

Role of Microcredit in Alleviating Urban Poverty: A Study on Dhaka City

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Abstract: A systematic development of a nation largely depends on the proper mitigation of poverty. For this reason poverty alleviation has become great challenge especially in the developing countries, both in rural and urban regions. In the present study an attempt has been made to know about the role of microcredit in alleviating urban poverty in district Dhaka, Bangladesh. The target population of the present study was those who had availed microcredit facilities from some microcredit providing institutions or organizations. A qualitative approach was selected as the research method for this study, through the use of five semi-structured interviews. Major findings revealed that access to microcredit has positive and significant impact on poverty alleviation among the urban masses. The results showed that microcredit programs are effective in increasing borrower's income, uplifting their living standard and also empowering women. However, an argument on the issue of high interest rate and over dependency on loans were also found in the study. In spite of the discussion about the challenges, it is hard to overlook the strong relationship between microcredit and alleviation of urban poverty examined from the study.

Keywords: Microcredit, Urban Poverty, Socio-economic impact, Women empowerment, and Poverty alleviation.

1. Introduction

“A nation is not made wealthy by the childish accumulation of shiny metals, but it enriched by the economic prosperity of its people.” Adam Smith^[1]

Microcredit has been considered most effective instrument in fighting poverty, especially in developing and least developed countries.^[2] A microcredit program extends small loans to poor people, mainly women, for self-employment activities thus allowing clients an opportunity to achieve a better quality of life. It is the most sensational anti-poverty

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tool for the poor people, especially women.^[3] For these reasons, microcredit is considered as one of the essential tools for poverty alleviation in Bangladesh.

According to a recent study, Gross Domestic Product of Bangladesh grew 7.3% in 2017 compared to last year. This rate is 1 -tenth of one percent higher than the figure of 7.2% published in 2016.^[4] The GDP figure in 2017 was \$249,724 million; Bangladesh is number 35 in the ranking of GDP of the 196 countries. The absolute value of GDP in Bangladesh raised \$14,101 million with respect to 2016.^[4] The GDP growth rate, industrialization and per capita income are developing in Bangladesh but poverty as the anathema still exists in the country. About 1.5 crore people of Bangladesh are ultra poor and more than three crore people are living below national poverty line.^[5] Three years after liberation war in 1974, there was a famine in Bangladesh which made majority of its people near starvation. In the late 1970s, to overcome and improve this situation Nobel laureate Dr. Muhammed Yunus, a pioneer of microcredit in Bangladesh, initiated a microcredit program, primarily targeting the poorest of the society, especially for women. It is now a widespread program in Bangladesh and a household name. Microcredit thus becomes a revolutionary concept in Bangladesh from the eighties onward. From the last three decades it emerges a unique innovation of credit delivery system as an income generating activities of Bangladeshi poor. At present, according to NGO Affairs Bureau, about 2,116 NGOs have been operating microcredit program in the country and number of clients increased sharply.^[6]

Earlier most of the microcredit institutions in Bangladesh were largely focusing on the rural poor. However, at present they are functioning all together equally in rural and urban areas as the urban poor are just as vulnerable and at risk as the rural poor. The nature of the poverty in urban areas including, low income, large families, lack of food and education, inadequate skills, insufficient capital and no land resources are making the urban poor deprive of living a healthy and pleasant life. Therefore, the present study took an effort to show the role of microcredit in alleviating urban poverty and how it affects the living standard of the urban poor in Dhaka city of Bangladesh.

2. Objectives

The objectives of the study are as follows:

- To gather knowledge about the socio-economic condition of the urban poor.
- To analyze the role of microcredit in eradicate urban poverty.
- To know the challenges faced by microcredit borrowers.

3. Significance

Poverty is a critical problem in Dhaka city. Dhaka and the municipalities that make up the greater Dhaka area have a total population of over 18 million, and the city has shown population growth of about 4.2% annually. The vibrant culture and thousands of Bangladeshi businesses and international corporations has contributed to migration and population growth.^[7] The high dependency ratio among the city's population resulted in poverty, especially among the low income groups in the city. As a result, several microcredit organizations commenced to functioning all over the country to provide credit services to urban poor who are unable to access to financial services from commercial banks and financial institutions. It is believed that microcredit helps in reducing urban poverty by providing credit facilities to start small businesses and create employment opportunities for urban poor. It is also regarded as a tool for women empowerment by supporting their economic and social conditions. On the contrary, it is suspected that often microcredit organizations lacks in understanding clients needs and aspirations which hinders its progression. However, exceedingly limited studies have been undertaken in this area. Therefore, this study may contribute to explore and evaluate the role of microcredit in benefiting the poor and alleviating urban poverty.

4. Methodology

A qualitative approach was chosen as the research method for this study as it allowed greater aptitude to gain more depth and meaning based on an individual's experiences of taking microcredit. Both primary sources and secondary sources have been used for collecting data. Primary data has been collected via personal interviews from five (05) respondents, who took a loan from institutions and continue to use it. A purposive sampling method was used in choosing the sample of participants and semi-structured interviews were applied to interview the selected participants. Moreover, a bunch of books, articles, journals, research literatures and other publications as well as sources from internet related to microcredit were used as secondary data for the study.

5. Conceptual Analysis

5.1 Concept of Microcredit

Microcredit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income

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levels and improve living standards. Microcredit Institutions are those which provide these facilities.^[8] Microcredit is not charity, but investment.

Microcredit is part of microfinance, which provides a wider range of financial services, especially savings accounts, to the poor. Modern microcredit is generally considered to have originated with the Grameen Bank founded in Bangladesh in 1983.^[9] Many traditional banks subsequently introduced microcredit despite initial misgivings. The United Nations declared 2005 the International Year of Microcredit. As of 2012, microcredit is widely used in developing countries and is presented as having "enormous potential as a tool for poverty alleviation".^[10]

5.2 Urban Poverty: Definition and Features

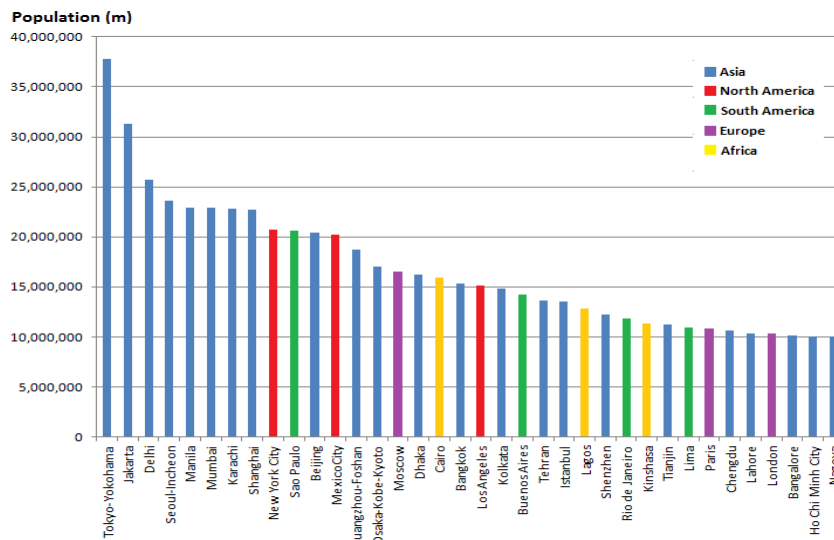
Urban poverty is a complex and multidimensional phenomenon. Urban poverty exists everywhere, although on different levels, from underprivileged to wealthy countries. We can recognize it in substandard living conditions and incomes along with deficient provision of basic public services (running water, electricity, etc). But urban poverty is not just a collection of characteristics; it is also a dynamic condition of vulnerability or susceptibility to risks. Many of the problems of urban poverty are rooted in a complexity of resource and capacity constraints, inadequate Government policies at both the central and local level, and a lack of planning for urban growth and management.^[11]

Generally the urban poor are engaged in self-managed low paid professions in informal sectors like street selling, rickshaw pulling and vending, construction work, driving, transport work, factory work and so on. The urban poor mostly have migrated from different rural districts due to 'push' and 'pull' factors where push factors are more frequent. After migration towards the city, the poor migrants are failing to achieve their desired targets and sometimes, they have to consider their previous life better than the present one. As a result, their livelihoods are found under continuous threat.^[12]

5.3 The Scenario of Urban Poverty in Dhaka City

Dhaka is the capital city of Bangladesh and it is one of the most densely populated and rapidly expanded mega cities in the World. But unfortunately the expansion and growth are not well planned. In every year 300,000 to 400,000 new migrants are coming to Dhaka from

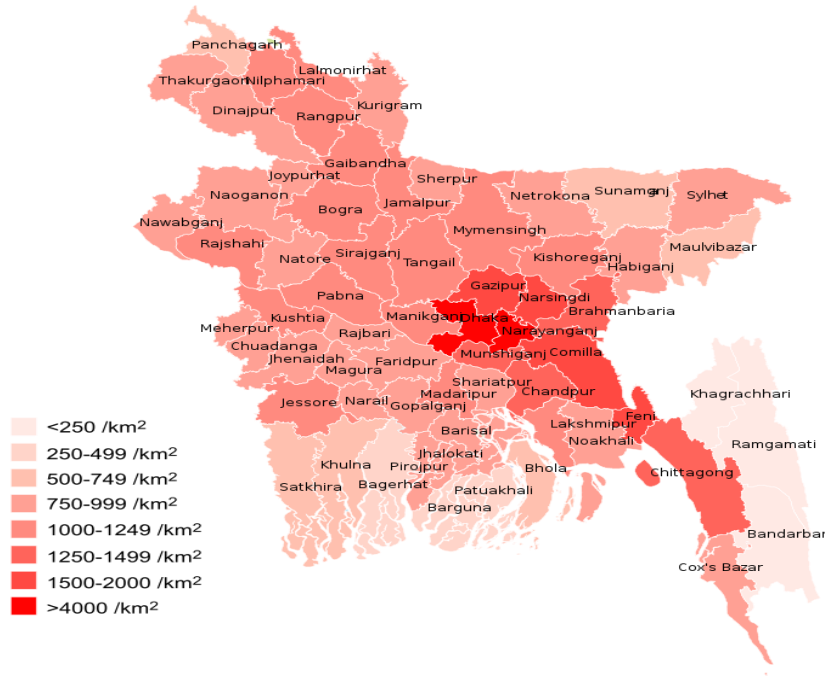
different corners. A large portion of the new migrants are poor and extreme poor. They are mainly staying in 4,966 slum of Dhaka city and their current number is more than 5 million.^[13] The Greater Dhaka Area has a population of over 18 million as of 2016, while the city itself has a population estimated at about 8.5 million.^[14] It is estimated that the growth rate of Dhaka City’s population will remain high and it will be the top ranking megacity with a population of around 25 million by the year 2025.^[15]



The world's 36 megacities
Source: Demographia World Atlas, 2016

The phenomenon of slums and squatters in Dhaka city is as old as the city itself. But the city has experienced a profile growth of slums and squatters since the independents of the country in 1971.^[13] Most of the slums people are coming from different disaster prone, river eroded and many affected areas such as northern chars, hoers, and coastal belt along with many other pockets of extreme poor communities from all over the country just with a better survival hope. According to the International Organization for Migration (IOM), some 70 percent at slum dwellers in Dhaka moved there after experiencing some kind of environmental hardship such as cyclones, flood, river erosion and drought related which has direct link to the climate change.^[16]

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Population Density of Bangladesh

Source: Bangladesh Bureau of Statistics, July 2011

Table 1: Population and In-Migration Trend in Dhaka City from 1941 to 2011

Year	Population	Growth Rate in Dhaka City (% per year)	National Growth Rate (% per year)	In-Migration Rate (% per year)	Growth Due to In-Migration (in %)	Growth Due to Natural Increase (%)
1941	2,39,728	4.14	-	-	-	-
1951	4,11,279	1.28	-	-	-	-
1961	7,18,766	5.18	-	-	-	-
1974	20,68,353	9.32	2.5	6.62	73	27
1981	34,40,147	9.94	2.32	7.62	77	23
1991	71,24,730	7.55	2.01	5.54	73	27
2001	1,02,53,992	3.71	1.58	2.13	57	43
2011	1,51,23,293	3.96	1.47	2.49	63	37

Source: Bangladesh Bureau of Statistics, Bangladesh National Population Census Report - 1974 (Dhaka: Ministry of Planning, 1977);

Bangladesh Population Census 1981& 1991 Urban Area Report (Dhaka: Ministry of Planning, 1997); Population Census 2001&2011.

The fast-growing population has already put tremendous stress on the city, as evidenced by its high rates of poverty, and future concerns include increasing congestion, a higher rate of unemployment and inadequate infrastructure.^[7] Poor people are involved in low-paid jobs and they have insufficient earnings to support their livelihoods. Their low level of earning means that their expenditure level is also low with most of their earnings spent on food. As a result, essential non-food items like health and education are often neglected. Infant and children are the most affected groups in the urban slums. Despite ill health and prevalence of diseases the urban people have limited access to available healthcare services.^[15] Moreover, poor people living in urban areas are the real victims of environmental injustices and are often treated as criminals by the so called authorities. Thus, poverty is visibly seen in terms of their housing, expenditure and access to the services in the city.

6. Findings

6.1 Socio-Demographic Condition of the Respondents

The data collected shows that, most of the respondents belong from lower-middle class families and lives in semi brick built rented houses of urban areas in Dhaka City such as; Azimpur, Lalbag, kamrangir Char and Mohakhali. They have little access to urban land and generally more than six to seven members of the households live in one congested room. The studied areas are also characterized by a low education level. Most of the respondents have never been to school and are illiterate. Although they are not educated enough but understands the necessity of education and are concerned about their children's schooling. In addition unhealthy environment, malnutrition, polluted water logging, poor sanitation and health facilities as well as harassment from the local leaders were also examined in the study.

6.2 Improvement in Income and Employment Opportunities

The respondents of this study shared their thoughts on the condition of before and after taking loan. Most of them mentioned that their previous condition before taking loan was not well off. Financial crisis was a regular event for them at that time. But after joining the microcredit program a positive and reasonable change came into their life. Microcredit supported the borrowers to increase their income structure as well as allowed them to create employment sectors. Especially the unemployed people were able to involve in productive activities such as, raising crops, fisheries and poultry, tailoring, small businesses and so on.

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One of the loan borrowers from a non-profit development organization named ARBAN stated that, *“Our previous socio-economic condition was not good enough. We used to live from hand to mouth. But then I came to know about microcredit program from one of my neighbors. At the beginning my loan scale was 20,000Tk. which was invested on my husband’s business. By the grace of Allah his business is doing well and now my current loan amount is 1,000,00Tk. At present we are leading a much better life than before.”* The difference between the first loan scale and current loan scale of the above mentioned respondent demonstrates her improved livelihood pattern.

6.3 Changes in Standard of Living

Generally poor urban dwellers face numerous challenges including shelter deprivation, overcrowded residents and unhealthy living conditions. They usually buy low quality food items and cheap cloths from local markets at low costs. They cannot afford to purchase expensive items such as milk, meat, fish and fruits on a regular basis. One of the respondents mentioned that, *“Dhaka city is comparatively expensive to live in, especially for migrated people like us. Even we can’t seek help from nearby people as they are going through the same situation. Who’s going to help who?”* However, the respondents of this study indicated that compared to before they have somehow gained more ability to afford different expenses like shelter, clothing, nutritional foods, healthcare and other necessary services after joining microcredit programs.

6.4 Empowerment of Women

An important pattern is observed while conducting the study that majority of the microcredit clients are mainly women. According to the respondents, husband’s insufficient income, continuous financial crisis, children’s uncertain future, all these issues pushed them to seek help from microcredit organizations. But now many women feel that joining microcredit program has brought a real change in their lives and it has strengthened their position in the family. With the help of loan some women are able to run their own business, whereas some are supporting their children’s education. A few respondents also said that now their husbands try to consult with them before taking any family or financial decisions. Even their family members appreciate and encourage their contribution a lot. According to a respondent, *“My husband is a rickshaw puller and I am a mother of three children. It was difficult for me to run the family only with my husband’s income. So, I involved*

myself in homemade food business to support my husband and the family. Undoubtedly microcredit program has helped me to become financially solvent. Currently I am looking forward to take further loans in order to expand my business.” Another respondent asserted that, *“I am associated with a microcredit organization for almost six years. I am more self-confident and self-reliant than ever before. My husband and in-laws respect me and my work. Last year I was benefited from my business which has encouraged me to consider for more loans. There are few people in my neighborhood who often criticize me for running business with borrowed money and especially as a woman. But eventually nothing matters as long as I am getting support from my family.”* These are examples of successful women who have brought changes in their life by utilizing microcredit and their own capacity.

6.5 Burden of Excessive Interest Rate

It is noticeable from the findings that microcredit has helped to change the lifestyle of the urban poor to some extent but still they could not come out from the causes of poverty. According to the respondents, one of the major reasons behind this is the burden of excessive interest rate. Microcredit imposes high interest on the borrowers. As a result many borrowers fall short to repay the loans. On the other hand often they use microcredit loan from one organization to assemble interest debts from another. Moreover the way microcredit lenders behave with the borrowers while collecting installment was found disgraceful. Sometimes they use force to collect installments which arises frustrations among the urban poor borrowers. One of the respondents stated that, *“I have taken loan from an organization for my husband’s business purpose. At the initial stage his business was going well. But now it’s been almost one year me and my family is going through from a tough time due to sudden losses of my husband’s business. Now I am unable to repay the installments regularly. Besides I also owe a lot of money from others. It seems I am trapped into loans.”* She further added, *“Along with economic hardship, often we are likely to face severe psychological pressure and mistreatment from the officers if fail to repay the installments timely. Insult in front of other borrowers, verbal abuse..... we are used to these things.”*

6.6 Dependency on Loan

A few numbers of people believe that, microcredit increase the dependency on loan. Respondents mentioned that, at first they found microcredit very valuable in supporting to deal with their circumstances

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and thought loans would bring happiness to their lives. However, later they realize it was difficult to get rid of loans and felt the burden. Often they tried to avoid taking microcredit from organizations, but eventually were enforced to take loans during household crises over and over again. Therefore, now microcredit has become an easy option for them in terms of fulfilling their needs as well as an insidious cycle that is hard to escape.

7. Conclusion & Recommendations

The present study has attempted to outline the access of microcredit by urban poor and its impact on their poverty situation. Experiences show that microcredit has an important influence on household income which diminishes the poverty situation to a reasonable extent. Few loan borrowers reported themselves as unemployed before joining microcredit organizations. Thus, it can be mentioned that, microcredit programs have created new employment opportunities and it has an impressive effect on reducing unemployment of the urban poor. In addition to the advanced income-earning capacity, microcredit organizations were found to be promoting women empowerment. Those women who were earning nothing before are now contributing economically to their households. Apart from economical change microcredit organizations are also working for the purpose of making a difference in the lives of its members. Improving quality of life, children's schooling and consciousness of family welfare, are some of the positive contributions of microcredit.

Despite enormous success and positivity in terms of employment generation and empowerment of millions of poor, a significant number of urban poor people have remained excluded from exercising the benefits of microcredit program. Therefore effective and sustainable initiatives need to be taken in order to generate an enabling environment by redressing the impediments that stand in the way of growth of microcredit industry. To this end, I consider myself to suggest the following recommendations.

- Efforts should be given by microcredit organizations for ensuring proper utilization of micro credits and establishing appropriate monitoring systems to supervise the activities of its borrowers.
- Microcredit organizations may make its credit holders more aware and responsive concerning their education, health and nutrition, sanitation and legal rights.

- Income generating activities and self-employment facilities should be promoted further by the microcredit organizations especially for urban slum dwellers.
- Microcredit organizations could expand a strong and reliable correlation with different departments of the Government for bringing a massive change in the life of the urban poor.
- More research and training initiatives should be arranged by relevant organizations in order to meet the current and expected challenges as well as to ensure smooth development.

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