka city. Even though a large number of rural poor migrate to Dhaka with a hope of managing job, many of them fail to get any job due to illiteracy and lack of technical skills. Thus these rural poor become urban poor when they migrate to the cities of Bangladesh. Finally, they find their places in the slums of Dhaka city where they live a very filthy life which includes malnutrition, poor housing and sanitary system and other living facilities (World Bank, 2012).

There is thousands of Non Government Organizations (NGO) working in Bangladesh with the objective to improve the living conditions of the poor people. Initially, these NGO were providing their services to the rural areas of Bangladesh. But now-a- days, they are also targeting the urban poor as many poor people are migrating to the cities of Bangladesh. NGO are working mainly for the betterment of those poor who live in the urban slums. In 2005, 69.8 percent of the slums of Dhaka city were covered by NGO programs (LGED Survey of Slums, 2005). Primarily, they worked for ensuring shelter, food, water, sanitary, child education, and medicine to these poor. Now, these NGO have started their work for creation of employments for the poor living in those slums. NGO now offer micro-credit to the urban poor as they believe that small loan can help these poor to generate their own income and thus a better living might be possible. But, to what extent micro-credit could contribute to the income generation of the urban poor is a fundamental question. This type of work has never been done in the existing literature. In fact, literature on rural poverty is vast but work on urban poverty is mostly ignored by the researchers. This paper aims to close that gap. Could micro-credit really help the urban poor of Dhaka city to reduce their income poverty? Is it possible to improve the consumption level of the poor living in the urban areas of Dhaka city with the help of micro-credit? This paper intends to answer these questions.

Literature Review:

Poverty implies a situation which indicates lack of necessities for human beings. It is associated with lack of basic needs like food, clothes, shelter, health care and education. In Bangladesh (a middle-income country), a person is considered to be in absolute poverty if daily calorie intake of that person is less than 2122 kilo-calories and in hard-core poverty if daily calorie is less than 1805 kilo-calories (BBS, 2010). The percentage of population living below minimum level of dietary energy consumption of Bangladesh was 19.5 in 2010. The country has a target to reduce this percentage to 14 by 2015 which might not be possible to achieve (BBS, UNDP, 2010). In Bangladesh, it has been observed that there are two types of poverty, rural poverty and urban poverty. From different studies it had been found that these two types of poverty are interconnected. In many cases both rural and urban poverty increased because of same reasons. During the political instability of the country both rural and urban poor face financial stress. Sometimes, the urban poverty increases as more poor migrates from rural areas to urban areas looking for better jobs and living conditions. As a result, the number of urban poor

has been increasing in recent years. 37.4 percent of total population of Dhaka city is considered as urban poor (source: BBS, Population census, 2005). These poor find their places in the slums of Dhaka city. They try to maintain their places in city as well as in their villages. These poor have been migrating to Dhaka city with high expectations. They choose Dhaka city to migrant as they expect that they would have better job opportunities in Dhaka city compare to other cities of Bangladesh. They expect that Dhaka city would provide more variety of jobs with comparatively higher income. For these reasons, this study focuses on urban poor living in Dhaka city of Bangladesh.

Now days, there are lesser jobs for the poor in the rural areas. So, these rural poor are coming to the Dhaka city to find a new way to live. In Bangladesh, thousands of Non-government Organizations (NGO) is working along with the Government (GO) to reduce the poverty of the country. But their concentration had mainly positioned on the rural poor. Their activities in Bangladesh are now focused on micro-credit, education, health and advocacy. Services provided by these NGO are homogenous and all of them are now offering micro-credit to the poor (World Bank, 2003). Most of the NGO branches are focused on services like child education, credit, health care, sanitation and drinking water. Other than these services some NGO are closely related to providing advocacy services and creating public awareness. Most of these NGO are small in size. There are very few large NGO (ASA, BRAC and Proshika) and Microfinance Institutions (Grameen Bank) working in Bangladesh. Up to 2003, 87 percent of the 16.4 million active borrowers in micro-credit sector are reached by these NGO (World Bank, 2003). Most of these borrowers live in rural areas of Bangladesh. Among the thousands of NGO of Bangladesh, only ASA, BRAC and Proshika have started to focus on urban poor but Grameen Bank keeps its focus on rural areas only.

In March2016, Grameen Bank and other large nine NGOs (BRAC,ASA, Proshika, TMSS, RDRS Bangladesh, CARITAS Bangladesh, Jagoroni Chakra Foundation, Society for Social Services [SSS], Shakti Foundation for Disadvantaged Women) disbursement of credit for income generating productive rural activities under their micro credit programme stood at Tk.6414.54 crore through their around 95 54 branches reached to 25.27million members. It is noted that Grameen Bank, BRAC and ASA have been playing a major role in micro credit disbursement with 89.83 percent share in total disbursement of March 2016. However, in March 2016, total recovery of all micro credit providers stood at Tk.5717.47crore.At the end of March of FY16 total outstanding balance and overdue of those institutions stood at Tk.38210.53 crore and Tk.785.62 crore respectively. During this period, the overdue as percentage of outstanding balance became only 2.06percent (Bangladesh Bank, 2016).

Ali and Akter, (2011) argued that after the independence of Bangladesh, Bangabandhu Shiekh Mujibur Rahman started working for the development of the poor people through opening of branches of commercial banks and Bangladesh Krishi Bank countrywide. He also started rural development programmes through formal institutions. The Bangladesh Rural Development Board, one of those institutions, is charging a flat rate of 12 per cent interest rate on loans. At that time BRAC also started functioning, and the Comilla model became famous for rural development. Bangabandhu was always very careful so that no hidden charges were levied and the interest rate kept to the minimal. He showed the path

of rural development of this country. Prof Muhammad Yunus tried to formalize a definition of micro credit with a zeal, which has become popular in countries enjoying free market economy. NGOs claim that the rural poor especially, the women have been benefited by micro credit but in reality his model creates only a few people in a well position others are in low level of equilibrium trap.

The urban poor of Bangladesh are facing more challenges for living as the cost of living in urban areas are higher compare to that of the rural areas. These urban poor have to spend most of their income to get housing in the cities whereas the rural poor live in their own houses residing in villages. The consumption cost is also high in urban areas as the product price is high in urban areas compare to rural areas. There is huge gap between the high income group and low income group in the urban areas of Dhaka city. Hence, the urban poor require more consideration from both the Government (GO) and NGO. The NGO should provide their services (especially micro-credit delivery) more thoroughly in the urban areas of Bangladesh as the urban poor need better earnings. They should have more access to the micro-credit which might help them to positively change their earning levels. Some of the studies suggest that the poor who took micro-credit had succeed to increase their income and as well as consumption (World Bank, 2010). They suggest that there had been an improvement in the employment level of those who got the micro-credit. It directs them to better employment opportunities which lead higher income. This helped the poor with micro-credit to increase their nutrition level and also to improve the education level of the borrowers' children (also called multiplier effect of micro-credit).But there are others who suggest that in some cases of Bangladesh micro-credit failed to improve the income level of the borrower. They found that some of the micro-credit borrower had been driven to the debt traps which ended up by making the borrower as loan defaulter (Red Pepper Magazine, September 01, 2010). They also indicated that the poor typically used the micro-credit for consumption rather than for productive investments. Though, for the time being it improved their consumption level but in the long run their economical status could not be better off. In most of the studies, it had been found that micro-credit could not reduce poverty (World Bank, 2005).From these studies, it can be said that though in some cases the rural poor in Bangladesh had been failed to get the benefit of micro-credit, in some cases it had ensued significant success. Thus, it might be worth to assess the achievement of micro-credit in the urban areas of Bangladesh (Dhaka city). It is important to find whether micro-credit could improve the income and consumption of the urban poor of Dhaka city.

Objectives of the study:

- To assess the impact of micro-credit on consumption pattern of the urban poor of Dhaka city.

- To provide some implications of the findings

Methodology of the study:

The research is analytical in nature. The target population of the study was the urban poor of Dhaka city. We used both primary and secondary sources of data for collecting information. To collect primary sources of data, we selected Dhaka city because the

163

number of migration of the poor to Dhaka is high. The period of the study was from January, 2015 to December 2015. Simple random sampling technique was used to collect primary data. The extent of the study was the Metropolitan area of Dhaka city from which respondents were selected. We used a structured questionnaire for collecting data from different areas of Dhaka city. We selected these areas of Dhaka city because more than 80 percent of the poor migrate to these places (icddr,b, 2007). The questionnaire consist a total of 29 questionnaire related to the consumption of the respondents. The language used for the questionnaire was English. All the questions in the questionnaire were close-ended. The questions were related to the consumption status of the respondents before and after receiving micro-credit. The respondents were asked to give opinion about their conditions before and after receiving micro-credit. A total number of 100 respondents who were selected randomly gave suitable feedback. To develop the theoretical background of the research, secondary data were collected from different reports, electronic database, journals from home and abroad, Bangladesh Bureau of Statistics (BBS) and others.

The variables covered in the study were selected based on the objectives of the study. The variables used for this study are consumption and micro-credit. We considered consumption as the effect variable and micro-credit as the casual variable. Data entry was done in SPSS 16.0 for Windows. Statistical tools like frequency and simple regression analysis were used to analyze data based on question answer "yes" or "No", where amount of consumption after micro-credit has been used as dependent variable and amount of micro-credit has been chosen as independent variable. The following format of Simple regression equation has been employed:

$Y=a+bX$

Where, Y= Dependent variable (consumption)

a= Y- intercept/constant (consumption without micro-credit)

b=slope (change in consumption with respect to change in micro-credit)

X= independent variable (micro-credit)

Demographic analysis:

The following table represents the professional background of the respondents.

Table 5.1.1: Profession

	Income source
Profession	**Count**
Rickshaw puller	20
Day laborer	16
Small business	44
Garment	12
Maid servant	6
Driver	1
Service holder	1

Source: Survey results (January-December 2015)

From the above table it can be observed that 44 respondents are in small business, 20 have the profession of rickshaw pulling, 16 are day laborers, 12 are garment workers, and 6 are maid servants. One respondent is driver and another one is service holder. The survey was conducted through face to face interview with the respondents.

We surveyed on 100 respondents where 66 percent were male and 34 percent were female. Though in rural areas micro credit is obtained by female borrowers most of the time, urban area reveals opposite scenario. The following table shows the percentage of gender of the respondents.

Table 5.1.2: Gender

Gender	percentage
Male	66%
Female	34%

Source: Survey results (January-December 2015)

We conducted an analysis regarding the difference between the amount of monthly spending or consuming before and after micro-credit. We found that 68 borrowers (Table 5.1.3) amount of spending ranges from Tk.1000 to Tk.3000 per month and 24 borrowers 'spending ranges from Tk.3000 to Tk.7000. From the percentage change column, we can see that like income there is also momentous improvement in the consumption structure of the people who are able to earn more than Tk.7000 because there is 160% change in the amount of consumption of more than 7000 per month. In case of spending of Tk3000 to Tk.7000 per month the percentage change is 16.67% which indicates that after taking micro-credit they are able to spend more for their consumption. But still the performance is not reasonable.

Table 5.1.3 Amount spent for consumption before and after micro-credit (monthly)

Amount spent (Tk)	before micro-credit	after micro-credit	% change	Amount of Fixed Expense	Amount of income sent to village
	Number	**Number**		**Number**	**Number**
					1
1000-3000	68	55	-19.12%	65	38
3000-7000	24	28	16.67%	21	20
>7000	5	13	160%	14	7

Source: Survey results (January-December 2015)

Table 5.1.4 Amount spent for regular activities of the respondents (monthly)

Spending for	Fuel	Water	Education	Transport	Communication	Furniture	Vehicle	Recreation	Toilet	Other
Amount spent(Tk)	Number	Number	Number	Number	Number	Number	Number	Number	Number	Number
500-1000	62	65	65	74	70	54	51	58	62	73
1000-3000	5	2		6	5	4	3	2	1	

Source: Survey results (January-December 2015)

The Table 5.1.4 shows the average monthly amount of the respondent's regular activities. From Table5.2.3 we can say that most of respondents say that they spend Tk. 500 to Tk.1000 per month for fuel, education, transport, communication, toilet and others each.

Table 5.1.5 Amount spent for Daily Food

	Amount(daily Food)
Amount spent (Tk)	Number
50-100	54
100-300	39
>300	6

Source: Survey results (January-December 2015)

The Table 5.1.5 shows the amount of daily expense for food of the respondents. It shows that 54 percent of the respondents spend for food Tk. 50 to Tk. 100 daily, 39 percent spend Tk. 100 to Tk.300 and 6 percent spend more than Tk.300 daily for food.

Table 5.1.6 Expenditure on basic needs

	No of respondents
Items	Number
Food	87
Cloth	8
residence	1
education	1

Source: Survey results (January-December 2015)

166

Table 5.1.6 shows the details of fixed expense. 87 percent of the respondents agree that their main item in their fixed expense is food, 84 percent says that they pay for food daily and the amount ranges from Tk.50 to Tk.100.

Data Analysis:

Our analysis is about to demonstrate the impact of micro-credit on the consumption structure of urban poor. For doing the analysis, we have surveyed 100 respondents from different areas.

Consumption scenario after having micro-credit

In our questionnaire, we asked 29 questions regarding their consumption scenario before and after micro-credit. From our analysis, we find that (Table 6.1) about 56 percent of the respondents agrees that their amount of consumption after taking micro-credit has been improved and 48 percent have the contradictory opinion on the same fact. Regarding the question of regular diet and spending after micro-credit most of the respondents gives positive opinion, implying that the amount of spending and condition of diet after micro-credit has been improved. But most of the respondents (61 percent) believe that they are not able to fulfill their basic need even after having micro-credit. And regarding their permanent resident most of them (69 percent) gives negative opinion. By evaluating the statistics, we can say that though after having micro-credit there was notable growth in their diet, consumption and spending structure, but most of them believes that they cannot fulfill their basic need yet and still they don't have any permanent resident.

Table 6.1 Overall condition of consumption after micro-credit

	Consumption	Diet	Spending	Current resident	Basic Need	Permanent resident	Food daily
Answer of the respondents	Number	Number	Number	Number	Number	Number	Number
YES	56	53	16	52	39	31	84
NO	48	47	32	48	61	69	15

Source: Survey results (January-December 2015)

Analysis of the findings:

Relationship between amount of micro-credit and amount of consumption after micro-credit:

Model – A

In this section, we will try to estimate simple regression equation to state whether micro-credit has any impact on the amount of consumption or not. Here, amount of consumption after micro-credit will be the dependent variable and the independent variable will be amount of micro-credit.

Table 7.1.1 Relationship between amount of micro-credit and amount of consumption after micro-credit (Model Summary)

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.253[a]	.064	.055	.694

a. Predictors: (Constant), credit

(Source : Estimated Results)

The relationship among the variables in relative terms can be estimated with the help of coefficient of correlations (R). R= 0.253. It indicates that there exists moderate degree of positive relationship among the variables. The explanatory power of the independent variable can be assessed with the help of coefficient of determinations (r2). The r^2 value indicates how much of the dependent variable, "amount of consumption after micro-credit ", can be explained by the independent variable, "amount of micro-credit ". From the Table 7.1.1, we can see that the value of r^2 is 0.064 which indicates that the amount of micro-credit explains about 6.4 percent variations in the amount of consumption after micro-credit.

Table 7.1.2 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.239	1	3.239	6.725	.011[a]
	Residual	47.201	98	.482		
	Total	50.440	99			

a. Predictors: (Constant), credit

b. Dependent Variable: consumption

(Source : Estimated Results)

The ANOVA table indicates, whether the regression model predicts the outcome variable significantly well or not. According to our findings P-value of F-test is .011, which is less than 0.05. This indicates that, the model is statistically significant at 5% level of significance.

Table7.1.3 Coefficients

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.078	.235		4.593	.000
	Micro-credit	.285	.110	.253	2.593	.011

a. Dependent Variable: consumption
(Source : Estimated Results)

The above table (Coefficients) provides us with information on each predictor variable. This gives us the information we need to predict "consumption after micro-credit" from "amount of micro-credit". We can see that both the constant and micro-credit contribute significantly to the model (by looking at the Sig. column). By looking at the 'B' column under the Unstandardized Coefficients column, we can present the regression equation as:

Consumption after micro-credit = 1.078 + 0.285(micro-credit)

The relative influencing power of the independent variable can be indicated using standardized or Beta (β) coefficient. In our result, it is found that β = .253 which indicates that amount of micro-credit has little impact over the amount of consumption. So, the regression is found to be suitable and appropriate from which it can be said that the amount of micro-credit have very small impact over the amount of consumption after micro-credit of the urban poor of Dhaka city.

Conclusion and Implications:

The number of urban poor of Bangladesh (especially in Dhaka) is increasing at an alarming rate. The living conditions of these poor are shocking. The Government as well as the NGO is working to give better living conditions to these poor. Ali and Akter, (2011) justified about the reality of micro financing. For this purpose, some NGO started to deliver micro-credit to the urban poor. In this study, we attempt to find whether there is any impact of micro-credit on the income and consumption of the urban poor of Bangladesh. From our analysis, we have identified that micro-credit do not has immense impact on the income and consumption of the urban poor. It shows that consumption of the poor has been improved rationally by micro-credit. There may be other macro-economic variables which need to be taken under consideration to get the accurate impact of micro-credit on consumption of the poor of Dhaka city. There are some issues which could not be judged by using numerical results. In case of micro-credit, there might be some issues like that. If micro-credit can be given in larger amount then it might be more effective to the poor. In spite of that, the lenders should oversee whether micro-credit is a burden to the borrowers, or whether they are feeling too much difficulty for repaying the

169

micro-credit. Finally, the lender should scrutinize and counsel the borrower so that maximum utilization of micro-credit could be ensured. If these improvements can be made then it would be possible for Bangladesh to alleviate urban poverty. The overall analysis reveals that micro credit is not still worthy, rather micro savings and social networking will help them to build their financial upgrading. In future, we need to study in depth in different districts of the country with more variable to see whether micro credit is worthy or not.

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