

REDUCING POVERTY THROUGH INCREASING INCOME EVIDENCE FROM RDS AND MAB MICROFINANCE PROGRAM IN BANGLADESH

Shamsuddin Ahamad 

Graduate Assistant, University Malaysia Perlis (UniMAP), Malaysia

shamsuddin.unimap@gmail.com

Rosni Bakar

Professor, University Malaysia Perlis (UniMAP), Malaysia

rosnibakar@gmail.com

Zulkarnain Lubis

Professor, University Malaysia Perlis (UniMAP), Malaysia

hzulkarnain@unimap.edu.my

Abstract

Poverty is the main problem of Bangladesh. In order to achieve the Sustainable Development Goals (SDGs), it is one of the most important concern to reduce the poverty from the country. Rural Development Scheme (RDS) and Muslim Aid Bangladesh (MAB) are, therefore, working with poor vulnerable people to reduce their poverty through delivering interest-free microfinance in Bangladesh. This study is, therefore, aims to examine the effects of RDS and MAB on borrowers' household improvement in the level of income. Towards the achievement of its objectives, this study used descriptive and statistical techniques. To assess the effects, primary data were collected from 192 borrowers from Chittagong district of Bangladesh. The quota sampling method was followed to select the borrowers'. Multiple Linear Regression model were used to analyze the data. The findings showed that RDS and MAB borrower's income level increased after receiving the microfinance loan.

Keywords: Sustainable development, Poverty, Microfinance, Income, RDS, MAB

INTRODUCTION

Bangladesh is a country of the most vulnerable economies characterized by high poverty. Poverty is still pervasive and endemic in Bangladesh. The population of Bangladesh living the poverty line stands at 31.5 percent in 2010 (BER, 2012). According to the UNDP Human Development Report (2011), 40% of the populations are poor in terms of income poverty. Since the 1980s, one of Bangladesh's major weapons in the fight against poverty has been microcredit programs targeted to poor (Webb et al, 2002).

According to Credit and Development Forum (CDF) annual report (2014), more than seven hundred Microfinance-Non-Government Organization (MF-NGO) at present working in Bangladesh to reduce poverty from the country through a microfinance loan. Of them, the Rural Development Scheme (RDS) and Muslim Aid Bangladesh (MAB) are the largest interest-free microfinance program in Bangladesh. RDS and MAB are working for poor people to reduce the poverty and increase the income level of poor people by small and micro investment. Though more than seven hundreds of NGOs are working in the country with a view to alleviating poverty but poor are still in the vicious circle of poverty and they have a little hope of getting out of poverty.

Interest-free microfinance is based on profit and loss sharing (PLS) with *Shariah* principles. Comparing to the conventional microfinance, interest-free microfinance institutions have an extremely limited presence in Bangladesh as well as other countries (Obaidullah and Khan, 2008, Bhuiyan et al, 2011). Therefore, until recently, 1 million of poor have received interest-free microfinance but it could not eliminate poverty as expected. The real situations in the fields remain unclear. The main research objective of this study is, therefore, to explore the views of clients towards the interest-free microfinance program in order to evaluate the effectiveness of the program. It focuses on the effect on the clients' income and identifies the factors related to income.

LITERATURE REVIEW

Microfinance programs usually offered for the overall improvement of life standard of Borrowers' through income generating activities. Primarily, it has been designed for the poor people to access the formal financial system easily without any collateral. With this aim, microfinance raises borrowers' income and reduces poverty. Income is the most important socioeconomic indicator for the improvement of poor clients'. Literature shows that Interest-free microfinance is effective in raising income as well as reducing poverty in the society. An effectiveness study on Baitul Maal wat Tamwil (BMT) in Indonesia, Adnan and Ajija (2015) found that BMT financing is effective in increase their income after receiving BMT financing. Jariya (2013) found from Sri

Lanka studies on Islamic Relief microfinance project that beneficiaries have generated incomes with new projects receiving microcredit and increased their income. The authors also found that they are spending this income for purchasing food for their family.

Zaidah and Nor (2011) conducted a study to identify the effectiveness of the Amanah Ikhtiar Malaysia (AIM) program in reducing poverty among low-income households in rural areas in Malaysia and the results of studies found that income of AIM members has an increase after they joined AIM program. Samir et. al (2015) also conducted a study to examine the role of Malaysian interest-free microfinance, Amanah Ikhtiar Malaysia (AIM) on household income. The authors also found that AIM microfinance has a positive effect on old clients' household income. Saad and Duasa (2010), Hamdan et. al (2012) also found the same result on their study on same interest-free microfinance.

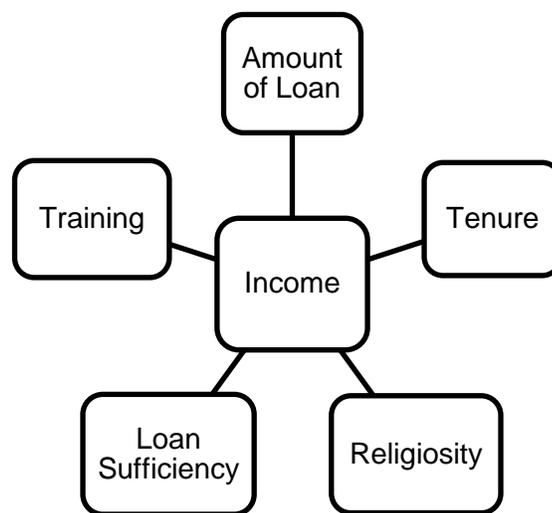
Rahman and Ahmad (2010) studied the impact of microfinance clients of Rural Development Scheme. The authors found that household income significantly increased due to the influence of invested money. The authors also found that micro-investment program had a significant and positive contribution to the household's food expenditure and total expenditure. Bhuiyian et. All (2013), Uddin (2008), Ahmad (2002), also studied the impact on same countries and same interest-free microfinance. The authors found that borrowers have a better record of using the loan for income generating activities. Their research revealed that interest-free microfinance funds have been successful in increasing the income through income generating activities by the beneficiaries. The research findings of Widiyanto and Abdul Ghafar(2010) in Indonesia and Hassan (2014) in India is that interest-free microfinance improved the household income.

However, the literature showed that microfinance borrowers' income affected by some factors. Many researchers such as Uddin (2008), Mawa (2008), Rahman and Ahmad (2010), Saad and Dusa (2010), Chowdhury and Mukhopadhaya (2012), Rahman and Khan (2013), Ameer (2013), Morshid and Abdullah (2013), used many factors such as amount of loan, training etc. significantly affect the borrowers' income. Thus, this study considered these two factors as the independent variable. Religiosity is an important factor for the improvement of borrowers of Interest-free microfinance. Researchers argued that religiosity can act as a collateral. It is also a most important agenda of interest-free microfinance institutions. As they use Islamic ethics in their objectives, so it should see the relationship between borrowers' religiosity and their income. Thus, this study considered this factor as the independent variable. Therefore, very few studies used tenure and loan sufficiency with microfinance. To fill up this gap, this study also considered these factors as the independent variables.

RESEARCH FRAMEWORK

Based on the previous studies, this study firstly identifies five factors as the independent variables. The five factors include; the amount of loan, training provided by MFIs, tenure with MFIs, loan sufficiency and religiosity. Secondly, these five factors will be tested against income. Therefore, in line with the research objectives, the framework in Figure1, illustrate that through increasing microfinance borrowers' household income increase their life standard of borrowers which may affect positively or negatively by the amount of loan, training given by MFIs, tenure with MFIs, loan sufficiency and borrowers religiosity.

Figure 1: Research Framework



RESEARCH METHOD

To assess the effects of RDS and MAB on rural poor's livelihood, primary data were collected from a rural area of south-easternmost parts of the country Chittagong, Bangladesh. This study includes a sample size of 192 respondents. According to Roscoe's (1975) rules of thumb, a sample size larger than 30 and less than 500 are appropriate for most studies. Respondents were selected using quota sampling in order to get information from RDS and MAB microfinance institutions. 97 respondents from RDS and 95 respondents from MAB were included. This study followed the explanatory research as a research design. Data were collected through interview. The interviews were face to face with beneficiaries who were involved with RDS and MAB microfinance institute at least 3 years and focused on the effect of the program on their household income after joining this program.

Hypotheses Formulation

The summary of hypotheses in Table 1 Shows the relationship between household income and influencing factors such as the amount of loan, tenure, training, loan sufficiency and religiosity.

Table 1: Statement of Hypotheses

No.	Statement of Hypotheses
H ₁	Amount of loan has a positive and significant effect on borrowers' household income
H ₂	Tenure has a positive and significant effect on borrowers' household income
H ₃	Training has a positive and significant effect on borrowers' household income
H ₄	Loan sufficiency has a positive and significant effect on borrowers' household income.
H ₅	Religiosity has a positive and significant effect on borrowers' household income

ANALYSIS AND RESULTS

The effects of RDS and MAB loans on the borrower's household income were analyzed using qualitative and quantitative method. The first qualitative method used to see whether there are any significant differences between clients who experienced an increase in their household after they received the RDS and MAB loans with those who did not experience any changes. Then quantitative method followed to find out the relationship between chosen factors and income. The findings are described as follows:

Effects of RDS on Borrowers' Household Income

Income is the most important socioeconomic indicator for the improvement of poor borrowers' living status. RDS provides a loan to improve the income level of their borrowers' through income generating activities. RDS microfinance program had a positive effect on the borrowers' household income. Table 2 shows that 93.9% respondent reported that their household's income increased after they received the loan. Only 5.2% reported no change. This result indicated that RDS loan helped the borrowers' to raise their income level.

Table 2: Income after joining the RDS program

Variable	Item	Category	Frequency	Percent
Household Income After Joining the Program	Monthly Income	Increased	91	93.9
		Remain the same	5	5.2
		Decreased	1	1.0
		Total	97	100.0

Effects of MAB on Borrowers' Household Income

MAB also provides a loan to improve the income level of their borrowers through income generating activities. MAB microfinance program also had a positive effect on the borrowers' household income. Table 3 shows that 94.8% respondent reported that their household's income increased after they received the loan. Only 5.2% reported no change. This result indicated that MAB loan helped the borrowers' to raise their level of income.

Table 3: Income after joining the MAB program

Variable	Item	Category	Frequency	Percent
Household Income After Joining the Program	Monthly Income	Increased	90	94.8
		Remain the same	5	5.2
		Decreased	-	-
		Total	95	100.0

Regression Result of Household Income

The following Table 4 shows that all of the variables are reasonable but three of them significantly influences on the household income. The R^2 was 0.330% which means that all the variables can explain 33.0% of the variance in income.

Table 4: Regression results for the household income

Variables	Beta	T - Ratio	Sig. t
Amount of Loan	.479	4.223	.000*
Tenure	.050	.442	.659
Training	.023	.368	.713
Loan Sufficiency	.165	2.654	.009*
Religiosity	.182	2.854	.005*
Significant level at 5* and 10** percent level; R^2 , 0.330			

Based on the results of the regression analysis shown in Table 4 above, the amount of loan had the most significant effect on income and had a positive relationship. Tenure was found to have no significant effect on income but found a positive relationship. Training was found also no significant effect but found a positive relationship between household incomes. Therefore, loan sufficiency and religiosity were found a significant effect on income. This means that tenure and training are positively related but the relationship was not significant on income and hence

hypotheses were not fully supported. Therefore, hypotheses for the amount of loan, religiosity and loan sufficiency were accepted.

CONCLUSION AND POLICY RECOMMENDATIONS

Rural Development Scheme (RDS) and Muslim Aid Bangladesh (MAB) started Interest-free microfinance program with the following Grameen Bank microcredit model. One of the most important purposes of RDS and MAB is to improve the income level of poor people through a microfinance loan. This research was initiated to examine the effects of RDS and MAB microfinance loans on borrowers' income. The findings demonstrated that RDS and MAB effectively have increased borrowers' household income.

Based on the results, the findings exposed that "amount of loan", "loan sufficiency" and "religiosity" had the most significant effect on income and had a positive relationship. These results are similar to the study done by Saad and Dusa (2010), Rahman and Ahamad (2010), Rahman and Khan (2013), Rulindo and Pramanik (2013). Factor "tenure" and "Training provided by RDS" did not show the significant result of income. Based on result and observation it is found that RDS training could not effective for the clients and hence the training should be provided effectively. Therefore, from the findings, it has been revealed that income is directly related to the amount of loan. Based on this result, MAB and RDS should give attentions on the size of the loan to improve the level of income. Religious motivation also influenced to the income. Thus, MAB and RDS should increase the religious motivation for the borrowers.

LIMITATIONS OF THE STUDY

Despite the useful findings of the study, this study is obviously not without its limitations. This study has used the small of respondent and only focus on one area because of time and financial constraint. So, for the future study, the large respondents can be used and compare it with another area such as differentiate between a rural area and urban area.

REFERENCES

- A.M. Inun Jariya (2013). True Economy Prosperity through Poverty Alleviation-Islamic Microfinance as Commercial Venture. Proceeding-Kuala Lumpur International Business, Economics and Law Conference.
- Adnan, M. A., & Ajija, S. R. (2015). The effectiveness of Baitul Maal wat Tamwil in reducing poverty: the case of Indonesian Islamic Microfinance Institution. *Humanomics*, 31(2).
- Ahmed, H. (2002). Financing microenterprises: An analytical study of Islamic microfinance institutions. *Islamic Economic Studies*, 9(2), 27-64.
- Ameer, D. (2013). Effectiveness of Microfinance Loans in Pakistan (A Borrower Perspective). *Global Journal of Management and Business Research*, 13(7).

BER, (2012), Bangladesh Economic Review, Economic Adviser's Wing, Finance Division, Ministry of Finance, Government of Peoples Republic of Bangladesh.

Bhuiyan, A. B., & Hassan, A. (2013). Microcredit and Sustainable Livelihood: An Empirical Study of Islamic and Conventional Credit on the Development of Human Capital of the Borrowers in Bangladesh. *Journal of Economic Cooperation and Development*, 34(3), 101-128.

Chowdhury, T. A., & Mukhopadhaya, P. (2012). Assessment of multidimensional poverty and effectiveness of microfinance-driven government and NGO projects in the rural Bangladesh. *The Journal of Socio-Economics*, 41(5), 500-512.

Credit and Development Forum (CDF) annual report (2014)
http://www.cdfbd.org/new/page.php?scat_id=153

Hamdan, H., Othman, P., & WSW, H. (2012). Is microfinance program in Malaysia really effective in helping the poor? *World Review of Business Research*, 2(1), 79-97.

Hassan, A. (2014). The challenge in poverty alleviation: the role of Islamic microfinance and social capital. *Humanomics*, 30(1), 76-90.

Mawa, B. (2008). Impact of microfinance: towards achieving poverty alleviation? *Pakistan Journal of Social Sciences*, 5(9), 876-882.

Md Saad, N., & Duasa, J. (2010). Determinants of economic performance of micro-credit clients and prospect of Islamic microfinance in Malaysia. *ISRA International Journal of Islamic Finance*, 2(1), 113-130.

Morsid, N., & Abdullah, R. (2013). The Effectiveness of Islamic Microfinance in Brunei Darussalam: A Case Study. Paper presented the 5th Islamic Economic System Conference-organized by USM

Obaidullah, M., & Khan, T. (2008). Islamic microfinance development: Challenges and Initiatives. *Islamic Research & Training institute Policy Dialogue Paper*, (2).

Rahman, M. T., & Khan, H. T. (2013). The effectiveness of the microcredit programme in Bangladesh. *Local Economy*, 28(1), 85-98.

Rahman, M., & Ahmad, F. (2010). Impact of microfinance of IBBL on the rural poor's livelihood in Bangladesh: an empirical study. *International journal of Islamic and Middle Eastern finance and management*, 3(2), 168-190.

Rulindo, R., & Pramanik, A. H. (2013). Finding a Way to Enhance Impact of Islamic Microfinance: The Role of Spiritual and Religious Enhancement Programmes. *Developing Country Studies*, 3(7), 41-52.

Samer, S., Majid, I., Rizal, S., Muhamad, M. R., & Rashid, N. (2015). The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective. *Procedia-Social and Behavioral Sciences*, 195, 721-728.

Uddin, M. M. (2008). Credit for the Poor: The Experience of Rural Development Scheme of Islami Bank Bangladesh Ltd. *Journal of Nepalese Business Studies*, 5(1), 62-75.

UNDP Human Development Report (2011), United Nations Development Program <http://hdr.undp.org/en/content/human-development-report>

Webb, P., Coates, J., & Houser, R. (2002). Does microcredit meet the needs of all poor women? Constraints to participation among destitute women in Bangladesh. *Food Policy and Applied Nutrition Program. Discussion Paper*, (3).

Widiyanto, M., & Abdul Ghafar, I. (2010). Improving the effectiveness of Islamic micro-financing. *Humanomics*, 26(1), 66-75.

Zaidah, N., & Nor, C. M. (2011). The Effectiveness of Amanah Ikhtiar Malaysia (AIM) in Reducing Rural Poverty: A Case Study of Pokok Sena