

Title: Micro-Credit and Household Productivity: Evidence from Bangladesh

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Abstract:

This paper tests the hypothesis that micro-credit improves agricultural productivity using a dataset from Bangladesh. The data come from two rounds of surveys conducted by the World Bank and the Bangladesh Institute of Development Studies of households in rural Bangladesh in 1992 and 1998. We study the impact of three micro-credit programs: the Rural Development-12 program of the Bangladesh Rural Development Board (BRBD), the Bangladesh Rural Advancement Committee (BRAC), and Grameen Bank. Each of these programs focuses on the rural landless poor, have a group-lending model, and lend mostly to women. Controlling for macro events and household and village characteristics, we find that participating in a micro-credit program increases output per unit land in a statistically significant way. Output per unit land also depends on the size of the loan. This suggests that microfinance programs could provide benefit through skills transfer and human capital formation in addition to provision of credit.

Micro-credit programs provide small amounts of credit to the poor to aid their self-employment activities or small enterprise involvement. This model for poverty reduction was pioneered by Nobel Peace Prize recipient Muhammad Yunus and his famous Grameen Bank. The Grameen Bank Project began in 1976 and has since inspired the inception of over 3,300 micro-credit programs reaching over 133 million clients, 70% of whom lived on less than US\$1 a day. Although these programs may vary in nature, they all strive to lift clients (and their families) out of poverty by providing them access to the credit they need to establish or expand a small, self-sustaining business.

Previous research has shown that micro-credit is successful in improving the welfare of borrowing households by increasing and smoothing consumption, improving the health status of children, empowering women, and improving poverty status. We focus instead on the effects of micro-credit on production which provides the means for sustained improvements in standard of living.