

# **A study of the consumption expenditure behaviour of the members who participate in the microfinance programme**

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## **Abstract**

We utilize a large panel dataset of rural Bangladeshi families “to assess the impact of microcredit participation on food security. As part of our research, we evaluate how microcredit impacts many metrics of food security; for example, household calorie intake, food variety indicators, and the physical health of mothers and children under five. Involvement in microcredit programs increases caloric intake both at the intense and extensive margins, but does not promote dietary variety and mainly has mixed impacts on anthropometric measurements. We find that participation in microcredit programs. The impact of involvement on food security may also be non-linear, in which participation initially has little effect on food security or may even harm it, before eventually improving it. For example, our findings may explain why short-term evaluations of microcredit may indicate no beneficial benefits. This article uses an analytical framework that recognizes the conceptual shift in emphasis in the definition of empowerment, from notions of greater well-being of women to notions of women's choice and active agency in achieving greater well-being, to reassess the effect of microcredit program participation on women's empowerment. The author concludes that involvement in microcredit programs has only a small direct impact on improving women's access to resources that enhance choice, but has a far bigger effect on strengthening women's agency in intrahousehold activities. As a result, participation in the program has the potential to improve the well-being of women and, in certain cases, to lessen the influence of men's stereotypes on welfare outcomes.

**Keywords:** microcredit, food security, calorie availability, malnutrition, dietary diversity.

## **Introduction**

Despite the fact that poverty in Bangladesh has declined significantly over the previous two decades, severe food insecurity persists. In 2010, 33 million of Bangladesh's 165 million residents were identified as food insecure, and this figure is expected to rise to 37 million by 2020, according to the United Nations Food and Agriculture Organization. The Economist

Intelligence Unit placed Bangladesh 81st in 2012 in terms of the Global Food Security Index, which ranks nations based on their food security". The agricultural industry provides the majority of a poor family's income in rural Bangladesh, putting them at risk of seasonality in employment, poverty, and consumerism. Although non-agricultural forms of income might protect households from seasonal food insecurity, many families do not have the financial means to diversify into more productive work possibilities that could help, especially during lean seasons. Even when overall food supplies are sufficient, families with low incomes and limited access to credit are at risk of food insecurity.

For rural families without land or assets who would otherwise be unable to get credit or be trapped in the informal credit system, microcredit was created to fill a need not previously filled by traditional financial institutions. Microcredit's development has always been motivated by the goal of improving the food security of the rural poor. To provide one example, Grameen Bank publications and the existing microcredit literature both explicitly state this goal. There are several ways in which microcredit aims to increase food security in rural areas. An investment-led benefit generates higher levels of income, consumption and wealth, among other things. Insurance-based benefits may also be used to shield families against unanticipated risks and seasonality. To ensure that families are able to meet their basic requirements, it is recognized that membership in microcredit institutions (MCIs) and access to microcredit is essential. Participation in a microcredit program has been linked to reduced family susceptibility to health and income shocks, as well as improved nutrition and health. Long-term engagement in such programs has also yielded greater advantages. It is unclear how microcredit affects poverty in the long run. The female body mass index (BMI), food intake, a ranking based on a composite index, family expenditures, and household income have all been cited as proxies for poverty in the literature. These investigations have produced a mixed bag of results. While some research have indicated that microcredit has a favorable impact on decreasing household poverty, other studies have concluded that microcredit has no effect on household poverty or on consumption. For the first time, we are attempting to gauge the impact of microcredit on many facets of food security in this research. Because food security encompasses more than just a person's ability to feed himself, we have a role to play. In addition to the intake of food itself, the importance of a diverse diet is well acknowledged. "The FAO defines food security as when all people, at all times, have physical, social, and economic access to adequate, safe, and nutritious food to suit their dietary requirements and food preferences for an active and healthy life. The idea of food security is broken down into three parts: availability, accessibility, and use. Vulnerability, which measures the likelihood that

food-secure families may become food insecure in the future, has just been included as a fourth component to food security assessment. The use of many indicators is important since no one indicator can capture all of these dimensions of food security.

Microfinance is becoming an increasingly popular tool for reaching the rising number of impoverished families who have not yet been able to use traditional banking services. Both joint-liability and individual-liability loan contracts are used in microfinance programs. The group-lending technique is based on a credit contract with joint responsibility, in which the borrowers connected by joint liability must assist in the repayment of the debt of any one of the group members who fails to pay. Individual loans are granted to members of a group under the group lending microfinance program however all group members will be held responsible if the borrower member fails to return their debts. As a result, the group's non-borrowing members will have to keep a close eye on the group's borrower members, something that can be accomplished quickly and easily. In a shared responsibility micro-credit contract, the loan amount is restricted by the group's capacity to guarantee the loan amount. Clients with lesser debts may be unwilling to act as guarantors for others with higher loans, which may lead to conflict within the group. Group responsibility, on the other hand, creates a lot of stress for clients. Voluntary dropouts may be caused by high levels of tension among the group's members.

Because of this, customers with developing businesses and those who are ahead of their peers in economic activity may discover that the group contract stifles them. An individual responsibility loan contract has been used by certain micro lenders in recent years, including the Bangladeshi Association for Social Advancement and the Indonesian Bank of Rakyat. Individual responsibility means that each borrower is solely accountable for his or her own debt. This form of loan is more risky for the lender, hence the interest rate is likely to be higher than for other types of loans. However, we cannot overlook microcredit under individual accountability, which seems to be just as effective as Bank of Rakyat's record in Indonesia suggests. Comparative effect assessment among members of these two microfinance systems will be carried out using a Natural experiment in this research. Here, Vivekananda Seva Kendra-O-Sishu Uddyan (VSSU) represents the microfinance organization providing microcredit to its clients on the basis of individual liability loan contracts, and Self-Help Group under the SGSY scheme under the government of India represents the microfinance program under joint liability microcredit contracts, respectively. Here, we'll offer a quick summary of the literature in Section II; in Section III we'll explain how VSSU and Self-Help Group (SHG)

work; in Section IV we'll explain the research questions and how we sampled; in Section V (the conclusion), we'll analyze our natural experiment's findings.

### **Review of literature**

(Islam et al. 2015) studied Microcredit Program Participation and Household Food Security found out about it We utilize a large panel dataset of rural Bangladeshi families to assess the impact of microcredit participation on food security. As part of our research, we evaluate how microcredit impacts many metrics of food security; for example, household calorie intake, food variety indicators, and the physical health of mothers and children under five. Involvement in microcredit programs increases caloric intake both at the intense and extensive margins, but does not promote dietary variety and mainly has mixed impacts on anthropometric measurements. We find that participation in microcredit programs. The impact of involvement on food security may also be non-linear, in which participation initially has little effect on food security or may even harm it, before eventually improving it. In light of our findings, it's possible that short-term microcredit evaluations don't demonstrate any benefits.

(Duvendack et al. 2011) studied What is the evidence of the impact of microfinance on the well-being of poor people found out about it Since its inception more than 30 years ago, Grameen Bank (GB) has been offering modest loans to the country's rural poor as a means of alleviating poverty. It's no longer just about providing loans to the poor; microfinance today encompasses a wide range of financial and non-financial services including savings and insurance, as well as money transfers and other forms of financial literacy training and development. Microfinance has a long history of focusing on women since, compared to males, they perform better as customers of microfinance organizations and have more desired development outcomes as a result of their involvement.

(Kundu 2011) studied Joint versus Individual Liability in Microfinance – A Comparative Impact Evaluation Through Natural Experiment found out about it This paper compares the impact on participants of two different microfinance systems: one that is operated through individual liability microcredit contracts represented by VSSU and another that is operated through joint liability microcredit contracts through the formation of Self-Help Groups among rural people, primarily married women, under the SGSY scheme of the Indian government. A natural experiment lasting two years is used to conduct this effect study. The members of VSSU were found to be in a better financial condition than the participants of SGSY and the control group in our experiment at the start of the study. It is well-established that the increase in monthly income among VSSU member families is greater than the increase in monthly per capita consumer spending among SGSY member households. Participant families of two

microfinance systems do not vary much when it comes to the amount they spend on human development, and they still regard health and education to be a luxury at the conclusion of the time. When the Women's Empowerment Index is constructed as an outcome variable, the change is greatest among the female SHG members participating in the SGSY program. We've also calculated how much microcredit each rural participant needs to see rapid improvements in their financial circumstances”.

### **Conclusions:**

Prospective members of the SHG under the SGSY plan are less well-off than those of the VSSU at the start of the project. When compared to SGSY scheme borrowers, who utilized microcredit as working capital for both income-generating and non-income-generating activities, the VSSU members' use of credit for income-generating activities was far more common. The magnitude of the credit also tends to be larger. While the MINCOME of VSSU members increased more than SGSY members, the MPCE of SHG members increased more than the non-institutional members in the control group. In reality, VSSU's member families did not utilize their increased income to the greatest extent for consumption, but SGSY's members saved less and used their increased income to the greatest extent for spending. In both cases, the rise in revenue is not reflected in an increase in human capital spending. Health and education are still seen as a luxury by both families. When compared to women from VSSU member families and households in the control group, the rural woman's authority to make decisions inside her own family has improved significantly under the government's SGSY plan. The results of this Natural Experiment show that joint responsibility credit contracts are more successful than individual liability microcredit contracts for improving the socio-economic status of disadvantaged rural families where the members of the SHG should be the primary female member of the home.

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