



## Effect of microcredit among handloom weavers of Tangail district in Bangladesh

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### ABSTRACT

The present study was aimed to investigate the impact of microcredit on handloom weavers through before and after loan operation in some sub urban areas namely Baghil, Gharinda, Silimpur, Porabari and Gala of Tangail sadar upazila of Tangail district. Both male and female members are selected for the study. Purposive sampling method was used respondent selection and total sample size was 50. Respondents were found to take loan from NGOs, Sonali Bank and some village wealthy people mohajon (money lender). Money lenders lend money to the poor with high interest rate on monthly basis. Sometimes they supplied all the ingredients for making a saree (women cloth) and gave wage to the people as a day labor. Microcredit program helped women to increase income of the family along with the status of poor women. Credit analysis shows that the received amount did not fully satisfy the loan requirement of the beneficiaries during the study year. In the study area, BRAC covered most of the credit facilities among other credit institutions (about 27.78 %) and Grameen Bank (26.61 %) was second largest loan provider. Credit money was mostly used for the handloom products making and only a few was for other purposes. Loan recovery percentage was on an average 95.71 which is more or less satisfactory. Socio-economic changes among the respondents showed that credit brought more and less positives impact on some of socioeconomic variables among the borrowers. This credit program by NGOs plays a crucial role to generate income and employment to the poor people.

### INTRODUCTION

Bangladesh is a country with a rich and gold past heritage of cottage industries throughout the world. Names like Muslin, Jamdani and others really symbolize the pride position of the country that reigned the cloth sector of the world. The handloom sector occupies a key position in the national economy of Bangladesh (Rahman, 2013). It is the largest traditional cottage industry in Bangladesh providing employment for more than 1027407 people and is the second largest employment provider after agriculture (BBS, 2013). At present, handloom products contribute a countable amount to the gross domestic products. As poor capital base, handloom weavers are usually suffers from lack of sufficient own capital to run their business smoothly (Rahmatulla, 2010 and Ghosh, 2005). So, they have to borrow from outside to meet their financial required. But all the sources of borrowing are not equally favorable to them. Specially, borrowing from money lenders is often costly to them that reduce profitability of the business.

Informal micro credit organizations also have the suitable alternative to them to manage funds to compensate capital need. Several microcredit organizations are providing credit support to the weavers of the study area having beneficial effects among the borrowers. Institutional sources are not always reachable to them because of security requirement and strict formality.

Studies on the impacts of microcredit and other loan programs on different aspects are many. But studies on credit on handloom are scant. The present study is an attempt to see the effectiveness of microcredit for handloom weavers on the basis of income and some other livelihood aspects. The findings of the study is expected to add some valuable information to existing stock of knowledge which would help microcredit organizations, academicians, researchers and policy makers to formulate more pragmatic policy decisions for future development of such enterprises.

## METHODOLOGY

To achieve the objectives of the present study, a preliminary survey was conducted in Tangail sadar upazila. On the basis of previous information, some sub urban areas namely Porabari, Baghil, Gharinda, Silimpur and Gala in Tangail sadar upazila were selected as the study area. The study area was under the microcredit program of Grameen Bank, BRAC and BURO Bangladesh. The respondents of this study area were involved with these NGOs for their credit relations. These NGOs has great influence in the study area. There also another sources of credit institutions where respondents were involved as mohajon and Sonali Bank.

Basic criterion was that a respondent must have handloom business financed by any microcredit institution. Fifty borrowers were randomly selected from the area from whom ultimate required information had been sought through using well administered questionnaires. The sampled members were classified into three categories on the basis of loan size i.e. small (Tk 7,000-20,000), medium (Tk 21,000-40,000) and large (above Tk 40,000). Primary data were collected from the selected respondents through

direct interview in the field level conducted by the researchers themselves. Before beginning the interview, each respondent was given a brief introduction about the nature and purpose of the study. In order to minimize time and for easy understanding, data were collected in local units which were converted in standard units later. Secondary data were collected from different sources like books, journals, reports, articles, newspapers and different online sources. Tabular method was used to analyze the collected to achieve the objectives of the study.

## FINDINGS AND DISCUSSION

### Adequacy of loan received by the handloom weavers

Table 1 shows the adequacy of credit received by the weavers in the study area. It was found that about 83, 92 and 83 percent of applied amount were received respectively by the small, medium and large respondents. So respondents were still with unsatisfied demand but the adequacy was more or less satisfactory considering present credit situation of the country. Overall adequacy stood at 85.88 percent (Table 1).

Table 1  
Adequacy of loan received by the respondents.

Respondent category	Average amount applied for (Tk)	Average amount received (Tk)	Amount received as % of applied for	Average time required (days)
Small	18321.84	15143.00	82.65	15
Medium	39057.92	35769.24	91.58	14
Large	77918.96	65000.00	83.42	12
All	45099.57	38637.41	85.88	13.67

Table 2  
Coverage of loan received by the respondents.

Source	Small		Medium		Large		All	
	Tk	%	Tk	%	Tk	%	Tk	%
GB	14214.29	22.01	33750.00	23.14	75000.00	29.80	40988.10	26.61
BRAC	20000.00	30.97	38333.33	26.29	70000.00	27.82	42777.78	27.78
BURO Bangladesh	12857.14	20.92	33750.00	23.14	50000.00	19.87	32202.38	20.91
Mohajon	17500.00	27.10	40000.00	27.43	–	–	19166.67	12.44
Sonali Bank	–	–	–	–	56666.67	22.52	18888.90	12.26
Total	64571.43	100	145833.33	100	251666.67	100	154023.82	100

Table 3  
Utilization pattern of credit by the respondents

Loan utilization	Amount (Tk)		
	Small	Medium	Large
Loom purchase	4561.00 (30.12)	10709.31 (29.94)	19558.50 (30.09)
Labor cost	3819.00 (25.22)	9829.39 (27.48)	16471.00 (25.34)
Cotton/yarn purchase	2547.00 (16.82)	894.77 (16.48)	11953.50 (18.39)
Color purchase	1643.00 (10.85)	30762.92 (10.52)	8138.00 (12.52)
Household purpose	1338.00 (8.84)	1691.89 (4.73)	3861.00 (5.94)
Electricity bill	81.00 (0.52)	368.42 (1.03)	2164.50 (3.33)
Spinning cost	472.00 (3.12)	2267.77 (6.34)	6233.50 (9.59)
Other	682.00 (4.51)	1244.77 (3.48)	3120.00 (4.80)
Total	15143.00 (100)	35769.24 (100)	65000.00 (100)

Figures within parentheses indicate percentages of total

### *Coverage of credit by the handloom loanee members*

The institutions where from the respondents have obtained loan were Grameen Bank, BRAC, BURO Bangladesh and Sonali Bank. But only these institutions could not cover all the demand of respondents. There another important source of credit was mohajon who gave credit to the weavers with high interest rate. It is apparent from the Table 2 that Grameen Bank provides 26.61 percent, BRAC covers 27.78 percent, BURO Bangladesh covers 20.91 percent, Mohajon covers 12.44 percent and Sonali Bank covers 12.26 percent of total credit. So, coverage of BRAC was the highest and it was the lowest for Sonali Bank in the study area.

### *Utilization patterns of credit by loanee weavers*

Proper utilization of loan is a pre-requisite to attain the aim and target of both loan receivers and lending institutions as well as for economic development by and large. During study period small, medium and large loanee members borrowed and invested average amount of Tk 15143.00, 35769.24 and 65000.00 respectively in Tangail saree manufacturing and some other purposes (Table 3).

Table 3 also reveals the average amount of loan spent for different purposes by the respondents belonging to various loan sizes. It is apparent from the table that loom purchase ranked the highest in terms of loan utilization followed by labor cost,

cotton/yarn purchase and color purchase irrespective of all categories of respondents in the study area. Loom purchase alone accounted for 30.12, 29.94 and 30.09 percent of the loan money taken by small, medium and large respondents respectively while these percentages for labor cost were 25.22, 27.48 and 25.34. The corresponding figures for cotton/yarn purchase appeared to be 16.82, 16.48 and 18.39 and they become 10.85, 10.52 and 12.52 for purchase of color materials by the respondents. Respondents were found to use some loan money for other purposes like repayment of old debt, social ceremonies, etc. But this share was found to be minimum. So respondents were used maximum of their loan money purposively.

### *Repayment of credit by the handloom borrowers*

Microcredit programs have been more successful than traditional financial institutions to reach the poor and they have managed to reduce loan defaults. By relying on peer pressure to monitor and enforced contract, group based lending provides an incentive for borrowers to repay and help to avoid adverse selection of borrowers, thereby improving loan recovery rates.

Table 4 shows the average amount of loan repaid by the selected participants. The table shows that about 94, 96 and 97 percent of total loan was repaid on time respectively by the small, medium and large respondents during the study period. On an average about 96 % of loan was found to be repaid during the study period. So it also reveals

from the table that overall loan recovery rate was found quite satisfactory in the study period comparing present loan repayment scenario of Bangladesh. The study is in agreement with the study of Rahmatulla (2010).

**Factors affecting repayment of credit**

The respondents were asked to express the reasons which inspired them to almost regularly repay the credit installments. Tabular analysis has been done to identify the factors affecting the loan repayment performance. According to the opinion of the respondents, five factors affecting loan repayments which are shown in Table 5. It is evident from

table that provision of weekly installment affected the most while supervision did the same as least in the study area.

**Impact on annual income of the respondents**

Most of the respondents in the study area became able to increase their income after getting the loan. Table 6 shows that 20.58, 30.45 and 30.36 percent of borrowers of small, medium and large category increased their income and increase in large category was the highest. Average increase in annual income was found to be 27.13 percent.

Table 4  
Loan repayment made by the respondents.

Category	Average amount to be repaid (Tk)			Average amount repaid (Tk)			% repaid
	Principal	Interest (@14%)	Total	Principal	Interest (@14%)	Total	
Small	15143.00	2120.02	17263.02	14172.33	1984.13	16156.46	93.59
Medium	35769.24	5007.69	40776.93	34474.39	4826.42	39300.80	96.38
Large	65000.00	9100.00	74100.00	63160.50	8842.47	72002.97	97.17
All	38637.41	54092.57	44046.65	37269.07	5217.65	37639.74	95.71

Figures within parentheses indicate percentages of total

Table 5  
Factors affecting timely loan repayment.

Factors	Number of respondents according to loan			
	Small	Medium	Large	All
To get loan in future	24 (85.72)	10 (76.92)	7 (77.77)	41 (82.00)
Proper supervision by the credit institutions	16 (57.14)	7 (53.85)	5 (55.56)	28 (56.00)
Self-consciousness	15 (53.57)	8 (61.54)	6 (66.67)	29 (58.00)
Pressure by the official stuff	17 (60.71)	7 (53.85)	5 (55.56)	29 (58.00)
Provision of weekly installment	25 (89.29)	11 (84.62)	7 (77.77)	43 (86.00)

Figures within parentheses indicate percentages of total

Summation of percentages would not be equal to 100 because of multiple answers given by the same respondent.

Table 6  
Average change in annual income of the respondents.

Respondent category	Before (Tk)	After (Tk)	Net change (Tk)	Percent of change (%)
Small	136046.00	164050.00	28004.00	20.58
Medium	225852.45	294615.38	68762.93	30.45
Large	560210.56	730311.11	170100.55	30.36
All	30769.67	396325.50	88955.83	27.13

Table 7  
Average change in annual expenditure of the respondents.

Respondent category	Before (Tk)	After (Tk)	Net change (Tk)	Percent of change (%)
Small	133680.00	157850.00	24170.00	18.08
Medium	221999.19	285384.62	63385.43	28.55
Large	551556.73	716533.33	164976.60	29.91
All	302411.97	391850.94	89438.97	25.51

Table 8  
Change in average annual savings of the respondents.

Respondent category	Before			After			Savings change	
	Total income (Tk)	Total expenditure (Tk)	Savings (Tk)	Total income (Tk)	Total expenditure (Tk)	Savings (Tk)	Net change (Tk)	Percent change (%)
Small	136046.00	133680.00	2366.00	164050.00	157850.00	6200.00	3834.00	162.04
Medium	225852.45	221999.19	3853.26	294615.38	285384.62	9230.76	5377.50	139.56
Large	560210.56	551556.73	8653.83	730311.11	716533.33	13777.78	5123.95	59.21
All	307369.67	302411.97	4957.70	396325.50	391850.94	9735.93	4778.23	120.27

### ***Impact on Annual Expenditure of the Participants***

Individual's spending ability indicates his capacity to acquire necessary things to fulfill his basic and other needs to run a life peacefully. It is also a mark of earning capacity of the key persons of a family. In the study area, average annual expenditure of the weavers was also changed as the income changed. The average annual expenditure of the respondents was Tk 302411.97 which was increased to Tk 391850.94 after taking the microcredit. On an average Tk 89438.97 (25.51 percent) was increased in the annual expenditure of the respondents in the study area (Table 7). Because of increasing the capability to spend more, the respondents became more solvent than before. It also indicates that the earning capacity of the respondents and their family members was increased after coming under microcredit programs of different organizations working in the area under study.

### ***Impact on annual savings of the respondents***

Saving is an indication of future growth potential of any business undertaking. Because engine of growth is lubricated primarily by the saving that

the business can make from its preceding years' operations. Table 8 reveals that the average savings of the respondent was Tk 4957.70 before joining the microcredit programs that was increased to Tk 9735.93 after joining. The net change of average annual savings came to Tk 4778.23 and it constituted about 120.27 percent increase in savings of the respondents in the study area. As saving is the root of capital formation and handloom weavers severely suffer from want of this input, increase in saving in remarkably higher percentage is a worth mentioning phenomenon among the weavers under microcredit program in the study area.

### ***Socio-economic changes occurred among the participants***

The ultimate goal of any business activity is to bring welfare in socioeconomic aspects of the entrepreneurs and other persons relating to the business. Table 9 shows that substantial changes occurred in all selected variables. Awareness has become improved among respondents about 92 percent which is quite satisfactory. After joining the credit program about 98 percent respondents able to increase their income. Eighty two percent loanee have reported that they able to develop

their family education condition. Almost 90 percent respondents opined that they adopted family planning measures to keep family size small and be happy. All these improvements substantially give some proofs of socioeconomic upliftment of the handloom weavers under credit

programs of different lending organizations. So, socio-economic impact of microcredit among the loanee handloom weavers was more or less satisfactory in the study area. Similar observation was reported by Rahmatulla (2010).

Table 9  
Socio-economic changes among respondents.

Types of changes	Respondents											
	Small			Medium			Large			All		
	Small change	Moderate change	No change	Small change	Moderate change	No change	Small change	Moderate change	No change	Small change	Moderate change	No change
Awareness	12 (42.85)	14 (50.00)	2 (7.14)	6 (46.15)	5 (38.46)	2 (15.39)	4 (44.44)	5 (55.56)	–	22 (44.00)	24 (48.00)	4 (8.00)
Increased family income	14 (50.00)	14 (50.00)	–	5 (38.46)	8 (61.54)	–	3 (33.33)	5 (55.56)	1 (11.11)	22 (44.00)	27 (54.00)	1 (2.00)
Increased family education	11 (39.29)	12 (42.85)	5 (17.86)	6 (46.15)	4 (30.77)	3 (23.08)	2 (22.22)	6 (66.67)	1 (11.11)	19 (38.00)	22 (44.00)	9 (18.00)
Increased food and nutrition	12 (42.85)	16 (57.14)	–	5 (38.46)	6 (46.15)	2 (15.39)	3 (33.33)	4 (44.44)	2 (22.22)	20 (40.00)	26 (52.00)	4 (8.00)
Increased health facilities	11 (39.29)	13 (46.43)	4 (14.28)	5 (38.46)	5 (38.46)	3 (23.08)	3 (33.33)	6 (66.67)	–	19 (38.00)	24 (48.00)	7 (14.00)
Increased housing condition	11 (39.29)	17 (60.71)	–	4 (30.77)	6 (46.15)	3 (23.08)	4 (44.44)	5 (55.56)	–	19 (38.00)	26 (52.00)	5 (10.00)
Increased adoption of family planning	9 (32.14)	16 (57.14)	3 (10.72)	5 (38.46)	8 (61.54)	–	3 (33.33)	4 (44.44)	2 (22.23)	17 (34.00)	28 (56.00)	5 (10.00)
Increased savings	10 (35.71)	12 (42.85)	6 (21.44)	3 (23.08)	8 (61.54)	2 (15.39)	4 (44.44)	4 (44.44)	1 (11.12)	17 (34.00)	24 (48.00)	9 (18.00)

Figures within parentheses indicate percentages of total

## CONCLUSION

It is observed from the study that no illiterate members were there under the handloom microcredit program. So enhancement in education, the basic input for development, was a satisfactory experience among the poor handloom weavers in the study area. Average adequacy, coverage and time required for getting loan were found to be reasonable comparing present credit scenario of the country. Microcredit borrowers used maximum of their credit money for productive purposes and microcredit program could well reach to the target group. So,

microcredit program could handle the much pronouncing issues of purposive utilization and reaching the target very well in the study area. It also brought some changes among some of the socio-economic variables of the beneficiaries very positively. Provision of credit proved to be an important element for involving the loanee respondents in income generating and other development activities. Increase in annual savings was found to be much greater than that of annual expenditure which is definitely an encouraging phenomenon. This is also an indication of future growth potential of microcredit among loanee weavers in the study area. The loan repayment

performance of borrowers was quite satisfactory as they were repaying the installments regularly. This tendency made them credit worthy for receiving loan in future. Overall, microcredit program became able to create a positive impact on socioeconomic aspects of the loanee respondent households in the study area. So, credit support by different microcredit and other financial organizations should be strengthened among the handloom weavers in the study area and other parts of the country.

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