Impact of Microfinance Operations on the Livelihood of the Clients: A Review of the Existing Literature

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Abstract. The contribution of microfinance in the development of global economy is undoubtedly admissible. The research has been carried out to explore the impact of microfinance on the livelihood of the clients. The study emphasized to detect clear-cut impact of microfinance on poverty eradication, livelihood security, and on the role of Information and Communications Technology (ICT) system on microfinance operations. There are considerable debates about the effectiveness of microfinance as tools for direct reducing poverty. A plenty of researches explore that microfinance has had a significant positive impact in changing livelihood by reducing poverty and it brings a positive shift in attitude towards life and improvement in the standard of living. Clients have been successful to increase their household income, decrease economic vulnerability, and they enjoy better nutrition, health facilities and greater empowerment, gain the opportunity to pursue education, and in some cases, they have been able to wipe out poverty completely. The purpose of this paper is to illustrate the impact of microfinance on the livelihood of poor people especially who participated in microfinance operations. Toward this objective, around 50 research articles have been critically reviewed and tried to extract the findings of the impact of microfinance operations. However, due to page limitations we are unable to provide all our review information. The research also highlights the application of ICT in order to speed up the transaction processes in microfinance operations.

Keywords: Microfinance, Poverty, ICT system, Sustainable income.

1 Introduction

Poverty, now-a-days, is a global issue. It is a regular phenomenon for the under and lesser developed countries, though developed countries can not claim that they are absolutely free from poverty and they are seen to introduce various anti-poverty programs as well. Statistics shows that “among 1.4 billion poor about 1.2 billion live in the developing countries and only 200 million live in the developed countries” [1]. Poverty is unevenly spread among urban and rural area and almost every country

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exhibits a rural-urban gap on various poverty indicators. The rural poor constitute 36% of the total rural population. Although urban poverty is a growing phenomenon, rural poverty still accounts for over 80% of the total number of poor people in 114 developing countries [2].

On the other hand, evidence shows that women are the most affected by poverty and "they are most disadvantaged group" [3] compared to men. Over the past decade, the number of women living in poverty has increased disproportionately compared with the number of men [4] and they lead their lives without any economic and productive works. Because the prevailing social customs act against poverty alleviation by denying women's participation in different anti-poverty programs. But now-a-days' poverty often forces women to work especially outside their homes, which is unusual in the context of social set up of rural areas like Bangladesh. Despite poverty forces the poor women to work outside their homes, they cannot throw out the poverty from their lives because of enjoying uneven social facilities in the male dominated society. Moreover, the existing economy system denies fair chances to the poor people. Across the world, poor people are excluded from the financial services of formal financial institutions [5] like banks, insurance companies, mortgage or house building societies. Microfinance operation has brought them under these services. "Microfinance is the provision of financial services" provides to "low-income, poor and very poor self-employed people" [6] who do not have access to the formal financial institutions. It is revealed in different researches that the participants of microfinance operations have been able to upgrade their socio-economic status by involving themselves into various poverty alleviation programmes.

1.1 Evaluation of Microfinance

Historically, the existence of microfinance was among the poor in various shapes and form [7]. Early beginners of micro credit programs in the world were the cooperative societies. Evidence shows that group formation for undertaking economic activities was an ancient concept of modern microfinance institutions (MFIs) and in the 12th century there was a cooperative type association named "kou" in Japan. Though these types of traditional and informal institutions could not achieve sustainability [8] and as a result, formal institution for the poor emerged.

Microfinance in formal shape started out from Bangladesh in 1970's in a limited scale and Professor Dr. M Yunus, the great visionary, is the unique and only claimant the development of this concept. He has conceptualized micro credit intervention for its extensive use to eradicate poverty of millions for the world's poorest people. The mission of micro credit has been guided by four core themes: (i) reaching the poorest; (ii) reaching and empowering women; (iii) building financially self-sufficient institutions; (iv) ensuring a positive measurable impact on the lives of the clients and their families [9].

Before the microfinance era, poor did not have access to credit and loans due to the widespread belief that the poor could not repay loans [10], though this belief has proven absolutely incorrect and "the poor are indeed responsible to manage credit and repay loans" (ibid, 2005). At present, this concept has proliferated worldwide including developed countries. Currently 1000 to 2500 MFIs are serving some 67.6 million clients around the world [11].

1.2 Approach of Microfinance

There are many different approaches of microfinance. Grameen Bank has identified fourteen different microfinance approaches. These are- associations, bank guarantees, community banking, co-operatives, credit unions, Grameen group, individual, intermediaries, NGOs, peer pressure, rotating savings and credit association (ROSCA), small business and village banking [12]. A common approach found throughout the world is the ROSCA. A ROSCA consists of a group of community members, usually 30-40 members, the group which is called village organizations (VOs), who meet regularly to pool their savings. The pool is then lent out to one member of the group, who repays it, at which time it is lent out to another group member, and so on until each group member takes a turn borrowing and repaying the pool of savings [5].

2 Impact of Microfinance Operations

Microfinance is contemplated to be an effective tool of poverty alleviation and an approach to empower the poor especially poor women. That's why; assessment of impact of microfinance operations is inevitable. "Independent studies show that microcredit has a host of positive impacts on families that receive it" [13]. Microfinance clients have been successful to increase their household income, decrease economic vulnerability, and they enjoy better nutrition, health facilities and greater empowerment, gain the opportunity to pursue education, and in some cases, they have been able to wipe out poverty completely [10].

However, it is frequently heard to say that the fortune of the microfinance clients is as like as before despite claiming the success of microfinance by different researchers, even it is learnt from media that some suicidal incidents are bound up with microfinance operations as clients have been pressurized to repay their daily installment despite their inability or they are hiding to escape from pay loan back taken from different micro financer institutions (MFIs). These incidents demonstrate quite opposite scenarios of microfinance success and its positive impact on the socio-economic level of the target groups and that's why Wrenn E [12] commented that "not all commentators are as enthusiastic about the role of microfinance in development and it is important to realize that microfinance is not a silver bullet when it comes to fighting poverty".

On the other hand, the positive impact of microfinance rests on its policies as well as procedures and the management involved executing the policies according to procedures. In some cases, microfinance operation has not been successful because of inefficiency of management despite having good policy and procedures or ill-designed programs having efficient management. According to Bhatt N and Tang S [14] the future success of microfinance will hinged upon how MFIs develops design tailoring to specific clients. They highlight the importance of future research to develop MFI vehicles, technologies, performance assessment, sound design of MFI and its management. So, "well-designed programmes can improve the incomes of the poor and can move them out of poverty" [15] and if MFIs and their management "understand the needs of the poor and try to meet theses needs, projects can have a positive impact on reducing the vulnerability, not just of the poor, but also of the poorest in the society" [12].

Therefore, considerable debate remains about the effectiveness of microfinance as tool for directly reducing poverty and about the characteristics of the people it benefits [16] and it is extremely difficult to measure absolute impact of microfinance operations on the livelihood of the destitute people because of not having unanimity about the definition of poverty line.

"The impact of microcredit is mainly assessed in terms of the income gains for the borrowing households, the less perceptible beneficial impact on various aspects of human development is no less important"[17]. There are some common variables to measure the impact of a typical microfinance programs "includes income, diversity of income sources, volatility of income, employment generation, assets acquisition, volatility of household consumption, level of household consumption, education for children, poverty reduction, women empowerment and reduction in social exclusion of women" [8].

2.1 Impact of Microfinance on Poverty

The term poverty is a vague and ambiguous concept. It has no unambiguous connotation that if an individual does not have some particular stuff or assets means he or she is living below the poverty line. Somebody defines poverty is the lack of income. But "poverty is more than just a lack of income" [12]. Increasing income and reducing poverty is not same thing because the income increased of the poor may be spent on gambling or buying alcohol, which does not necessarily reducing poverty. To reduce poverty needs to focus on helping the poor to "sustain a specific level well-being" [18].

Despite a plenty of criticism of microfinance operations, it is proved by many researchers that microfinance has had a significant impact in reducing poverty [19],[20],[21],[22], and [23] by increasing income, other resources, number of income earners. The more effective impact of microfinance operations is noticeable on extreme poverty compare to moderate poverty [24].

Many researchers have compared poverty scenario between clients and non-clients of microfinance and scenarios before and after joining microfinance interventions. In a study conducted by Panjaitan-Drioadisuryo et al. [19] in Lombok, Indonesia, finds 90% of sample clients of Bank Rakyat Indonesia (BRI) increased their income by 112% and these families exceed the poverty line. Only 10% respondents' income did not increase because of misusing the money by their husbands.

MkNelly and Dunford [20] and Elizabeth Dum [21] found in their study in Ghana and Peru respectively that microfinance clients increased their income by 50% higher compared to non-clients and "only 28% clients live below the poverty line compared to 41% of non-clients" [21]. Khandaker S R, [22] states that "microfinance participants do better than non-participants in per capita income, per capita expenditure and household net worth and the incidence of poverty among participating households is lower compared to non-participating households. Setboonsarng S and Parpiev Z [23] carry out a research on microfinance and Millennium Development Goals in Pakistan. They draw a comparative impact assessment of microfinance between borrowers' households of Khushhali Bank (KB) and non-borrowers. They found strong positive impacts of KB borrowing on agricultural production, especially in animal raising activities and agricultural farming. KB clients possess on average PRs 17,705, PRs. 12,814, and PRs. 882.5 higher values of livestock, farm equipment and rental income from farm equipment than that of non-borrowers (ibid). Though they did not find any significant impact on non-agricultural enterprise, durable assets, consumption, education, health care and empowerment (ibid).

Another indication of poverty reduction is the increase of number of income earners. In Lesser Developed Countries (LDCs) like Bangladesh, most of the households have only one income earner [3]. Microfinance contributes directly or indirectly to increase number of earners. Choudhury M O [8] states that "micro credit delivery to women assists to generate employment for the able bodied male members who may not have access to the credit facility" and MFIs that provides "credit to one woman generates employment for 2.5 persons, male or female, in the family and on hire for wage". Though the use of loans by male relatives is viewed as the loss of women's direct control over loans and a reinforcement of unequal gender relationships and interpreted as disempowering [25].

The destitute people of the village suffer from hunger acutely, which is another dimension of poverty and they become happy if they can enjoy foods two or three times in a day. Several researches showed that microfinance operations let them freed from hunger. Mina M S and Alam S S [26] in a study showed that 82% of respondents had self-sufficiency of food for 2-6 months and only 18% had for 6-7 months in a year before joining microfinance operation but after joining the credit programs the figures was just reverse to before joining program. Rahman M M et al. [27], however, revealed different statistics in their study that clients of microfinance operations spent a lesser portion of income to their family basic food items after joining credit program. They found that though the amount of fooding expenses increased remarkably accounting for 274.41% higher than before joining operations, but after joining credit program they were spending only 66.75% portion of income for their family basic food items which was 18.84% lower than before joining credit while major portion (85.59%) of income used to spend for that.

2.2 Impact of Microfinance on Livelihood Security

Despite having debate about the extent of poverty alleviation by microfinance, it is admissible to all that microfinance plays a vital role in alleviating poverty. Different researches reveal that microfinance boosts client's income and thereby reduces poverty. However, rising income does not necessarily mean that client's livelihood is secured or durable. When poor people are able to protect themselves from different shocks such as natural, social, political and economical disasters, then their livelihood is said to be secured and durable. The way of being secured and durable life is having tangible assets like land, and other resources, non-tangible assets such as saving etc. along side sustainable income. "Impact must be assessed on each of these issues if a true picture of the impact of microfinance is to be obtained" [12].

Rahman M M et al. [27] pointed out in their study that no clients of microfinance had saving before joining Grameen Bank, but a remarkable advancement in saving was found after joining micro credit program while "their savings was on an average Tk. 625" each of clients at the survey year. But they did not mention if clients' saving were voluntary after meeting their all daily expenses or they did this to comply with mandatory rule of saving of MFIs. They found in their research that value of all tangible resources of the clients went up by 955.9% at the survey year after joining Grameen Bank microfinance program. Though an insignificant change (only 13%)

was taken place in land ownership. But drastic change was observed in livestock and poultry after joining credit program that was 1606.05% higher than before joining followed by house and modem amenities (265.43%).

Latif [28] in a study on Micro-credit and Savings of Rural Households in Bangladesh revealed that the micro-credit programs of the MFIs targeted to alleviate poverty by supplying small credits to the rural poor in self-employment activities, has a distinctly positive role in influencing household savings. For households of similar income categories, the saving-income ratios are found to be significantly higher among the participants than the non-participants.

Mina M S and Alam S S [26] showed in their study that 55% of sample respondents had been able to develop a saving after meeting their expenses, but they did not reveal how much money they were able to save each week or month and what was the savings scenario before joining microfinance? Because, the range of savings could be very little amounting to large in context of their socio-economic condition and the same group might have savings before joining microfinance program and if so, how much improvement has in this regard been developed? On the other hand, they stated that beneficiaries had been able to increase their assets on an average by 90%, out of them business assets (development of a business) were significant (1475%) followed by housing (107%) and development of cultivation (72%) as well as livestock (72%) was not insignificant as well (ibid).

3 Role of ICT System on Microfinance Operations

A well-developed ICT system is very important for knowledge share and communications between the service providers of micro-finance and the entrepreneurs (receiver). The success of microfinance operation hugely depends on the effective management, communication and training with the different department of the service provider. The development of broadband or Internet connectivity in the rural areas of developing countries (e.g., Bangladesh) can improve the services of information exchange and the accessibility in the areas for health, education, local government management and awareness of some international issues such as climate change and global warming.

In many cases, it is obvious that the policy makers or the key people related to the microfinance operation are not aware about the sustainable development. With this limited knowledge, they can focus and train only the traditional way of doing business. Microfinance has lots of advantages, which the authors have explained in this report, though its major disadvantage is lack of long-term sustainability. The primary aim of the microfinance is to eliminate poverty, which means the focal point is the financial sustainability. Then the question arises about the social and environmental sustainability. Establishment of sustainable broadband Internet system in rural areas of Bangladesh could make a favourable environment for all stakeholders to share the information, develop ideas and knowledge including social and environmental development, project management skills and entrepreneurship. On top of that, it will reduce the bureaucracy and increase the transparency of business environment and the education level.

Traditional method of employing staff in remote villages is very expensive and even it is not so easy to reach poor borrowers due to proper transportation systems. With the latest generation of sophisticated ICT systems it is possible to record all sorts of transactions in the rural area and transfer them to the central server. Both clients and MFIs can benefit by using ICT. For example, clients do not require queuing in the line for any sort of transactions. If a controlled and secured system, such as personal digital assistant (PDA) or smart card systems is implemented, clients can conduct transaction anytime which could be more convenient banking services in a rural area and also it is possible to provide much faster loan processing than the traditional system. On the other hand, MFIs can receive benefits from better performance management due to faster and better quality data processing [29]. MFIs can increase their outreach by making services available 24 hours and closer to clients and thereby increase customer satisfaction and loyalty by introducing new types of services, such as money transfers and direct deposits. MFIs can also reduce transaction cost by reducing staff time when applying ICT based systems.

4 Conclusions

The study has been tried to demonstrate the effectiveness of microfinance on the households, people life cycle who participated in the microfinance programs. The impact of microfinance on poverty alleviation is, now-a day's, debated issue what has been noticed in the different research reviewed. Most of the researchers found that microfinance has had significant effect on the livelihood of the participants. Some critic researchers, however, argue that it is not a silver bullet or panacea of poverty alleviation. Actually microfinance can not make the clients to run in the competitive race but to walk from the crippled position only. To alleviate poverty requires a toolbox with many different categorized parts. Microfinance is not a sole solution of poverty alleviation but it can be considered one of the most effective parts of the toolbox. It must also be coupled with other social programs that are flexible to meet the diverse needs of destitute families [10].

The plan aiming for poverty alleviation designed by MFIs suffers from many criticisms. Indeed, the critics have raised question if microfinance alleviates poverty at all [10]. The critics placed five pitfalls of microfinance operations. (1) Microfinance does not reach the poorest of the poor and it is happening because of discriminated behavior of the loan officers [30], (2) MFIs are rarely achieved financial sustainability [31], (3) it is potentially harmful to women, because their husbands imagine the matter as a degradation the man's sense of masculinity if wives generate more income [32] and hence violence on them starts, (4) it creates a large debt for some poor people who are unable to repay the loans [33] and (5) it is not universally applicable especially for the young, the old, the sick, or physically and mentally handicapped [34].

Therefore, it is recommended to take appropriate measures to bring behavioral changes of loan officers to treat evenly to all clients. Moreover, MFIs should provide due training to the clients before giving loan and while utilizing loans and there should have monitoring management whether clients are utilizing their loans properly. While microfinance has been embraced as an effective tool for poverty reduction, many people in rural areas are still struggling with the appropriate utilization of this service. In order to create the awareness of positive use and impact of microfinance MFIs must have to give priorities to the modern ICT applications. Since an ICT system can lower the cost of communication, transportation and the overall business cost, the authors recommend the development and application of ICT systems for microfinance operations.

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