

# Impact of Micro Finance on Economic Hardship in Greater Rangpur

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The objective of this study is to investigate the impact of MFI on reducing the economic hardship of the households in the greater Rangpur region. Households that go for consumption rationing or remain in occasional starvation are in economic hardship. In the greater Rangpur region, generally there is economic hardship because of the nature of the economy – highly agriculture dependent and dominating size of day laborer. The situation worsens during *monga* period. It is the worst in Rangpur and the least in Lalmonirhat. Households adopt different mechanism to cope with extreme economic hardship. The coping mechanisms include micro finance, sale of assets, advance sale of labor and crop, and migration. Above all, there is perhaps random placement of external support services during *monga*. Except micro finance and external supports, all other coping mechanisms are erosive in nature. External supports are beyond the control of households. Micro finance is a regular program for the households. Literature amply demonstrates that micro finance benefits households in consumption smoothening, wealth creation, self-employment and savings accumulation. How effective is micro finance in reducing extreme poverty? This is the question to be looked into in this paper. The findings will have an implication for formulating appropriate policies. This paper has used census data of the poor households in Lalmonirhat, Kurigram, Gaibandha and Nilphamari districts.

Since we had cross section data, we have used propensity score matching to find the best fit non-participants and compare them to participants to find the program impact. It is found that, after taking care of group and household heterogeneity, micro credit benefits the moderate poor households in all the four districts, but more in Kurigram and Gaibandha. It is only in these two districts that micro credit has contributed to reducing economic hardship for the extreme poor but the magnitude of difference is less than one percentage point. Participation in micro finance programs (credit, savings and micro insurance) makes substantial impact. The impact is over seven percentage point for the moderate poor households in all the districts except Lalmonirhat. In Lalmonirhat, the participating moderate poor households are not better off than the non-participants; the better-off poor households are benefited, over six percentage points. The extreme poor households are not at all benefited by being in micro finance programs in Lalmonirhat and Nilphamari. In these two districts, VGD makes substantial impact. This might be a reason for lesser targeting of the extreme poor by the MFIs in these two districts. Migration is well recommended by professionals and policymakers as a probable long run strategy to mitigate the effects of *monga*. Evidence as found in our study does not provide such support. It benefits the better off poor households. The exception is again Kurigram. The probable factor for this is their extreme poverty. This has to be examined critically.

We have also looked into several individual and household characteristics influencing both the participation decision in micro finance programs and eventually benefiting from the participation. It has been generally found that the hardcore poor (characterized by landlessness, low asset base etc) are less benefited from participation in micro finance programs. The existing micro finance design is probably not appropriate. If micro finance does not contribute to the creation of assets or wealth for the extreme poor households, then it will create more liability for them. The extreme poor should be targeted in the social safety net programs of the government; but unfortunately this has not been the case. Government safety net programs have to be complimentary. If it does,

then micro finance will probably make more impact. This is what we also find in Moheshkhochar in Aditmari upazila. Zarina Begum is a landless extreme poor and a micro finance member over one year. She has borrowed but has not been able to create any stable income flow for her family because she has used the money for repaying informal loan. But Karimunnessa has gained because she has more than one income source. Micro finance has benefited her. She too used to be an extreme poor but now a moderate poor – moved from a situation of occasional starvation to a situation of consumption rationing. Policymakers need to redress and redirect their policies; otherwise, *monga* will continue to worsen the economic situation for the extreme and moderate poor households.

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