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Poverty Alleviation and Identifying the Barriers to the Rural Poor Participation in MFIs: A Case Study in Bangladesh[1]

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The main purpose of the study is to identify the barriers of participation of the rural poor in microfinance institutions (MFIs) in Bangladesh. To this aim, data were collected through face to face interview from six different districts of Bangladesh. From the microfinance literature, the study set eight explanatory factors and six demographics which are explored through three separate models in examining the factors that influence the dependent variables such as nonparticipation and drop-out (Model 1), participation (Model 2) and nonparticipant but willing to participate (Model 3) in MFIs. Logistic regression techniques are employed in analyzing data. The results of Model 1 indicate that education, other assets and spousal dislike to female head of households are observed as the significant barriers of participation. The outcome of the Model 2 suggests that there have been six factors that inhibit the rural poor participation in MFIs which are gender, age, yearly income, land, religion and lack of knowledge. And in the Model 3, gender, education, land, insufficient resources and lack of knowledge appear to be the significant barriers to participation of the rural poor in MFIs in Bangladesh.

Introduction

Developing world has experienced several paradigm shifts in development strategies (Ahmed 2004) since December 10, 1948 when poverty was attributed as a negation of all human rights by the declaration of the General Assembly of the United Nations. Article 25(1) of the declaration has proclaimed:

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> "Everyone has the right to a standard of living adequate for the health and well-being of himself and his family, including food, clothing, housing and medical care, and necessary social services, and the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control."

However, the result of each initiative failed to produce any significant result (Yunus, 1987). Against this backdrop, microcredit propelled its head start in Bangladesh in the early 1980s in the name of Grameen Bank with a promise to bring about development through alleviating rural poverty. The age of microfinance, popularly known as microcredit (Ahmed, 2009; Rutherford, 2003; Hulme, 2000) is now turned around thirty, but the level of poverty alleviation remains as an empirical question (Karim, 2011).

Surge of literature came out during 1980s and 1990s with the result of positive impacts of microcredit on income and poverty alleviation (Hossain, 1984; Khan, 1990; Khandker, Khalily and Khan, 1995; Khandker and Chowdhury, 1996)). However, empirical evidences cast doubts on many of their positive impacts on poverty alleviation and raising income of the participants in MFIs. Recently, there have been a plethora of research articles which have criticized microfinance institutes (MFIs) from different dimensions particularly on poverty alleviation. Some of them have been even more critical to show that a few microfinance programs are rather harmful, plunging the poor deeper into debt (Dichter and Harper, 2007; Beck and Ogden, 2007).

The criticisms, which center in prominence, lie around participation and nonparticipation of the rural poor in MFIs (Karim, 2011). The issues of nonparticipation include outreach, dropout, self-exclusion and overlapping of loans from multiple MFIs that are presumed to be important for persisting rural poverty (Caritas Bangladesh, 2012; Halder and Mosley, 2004). For instance, Caritas Microfinance Program (CMFP) has recently closed 11 of its branches in different places of Bangladesh. The outstanding loan stood at Tk. 1,500 million as on June 30, 2012 against the amount of Tk. 1,303 million in June 30, 2011. This means that growth of outstanding loan increases by 14 percent. During the same period of time, the annual decrease of members was 13,804 (Caritas Bangladesh, 2012)

Interestingly, the potential reasons of nonparticipation are not widely addressed in microfinance related literature, though microfinance, since its initiation, has undergone many changes as an economic development scheme to assist low-income people in rural areas (Ashraf, 2013; Yuge, 2011). Low level of participation among the poor is, thus, still one of the main issues in microfinance sector which deserve attention by policy makers and researchers (Hes, Neradova and Srnec, 2013; Mahmud, 2000; Halder and Mosley, 2004). The main objective of the present study is, therefore, to investigate the potential factors that are assumed to influence the participation and nonparticipation of the rural poor in Bangladesh.

Participation and Nonparticipation: Conceptual Issues

There have been different participation behaviors staged in the microfinance activities by the rural poor which warrant little clarification. While participation in MFIs is characterized by an individual level, household-level participation is perceived to be a derived one (Ashraf, 2013; Zohir, 2001). If one or more members of a household participate in one or more MFIs, the particular household is also identified as "participant" (Zohir, 2001).

By and large, all individuals who report to be members of MFIs are identified as participants. However, one may distinguish between "active" and "passive" participation. Active participants are those who borrow funds, regularly attend the meetings and deposit required savings in MFIs. Hence, participation is operationally defined to include those who are active group members (Zohir, 2001).

The above static classification is further complicated due to its instability in participation itself. The BIDS surveys over three phases show that a large number of individuals change their affiliation or temporarily disassociate themselves from the MFIs every year. Thus, one needs further classification across "never participated", "ever participants", "regular participants", occasional participants" and "dropouts" (Ashraf, 2011a; Zohir, 2001). However, the present study adopted three simple classifications --- (i) "participants": who are presently involved in borrowing from MFIs; (ii) "nonparticipants": who are not presently involved in borrowing from MFIs which include the individuals who never participated in MFIs or dropouts from the MFIs and (iii) who are willing to participate.

Theory and Past Research

Microfinance theory has been widely acclaimed nationally and internationally as a potential tool for eradicating rural poverty since its inception as Grameen Bank in Bangladesh in 1983. The bank is a brainchild of Professor Muhammad Yunus who won the Nobel Peace Prize in 2006. Though this Nobel is a grand recognition for the great achievement of the Grameen Bank in poverty alleviation particularly from the rural areas of the developing world, huge criticisms from multiple dimensions have been casting pebbles against microfinance industry as a whole through empirical research globally. Some even posit that microfinance has done more to hurt the rural poor than to help them (Karim, 2011; Beck and Ogden, 2007; Dichter and Harper, 2007).

Soon after 1983, the innovative model of the Grameen Bank has been replicated by many countries of the world including many developed nations. Until now, there is no empirical evidence which can testify that any society globally becomes successful in alleviating poverty from the society with the particular help of MFIs (Karim, 2011). One may argue that human index as well as overall poverty condition in Bangladesh is much improved than before (Sen 2013). However, it does not mean that the achievement of poverty alleviation in Bangladesh is due to microfinance intervention (Ashraf, 2013; Dilal, 2009). Rather, there are other factors that influenced to reduce poverty in Bangladesh such as increase in agricultural productivity through green revolution, foreign remittance, increased investment and labor productivity, and mass employment opportunities in garments sector, financial sector, education and corporate business sectors (Ahmed, 2013).

Owing to such ineffective role of microfinance industry in eradicating poverty, participation and membership growth in MFIs have appeared grotesque. In a longitudinal study, the nonparticipants in MFIs are observed to be 28 percent (Zohir, 2001). However, the study notes that the census of households indicates that about 52 percent of rural households in program villages were nonparticipants (Zohir, 2001). Since stability in participation was presumed in earlier literature, most recent focus is placed on explaining the determinants of participation where presence of program placement effects and self-selection often obscure the results.

Here in the following section, we discuss the factors underlying microfinance participation based on past research. The study identifies eight variables that are hypothesized to hinder the participation of the rural poor in MFIs which are: (i) fear of getting into risk in taking microfinance loans, (ii) individual preference of selecting the MFIs for borrowing, (iii) religious leaders' lecture on microfinance borrowing, (iv) spousal dislike as female head of household, (v) friends' advice on microfinance borrowing, (vi) insufficiency of resources, (vii) inadequate knowledge about business and (viii) illness or vulnerability to crises.

(i) Fear of getting into risk in taking microfinance loans:

Among the several socioeconomic service-providers available in Bangladesh, NGO-MFIs occupy the most remarkable place and the participation of the poor people in these NGO-MFIs is relatively higher (Ashraf, 2013; Rahman, 2009). However, perceptions of the poor in terms of expectation fulfillment and trust deficit in NGO-MFIs stands among the lowest percentage points which lead the rural poor to be in misty confusion and high economic insecurity (Rahman, 2009). And the major consequences of insecurity are financial loss and mental anxiety (Karim, 2011; Rahman, 2009). In addition, harassment by many NGO-MFIs is a critical social element experienced by citizens of contemporary Bangladesh (Dyal-Chand, 2007; Ferdous and Uddin, 2010).

A recent study revealed the analytical content of this harassment indicator and reports a significant range of misconduct from the NGO-MFIs experienced by the poor who are to pay high economic costs (Ferdous and Uddin, 2010). For instance of harassment, the residents of Arampur in northern Bangladesh report horror stories such as physical and sexual abuse of borrowers in the hands of MFIs' officials. Unauthorized repossession of assets, including even the roof of the house of a loan recipient, frequently happens when borrowers miss their installments (Ferdous and Uddin, 2010).

In the case of arrears and defaults, there have been several daunting disturbing stories available in microfinance literature since 1990s (Karim, 2011; Rahman, 1999). By and large, conventional MFIs used to utilize group and center pressure to force the borrowers to make weekly repayments of their loans. When the peer pressure fails to pay the weekly installment of the loans, sometimes threats from the MFIs are followed and in extreme cases, assets of the poor borrowers are auctioned by the MFIs for repaying the loans (Ferdous and Uddin, 2010). In such way, many rural poor lost all of their scanty belongings including houses and small home-lands (Karim, 2011).

As the MFIs began to mature, they started facing performance dilemma, and focus is gradually shifted towards profitability. In order to improve profitability of MFIs, interest rate on loan is kept at a very high level and additional costs in the form of margin money, compulsory savings and insurance premium are being imposed to borrowers (Elahi and Rahman, 2006).

Majority of microfinance borrowers in rural Bangladesh are poor and illiterate. So, they are not in a position to understand and realize various financial terms and conditions used by MFIs and their effective costs. To help the poor to understand true costs of loan, MFIs should disclose effective interest rate to the borrowers. Hiding effective interest rate to poor and illiterate borrowers by using “creative” accounting practices is highly unethical. Many MFIs simply state that they charge only 15% flat rate of interest (Pine, 2010). Nonetheless, the effective interest rate including processing fee, insurance premiums and compulsory savings goes well over 100% per annum (Karim, 2011; Dilal, 2009).

In order to pay back the loans timely, bank workers as well as group-members impose an extreme demand on their clients (Ferdous and Uddin, 2010). In this situation, many borrowers used to maintain their regular repayment schedules through a process of loan recycling which considerably increases the debt-liability on the individual households, increases tension and frustration among household members, produces new forms of dominance over women and increases violence in society (Dyal-Chand, 2007; Rahman, 1999). This type of apprehension is widespread in the rural society of Bangladesh where people appeared to be reluctant to be member of any MFIs (Karim, 2011). Thus, fear appears to be potential barrier to the rural poor participation in MFIs in Bangladesh.

(ii) Individual preference of selecting the MFIs for borrowing

Individual preference is hypothesized in this study as another barrier to participation in MFIs. Ideally, preference is the power or ability to choose one thing over another with the anticipation that the choice will result in greater satisfaction, greater capability or improved performance (Schiffman and Kanuk, 2000). Thus, in first preference, people try to have loans from informal sources. One of the important sources of informal loans is the friend or relative who occupies a substantial part of rural money market (Mahmud, 2010).

So, if anybody has that chance of getting informal loans, s/he does not wish to take the loans from MFIs. In fact, when the poor villagers have left with no other choices, microfinance is considered to be their last resort. “I don’t want to take microcredit loans,” said one villager, “but at times of food shortage in the dry season, I am left with no other choice” (Ferdous and Uddin, 2010, p. 43). Thus, many people in the village in northern Bangladesh became constrained to take loans during a household crisis such as lack of foods in the house or medical emergencies. For many, the borrowing initiated a cycle of debt which they could never escape. As mentioned earlier that the northern part of Bangladesh is declared as a famine-affected area, from where people prefer to migrate in the off-season of crop production rather than taking loans from the MFIs for doing any small-business staying in their own locality (Mahmud, 2010).

There has been another significant question whether MFIs are serving the poorest of the poor ensuring their successful participation in microfinance programs (Hashemi and Rosenberg, 2006). Soliciting case studies of CARE/Bangladesh and BRAC/Bangladesh, one report argues that in Bangladesh where MFIs are strongly committed to serve the poor, MFIs’ concentration is the highest among the second poorest quintile group and the lowest among the poorest quintile. The main reason behind this is identified as deliberate program exclusion from MFIs (Hashemi and Rosenberg, 2006).

According to a study, young women have a higher preference for credit than older women (Khandker, Koolwal and Sinha, 2008). The study compares the results for young women’s program participation with those of program participation by two other groups --- older women (31 and older) and men residing in the households. The young women's borrowing is statistically significantly different from that of men's borrowing but not different from that of older women. However, the marginal returns to program participation are significantly higher for younger women than older women (Khandker, Koolwal and Sinha, 2008).

Finally, the debate about whether to lend to individuals or lend to groups is very important issue. Under simple theories of selection, the Pareto superior regime predicts to emerge variation with exogenous environmental characteristics (Townsend, 2003). The microfinance programs, which are originated in Bangladesh, primarily operate in group lending where individual preference does not play any role in using loans in individual entrepreneurial activities (Ashraf, 2013). Thus, it may pose a serious problem in getting individual success in loan operation on an individual basis rather than on a group basis (Townsend, 2003).

In this respect, some argue that nonparticipation might simply be a function of individual or household preferences, because credit may not be in their best short or long-term interest (Evans et al., 1999). These preferences could change the participants' and nonparticipants' attitude towards behavioral intention (Ajzen, 1991), which encourages for not being the member of the MFIs.

(iii) Religious leaders' lecture on microfinance borrowing

The rural society of Bangladesh is built in local networks in which religion takes a prominent place, because around 87 percent people are Muslim (BBS, 2011) and Islam is the state religion in Bangladesh. Around 90 percent of the laws in Bangladesh are secular. So, there are legal problems in Bangladesh arising from unresolved conflicts in the law. Hence, women independence or women empowerment program is against the beliefs of many strict Muslims (Ahmad, 2009).

Some studies find that women violating *purdah* (females' physical exposure without any headscarf and extra clothes) by joining an interest-based microcredit program have violated the Islamic principles. So these activities are strongly condemned by religious leaders who attack on microcredit institutions defending the religious values of Islam (Ashraf, 2013; Hashemi and Schuler, 1992; the *Economist*, 2000).

The issue of gender inequality is also important in the environment where social activities are based on existing socioeconomic inequality of women (Dyal-Chand, 2007; Heaton and Cornwall, 1989). Empirical evidence suggests that much of the variation in the relative socioeconomic status of women is due to differences in family behavior, and there is little evidence for the declining influence of religion in family behavior or in the socioeconomic inequality of women (Dyal-Chand, 2007). So, it evidently shows how religious point of view in looking at the status of women is a factor for participating in MFIs.

(iv) Spousal dislike as female head of household

In most of the developing countries, society is dominated mostly by the male partner of the family. Yet, the majority of the borrowers of conventional MFIs are women (Ashraf 2013; Caritas Bangladesh, 2012; Rahman, 1996). The objective of targeting women in the conventional approach is women empowerment (Caritas Bangladesh, 2012; Karim, 2011; Rahman, 1999). The rationale is that women use the funds efficiently to increase their income levels. As a result, they become more independent and this increases their self-respect. However, some recent studies show that this is not the case (Ashraf, 2013; Karim, 2011; Khandker, 1998; Rahman, 1999). The women are usually persuaded by the male members of the household to obtain credit and to utilize it. However, the repayment of the loan installment remains on the shoulder of the women who is deemed primarily as the borrower. This generates chaos and conflicts inside the family (Ashraf, 2011b).

There has been evidence that microcredit can reduce vulnerability in terms of smoothing income and consumption, and building asset (Zaman, 2004). However, there is a considerable confusion on the impact of credit on women's empowerment, or reducing female vulnerability (Karim, 2011). Empowerment of women in Bangladesh can be considered on the patriarchal socioeconomic background. Empowerment has been defined as a "set of social relations with a material base that enables men to dominate women" (Cain, Khanum and Nahar,1979, p. 405). Hence, it can be thought of as an improvement in intra-household gender relations (Hashemi, Schuler and Riley, 1996).

Moreover, given the institution of *purdah*, an enveloping social matrix controls the female society within a typical Bangladeshi household (Ashraf, 2011b; Mahmud, 1994).

There are more interesting stories which reveal that while women are meant to be the primary targets of MFIs, they are more often the conduits of credits, not end-users Ferdous and Uddin; 2010). In this context, one villager explained, “Women take loans because their husbands ask them to do so. In most cases, failure to repay is not their fault, but because their husbands either squandered the money or lost it in a wrong investment. Instead of being empowered, these women are like chilies crushed between the mortar and the pestle. On one side, their husbands put pressure on them. On the other side, MFIs chase them for being loan defaulters.” (Ferdous and Uddin 2010, p. 43)

Some authors observe that the female-headed households are experiencing much socioeconomic disadvantages which range from economic discrimination to social stigmatization and isolation. This situation limits the capability of these women to meet up the endowment requirements for participating in microcredit schemes. Normally, the spouses of the female members of the MFIs do not like their wife to be the chief of the household (Ashraf, 2013; Buvinic and Gupta, 1997). This fact frequently acts as an important catalyst for family disintegration in rural Bangladesh (Rahman, 1999). In many instances, obeying *purdah* by the Muslim ladies is argued to be mandatory by the male spouses based on religious principles of Islam which may act as an important barrier to participation in MFIs (Ashraf, 2011b).

However, there are other studies that show that many families are getting disintegrated which is blamed as a result of women empowerment in the rural areas of Bangladesh (Ashraf, 2013). In fact, freedom is a risky business, because the rural women are mostly uneducated and this dimension of the rural society causes the women to be demotivated to peacefully lead their family life (Bush, 2013).

(v) Friends advice on microfinance borrowing

In rural areas, people are relatively more closely associated with each other than urban areas (Feldman, 1999). Thus, neighbors sometimes play a crucial role in influencing decision making process of others

(Ajzen, 1999). As there are scanty evidences that participants are graduating from poor to non-poor, the rural poor used to be demotivated to participate in the microfinance programs (Ahmed, 2004). Besides, there are evidences of overlapping loans from various MFIs simultaneously and consequently the borrowers get caught in the vicious circle of debt trap (Ashraf, 2011c; Rahman, 1996). For this reason, the poor sometimes become compelled to dispose whatever they possess as asset in order for repaying back the debt. Thus, the poor become poorer getting into the debt-spiral (Beck and Ogden, 2007). These events created an ugly impression of microfinance programs to the rural poor for which they used to advice their peers and relatives not to participate in MFIs.

On April 14, 2010, a television program in Bangladesh aired a mind-boggling incidence. A few youths in a village of Naogaon district in northern Bangladesh were taking their own lives after failing to repay their loans. The cause of such tragedies was being claimed to be exorbitant interest rates, which trap the borrowers into a never-ending loop (Ferdous and Uddin, 2010).

Similar experience is shared by a villager of Rangpur district of northern Bangladesh with the author of the present study. According to his experience, the poor villagers have been suffering from the extortions of three types of people in Bangladesh such as the corrupt police forces, the greedy and dishonest medical doctors and finally the MFIs (Ashraf, 2011b). Having witnessed these scenarios of microfinance, friends in the neighborhood express negative impression about MFIs which discourages the poor not to participate in microfinance programs.

(vi) Insufficiency of resources

In the rural areas of Bangladesh, insufficiency of resources of the rural poor is frequently observed as an important impediment of participation in MFIs (Ashraf, 2011b; Montgomery, 1996). A case study on BRAC reports that there ought to have compatibility between credit disbursement and need of the poor borrowers in the rural areas of Bangladesh (Montgomery, 1996, Rahman, 1999). Due to this mismatch between demand and supply of microfinance, the poor are failing to make their own resource-base. It also argues that the poor can be rescued from socially damaging peer pressure lending practices through flexible repayment scheduling, savings facilities and short-term consumption loans with a bit higher interest rate.

In order to get loan from MFIs, the participants need to have sufficient resource-base to fulfill certain requirements such as adequate time to attend meetings, cash reserves for savings, and energy and motivation for education and planning activities (Ashraf, 2013; Evans et al., 1999). Owing to this lacking of sufficient resources, the rural ultra-poor used to face tremendous difficulties for memberships in MFIs. Even, the microfinance program itself has no incentive to provide loans to the extreme poor, mainly because the ultra-poor are thought to be risky clients who would not be able to pay back their loan duly (Ashraf, 2011c).

Hence, the poorest of Bangladesh have number of constraints such as fewer income sources, worse health and education (Zaman, 2004). So this kind of lacking in terms of sufficient resources prevent the rural poor to utilize the loans with a significant level of efficacy which may affect the participation of the rural poor in MFIs (Ashraf, 2011c).

Proper allocation of time (how much time to spend on different tasks) is also considered to important which may inhibit some individuals to participate in MFIs (Dewhurst, Hancock and Ellsworth, 2013). This object is particularly applicable for the rural female for whom time has an opportunity cost which may not be affordable by them (Noble, 2010; Evans et al., 1999).

(vii) Inadequate knowledge about business

Across a broad range of literatures, a consensus has emerged that our society is moving toward postindustrial or post-bureaucratic society in which knowledge and information drive economic growth (Dewhurst, Hancock and Ellsworth, 2013; Benkler, 2006; Castells, 2000; Huber, 2004; Powell and Snellman, 2004; Sunstein, 2006; Teece, 2003) According to some studies, there has been a disability of knowledge of the potential clients which compromise to understand the benefits of credit (Ashraf, 2011b; Jazairy et al., 1992). Evidences also suggest that people have a desire to join the program, to function within a peer group and to successfully utilize credit, but due to extreme poverty they cannot afford to do it (Ashraf, 2013).

One of recent studies reports that the field officers of MFIs used to promote microcredit to the poor, as the sales executives of commercial banks promote personal loans and credit cards (Ferdous and Uddin, 2010). Their main objective is to sell loans, not to bring about any change in the lives of the rural poor. It saddles the loan recipients with the insidious burden of dependency contrary to economic freedom. In addition to this reality, a villager's saying is worthwhile to note:

> "In the beginning, the NGOs told us their loans would bring joy to our lives if we
> borrowed from them and started a business. They lured us into the loans by telling
> that we would have chickens, latrines, and many other things to lead a good life.
> That good life became obvious as we sank deeper into the quicksand of illusion
> created by them. This illusion eventually tightens around our neck like a noose."
> (Ferdous and Uddin, 2010, p. 43)

(viii) Illness or vulnerability to crises

The size of the vulnerable population, who are at the risk of falling into deeper poverty, is large in Bangladesh. A high concentration of consumption expenditure around poverty lines implies that shocks can cause large movements in poverty rates (Ahmed, Narayan and Zaman, 2009). The relative positions of the upper and lower poverty lines and the density curve also suggest that a large number of population falls between the upper and lower poverty line levels. This fact implies that even a small shock can send a large number of individuals, many of whom are already poor, into extreme deprivation (Ahmed, Narayan and Zaman, 2009).

Natural disasters, due to seasonal cycles, play a key part in poverty process in Bangladesh (Rahman, 1995). In this respect, asset creation is an important determinant which can reduce household vulnerability to various livelihood crises (Zaman, 2004). And one pathway by which microfinance appears to reduce this vulnerability is through the emergency assistance provided by many microfinance organizations during acute natural disasters, such as the recent floods in Bangladesh

(Mahmud, 2010). The fact that these organizations turn into *de facto* relief agencies which is crucial to sustaining these households in the immediate aftermath of a natural disaster. Moreover, post-disaster rehabilitation assistance, in terms of both financial and other services, is also highly valued by microcredit participants (Mahmud, 2010).

One study reveals that while microcredit is successful at reaching the poor, it is less successful at reaching the vulnerable poor (Amin, Rai and Topa, 2003). The results of this study also suggest that microcredit is unsuccessful at reaching the group most prone to destitution or the vulnerable poor. This finding indicates that participation of the destitute in microfinance program is still in unsatisfactory level which warrants further attention in order to alleviate rural hard core poverty in Bangladesh (Amin, Rai and Topa, 2003).

There is different opinion that microcredit often improves the capacity of households' risk management capacity through the enhancement of social capital. This is partly achieved by deliberate training and capacity-building efforts and partly through fungibility of loan proceeds into the building up of social networks (Mosley and Rock, 2004). This, in turn, may lead to 'poverty externalities' through the extension of credit groups to include poor people and through the stabilization of rural income, to reduce the vulnerability of the poorest to risk (Mosley and Rock, 2004).

However, other studies show that microfinance program participants do not benefit in terms of greater level of consumption, but they participate because they benefit from risk reduction by diverting the funds from investing in microenterprises to consumption (Yuge, 2011; Morduch, 1998). Like others, ill-health of the rural poor or any types of crisis may hamper the ability to operate the microenterprises successfully. This may refer to a barrier to participation (Ashraf, 2013).

Participation is further constrained among potential clients suffering from ill-health or other crises that limit their capacity to acquire and utilize credit (Yuge, 2011). This is in other words called morbidities or susceptibility to outer shock or crisis. This problem can hamper the borrowers' self-efficacy to handle the loans for their income generating activities (Rahman et al., 1992)

Thus, there is a need for a holistic approach to risk management, or "social risk management", which encompasses a broad spectrum of private and public actions (Ashraf, 2011b). An asset-based approach to social risk management can provide an integrated approach to consider household, community, and extra-community assets and risk management strategies. In effect of this vulnerability crisis, the rural poor face problem to get membership in MFIs (Ashraf, 2013; Amin, Rai and Topa, 2000).

Data Sources

The data collection exercises were aimed at gathering information on the impact of eight factors along with the demographics that may affect participation and nonparticipation of the rural poor in MFIs in Bangladesh. To this aim, data were collected by face to face interview from six major areas of Bangladesh using closed-end questionnaire interviewing 424 respondents who are participating (144 respondents) and nonparticipating (280 respondents) in MFIs in Bangladesh. The questionnaires were constructed in a 5-point scale except the participation variable which is dichotomous as 1 indicates yes and 2 indicates no. In the measurement for other variables, scale 1 indicates strongly disagree and scale 5 indicates strongly agree.

The respondents of this study are the rural villagers who are nonparticipating, participating and willing to participate in MFIs in six different regions of Bangladesh. These areas of data collection were selected based on the poverty concentration and considerably long duration of microfinance operation. The poverty index was collected from the public and academic sources of information recorded in the Bangladesh Bureau of Statistics and several research journals.

Participating rural poor (also referred to as members of the MFIs) are defined as those individuals who have been presently borrowing microloans from the MFIs. Nonparticipating rural poor (also referred to as non-members or drop-outs from the MFIs) are those individuals who choose not to be involved in borrowing microcredit from their local existing MFIs. The respondents, who are willing to participate, refer to never-participants as well as drop-outs from the MFIs. The sample statistic of the present study is provided in Table I indicating valid percentage of the demographic parameters.

Table I Sample Statistics

	Valid Percent
Gender	
Male	13.8
Female	86.2
Age	
15-25	11.2
26-40	56.4
41-55	23.1
56-60 and above	9.3
Marital Status	
Single	9.3
Married	89.3
Divorced	1.7
Education	
Primary	64
Secondary	26.7
Higher Secondary	5.5
Bachelor	3.8
Yearly Household Income (in Taka)	
0-20000	11
20001-40000	11.6
40001-70000	23.6
70001-100000	27.6
More than 100000	26.2
Total Land including Home (in Decimal**)**	
0	25
1-33	36.9
34-66	20
67-100	9.3
More than 100	8.8
Other Assets (in Taka)	
0-20000	60.2
20001-40000	4.5
40001-70000	7.6
70001-100000	6.7
More than 100000	21

Methodology

Identification of the factors that explain the behavior of the rural poor participation in MFIs is considered as an important issue which needs to be addressed adequately. By and large, a host of client-related and program-related factors determine the involvement of individuals in MFIs. The present study deals with the client-related factors that inhibit them to participate in MFIs.

The study uses the primary data to anticipate on the potential barriers of the rural poor to program participation. For each of the barriers, discussed in separate sections, the study briefly advances some preliminary thoughts on participation, describes the model with short elaboration on some important determinants and finally presents the results with their interpretations.

The study initiates participation in MFIs as a rational response on the part of the individuals to the stimulation caused by a range of pecuniary and non-pecuniary provisions of the MFIs. Whether their response constitutes a cognizable pattern, with regards to the socioeconomic characteristics of the households and to those of the borrowers in the households, is what we are to point out at this level.

In so doing, the study first constructs the models explaining the participation attributes of individuals and examines it using the data of 424 households in six program villages in Bangladesh. The study then identifies the barriers that explain the participation behavior of the individuals. Including dichotomous nature of the outcome variable in the model, the study uses the logistic regression for estimation of the models.

The Models

As barriers or determinants of participation can be examined from various different perspectives, the simplest form of distinguishing is merely between participation and nonparticipation. However, the present study considers participation from a variety of concerns. Most analyses include participation just having dichotomized between participants and nonparticipants which may lead to a selectivity bias. The questionnaire that is designed for this study to collect data provides the prospects of collecting additional information on willingness to participate or not to participate in MFIs.

This added information yields to identify three mutually exclusive household-members such as (1) those of group who are currently nonparticipating, but might participate before (2) those of group who are currently participating and (3) those of group who are nonparticipating and willing to participate. These groupings aided the study to conduct the analyses on a more meaningful way for four independent subsets of data.

The first set representing Model 1 utilizes the data set of group (1) for those who are presently nonparticipants and participated before (i.e. dropouts). Model 2 represents the data set of the group (2) who are currently participating in MFIs. And finally, Model 3 is analyzed with the data set of group (3) who are willing to participate in future. While an identical set of explanatory variables has been used in all the four models, the results are interpreted independently.

As mentioned earlier, the present study employed altogether 424 households among the six districts of Bangladesh. The criteria of the respondents in terms of their participation status for the four groups are as follows. In the data set of sample group (1), there have been 232 (55%) responded as participated before and 192 (45%) are never participated in MFIs. This means that there are 55 percent borrowers are dropouts and about a half of the sample population is nonparticipating in the study areas.

In sample group (2), 144 (34%) individuals are presently participating in MFIs and 280 (66%) are nonparticipating in any MFIs. In sample group (3), 240 (56%) individuals responded to be willing to participate in MFIs in future and 184 (44%) individuals responded to be unwilling to participate in future.

For identifying the factors that affect the participation behavior of the rural poor in MFIs, the logistic regression equation was set as below:

$$Y_{i\,(i=1,2,3)} = f(X_1, X_2, X_3, X_4, X_5, X_6, X_7, X_8, X_9, X_{10}, X_{11}, X_{12}, X_{13}, X_{14}, X_{15})$$

Where,

Y_1 (Model 1): dummy variable, 1 for participated in MFIs before, 0 otherwise

Y_2 (Model 2): dummy variable, 1 for who are participating in MFIs, 0 for nonparticipants

Y_3 (Model 3): dummy variable, 1 for who are willing to participate in MFIs, 0 otherwise

X_1: Sex

X_2: Age

X_3: Marital Status

X_4: Education

X_5: Yearly household income

X_6: Total amount of land including homestead area

X_7: Value of other assets

X_8: Fear of getting into risk of borrowing from MFIs

X_9: Individual preference for borrowing

X_{10}: Religious leaders' lecture on borrowing from MFIs

X_{11}: Spousal dislike as female head of household

X_{12}: Friends' advice on borrowing from MFIs

X_{13}: Insufficiency of resources

X_{14}: Lack of knowledge in business

X_{15}: Ill-health or vulnerability to crises

Results and Discussion

There has been a common belief among the microfinance activists and researchers that all individuals are free to choose whether to participate in MFIs and that participation is self-selective (Pitt and Khandker, 1995). In this respect, Mahmud (2000) is naïve to argue that the rural individuals do not enjoy such freedom to join in MFIs because the choice is not entirely free. There have been myriads of household level differences among participating and nonparticipating individuals which suggest that potential client-related factors influence the decision to participate in MFIs.

Table 2: Results of Logistic Estimation on Participation in MFIs

Explanatory Variables	Model 1		Model 2		Model 3	
	Coefficient estimates	Odds ratio	Coefficient Estimates	Odds ratio	Coefficient estimates	Odds ratio
Gender	-.940***	.391	-1.299***	.273	-.698***	.498
Age	-.289*	.749	-.464**	.629	-.046	.955
Marital status	-.367	.687	-.046	.955	.069	1.858
Education	.512***	1.669	.612***	1.844	.529***	1.697
Yearly income	-.207**	.813	-.271**	.762	.246**	1.279
Land	-.028	.973	-.287**	.750	-.278**	.757
Other assets	.251***	1.285	.375***	1.455	.137*	1.147
Fear	.195	1.215	.281*	1.325	.468***	1.597
Preference	.024	1.024	-.074	1.077	.827***	1.286
Religion	-.509***	.601	-.863***	.422	.301**	1.351
Spousal dislike	.407***	1.503	.337**	1.401	.069	1,072
Friends' advice	-.196	822	.089	1.093	-.028	.972
Resources	-.124	.883	-.084	.920	-.506***	.603
Knowledge	-.069	.933	-.398***	.672	-.480***	.619
Ill-health	-.122	.885	.052***	1.053	.054	1.055

Correctly predicted (%)	76.30	75.90	74.8
-2 Log Likelihood	493.444	410.633	456.737
Model Chi-Squares (Sig,	90.560(000)	132.753(000)	123.634(000)

Note: *** = significant at 1% level; **= significant at 5% level; *=significant at 10% level

The estimation results of the three different models specified above have been presented in Table 2. The model chi-squares (90.560, 132.753 and 123.634) for the all three models and the significance level of 0.000 indicate that null hypothesis that the coefficients of all the variables in the model are zero can be rejected at better than 99 percent level. In the first model, seven variables excluding constant are found statistically significant and the model on the whole can predict 76 percent of the cases correctly.

In the second and the third model, among the fifteen explanatory variables, eleven are found statistically significant to affect the odds and the models on the whole can predict about 75 percent of the cases correctly. Estimated coefficients of the variables pertaining to presently nonparticipating or past-participants, current-participants and willing-nonparticipants' characteristics reveal a number of interesting aspects of participation and nonparticipation of the rural poor in Bangladesh.

In these three sets of models, where the three dependent variables are distinguished on the basis of nonparticipation or participation in the past (i.e. drop-out), participation at present and nonparticipation at present but willing to participate in the future, the study aims to identify the factors that determine the participation of the rural poor individually in MFIs. This is the reason for including the explanatory variables that reflect member-specific characteristics such as gender, age, general literacy level and occupational status. Several past studies incorporated similar demographic variables in explaining the dependent variables (see e.g. Zohir, 2001; Mahmud, 2000).

The estimates of the Model 1 (for who are presently nonparticipants or drop-out) indicate that if an individual is female, the odds for the person willing to participate in the MFIs reduce by 60 percent. Relatively younger people are more willing to participate with a year rise in the age of the nonparticipants or drop-outs, the odds ratio reduces by 25 percent. However, for relatively more educated individual, the odds ratio increases by 66 percent that the person being nonparticipant or drop-out. In the case of the parameter of yearly income, the odds appear to decrease the probability of nonparticipation in MFIs by 19 percent. The odds ratio of other assets also increases the probability of nonparticipation by 28 percent. These outcomes are supported by several past studies (Zohir, 2001; Mahmud, 2000). Hence, in order to increase participation, MFIs should include wide range of aged groups of people in society. Besides, more training ought to be provided by the MFIs to the illiterate poor for better knowledge and understanding of business skills. By this way, people would be more productive and can have better skills to attain more profit in their business. This will increase their income which would ease to pay back their regular installment of loans and in effect, it will reduce the drop-out rates from the MFIs.

For religion, the odds indicate that nonparticipation by the rural poor in MFIs decreases by 40 percent. Religious restrictions in Islamic religion such as interest on borrowed funds as well as *purdah* for women are important consideration for participating in MFIs. The results of this study reflect similar fact of the Muslim society of Bangladesh (Ashraf, 2013; Ahmed, 2009; Dyal-Chand, 2007). The variable of spousal dislike also appears to indicate that its odds of nonparticipation increases by 50 percent. This result implies that gender, age, education, income level as well as religious restrictions are important consideration in explaining the participation as well as nonparticipation in MFIs (Zohir, 2001; Mahmud, 2000). For overcoming the religious problems, there is no other way except the introduction of Islamic MFIs. There have already been several Islamic MFIs working in Bangladesh such as Al-Falah, Nobel, Rescue and Rural Development Scheme of the Islami Bank Bangladesh Limited. These Islamic MFIs have better participation of the rural poor and drop-out rates are comparatively less than conventional MFIs (Mannan, 2010; Ahmed, 2002).

The estimates of the Model 1 (for nonparticipants and who participated in MFIs before) indicate that there is a positive relationship between education, other assets and spousal dislike and the probability of the individual reporting that they never participated in MFIs before. The significance levels of 0.000 associated with these three variables indicate that there has been almost zero percent chance that the values of the coefficients are not significantly different from zero, i.e. there is about 100 percent chance that the coefficients of these variables are different from zero.

This outcome implies that these variables may cause the individuals to induce them to have the membership of the MFIs before. In relation to the positive influence of the variable of spousal dislike to female head of household on the probability of participation before, earlier literature suggested that the female members whose family ties are contentious with their husbands are more prone to participate in MFIs than those who do not have such conflicts in the family (Ashraf, 2013; Karim, 2011). Nevertheless, the rural women who are single, widows or divorced or separated head of the family have more probability to take part in microfinance activities than those who have a good bond in the family (Zohir, 2001). In this context, only solution to this type of problem is to provide better education and training to the rural poor. In contents of the training, social and ethical values should also be incorporated which can improve the morality of the people as well mitigate the family problem to certain extent.

Based on the significance of the variables in the fitted Model 1 (Table 2), it can also be portrayed that there have been potential negative association with gender, age and religion which are observed to be highly significant to influence negatively the participation of individuals who participated in MFIs before and never participated in MFIs. This result is supported by similar other study as well (Khandker, Koolwal and Sinha, 2008). There are other variables which are not significant to influence the participation behavior of the rural poor, but these coefficients indicate that these appear not to be potential barriers of participation in MFIs.

The estimated values of model 2 (for the poor who are presently participating in MFIs) demonstrate that eleven variables excluding intercepts are statistically significant in influencing the participation of the rural poor in the study areas. Among them, the odds ratios of education, other assets, fear of getting into risk of loans, spousal dislike to female head of household and ill-health increase the probability of participation of the rural poor in MFIs by 85 percent, 45 percent, 32 percent, 40 percent and 5 percent respectively.

Hence, the potential problems of participation for the model 2 are gender, age, yearly income, land, religion and lack of knowledge. This means that these are robust factors that inhibit the actual behavior of microfinance participation of the rural poor in the study areas. These outcomes are also supported by several past studies (Ashraf, 2013; Ferdous and Uddin, 2010; Ahmed, Narayan and Zaman, 2009; Khandker, Koolwal and Sinha, 2008).

The estimated figures of model 3 (for who are willing to participate in MFIs) show that eleven factors are appeared to be statistically significant to influence the participation of the rural poor who are presently nonparticipants and willing to participate in MFIs (Table 2). There have been four variables whose coefficients are associated with negative sign and those variables are gender, land, resources and lack of knowledge. Similar results are also obtained in several past studies (Zohir, 2001; Mahmud, 2000).

Other seven factors have positive sign associated with their coefficients. This means that the factors, which exhibit negative signs, are prohibiting the poor's willingness to participate in MFIs. Other sevens are influencing positively to be willing to participate in MFIs. The results of the model 3, thus, indicate that gender, amount of land, inadequate resource base and lack of required business knowledge are inhibiting willingness to participate in MFIs. So, in order to increase participation in MFIs, it is imperative to consider these variables.

Conclusion

The present research endeavors to identify the potential barriers to participation of the rural poor in MFIs in Bangladesh. The study employed three models such as model 1, model 2 and model 3. For the model 1, the dependent variable is nonparticipation or drop-out from the membership in MFIs. For the model 2, the dependent variable is participation in MFIs and in the model 3, the dependent variable is nonparticipation and willing to participate in MFIs.

The study postulated eight explanatory variables apart from seven demographic factors in order for determining the potential barriers. The logistic regression analysis results into different determinants that influence the participation behavior of the rural poor. Among the seven demographic variables, gender, age, education, yearly income, land and other assets appear to be common determining factors of participation for the aforementioned three models of analysis.

In other eight explanatory variables, only four variables are observed to be common statistically significant variables to hinder the participation of the rural poor in MFIs in Bangladesh. Similar results are also available in other studies such as Zaman (1997), Zohir (2001) and Mahmud (2000).

Hence, in order to increase the participation of the rural poor in MFIs with an ultimate objective of alleviating rural poverty, the policy planner must focus on the identified variables which inhibit the rural poor participation in MFIs in Bangladesh. If the microfinance programs are to serve the interests of the rural poor in society, certain institutional features may have to be changed in order to remove the barriers to participation in MFIs. Such as high cost of loans, membership criteria and weekly repayment system ought to be relaxed. Last but not least, the program must focus the strategy to maximize the welfare of the rural poor rather than the commercial motive of the MFIs.

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