

# Expanding the reach of microcredit through Livelihood Mapping: A model

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*Microcredit has emerged in developing countries as a way to enable poor households to engage in productive economic activities. Drawing on his research in Bangladesh, **Khurshed Alam** outlines the limits of the current microcredit approach and introduces the idea of livelihood mapping to identify viable income generating activities to increase the effectiveness and reach of microcredit programmes.*

In many countries, especially in Asia, Africa and Latin America, poor people have little or no access to credit from traditional banks as they have no assets that can be used as collateral. Within this depressing spectrum, poor people are subject to abuse by moneylenders and other operators in the informal credit sector.

Microcredit has emerged in those countries as a way to enable poor households to engage in productive economic activities and thereby break the shackles of poverty. It is now well-known that the popularisation of microcredit as an effective model for alleviating poverty began in Bangladesh through the establishment of Grameen Bank—a pioneering microcredit institution. The founder of the bank Dr. Muhammad Yunus won a Noble peace prize for his fight to eradicate poverty through microcredit.

Yunus [described](#) his motivation for microcredit in this way:

*The more time you spend among the poor people, the more you become convinced that poverty is not the result of any incapacity on the part of the poor. Poverty is not created by poor people, it is created by the system we have built, the institutions we have designed, and the concepts we have formulated.... I strongly feel that credit should be given the status of a human right.*

Thus Grameen aimed primarily to help economically marginal groups such as rural landless and disadvantaged women in Bangladesh.

Microcredit is used in diverse ways. The Microcredit Regulatory Authority (MRA 2013) in Bangladesh classifies microcredit into six broad categories: i) general microcredit for small-scale self employment based activities, ii) micro-enterprise loans, iii) loans for the ultra poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. Two important points should be noted here in regard to the success of microcredit. Firstly, according to [one estimate](#) only 10% of poverty of Bangladesh has been eliminated through the model of microcredit. Secondly, a [recent study](#) shows that the microcredit has played considerable role in creating employment for women and men; it contributed into the increasing income of women.

## Limitations of the microcredit approach

A serious drawback of the existing approach is that it still doesn't address the extreme poor. Microcredit is considered most successful for the economically active population—or those who are considered as “bankable” or “creditworthy”. As a result, consideration of “creditworthiness” at the time of granting loan poses significant limitation upon microcredit where the bottom 10% of the Bangladeshi poor are still unable to get credit from Grameen or other NGOs. This most vulnerable group includes the poorest of the poor who for many reasons—sickness, disability, old-age, absence of adult breadwinners in the family—are disqualified from accessing microcredit as they have no capacity to pay weekly installments. Microfinance institutions, therefore, are banks for a particular segment of the poor, not all of them. Within this context, it is suffice to argue that the Grameen model is, therefore, considered as a useful approach but in no way a sufficient model to address

poverty in a country like Bangladesh.

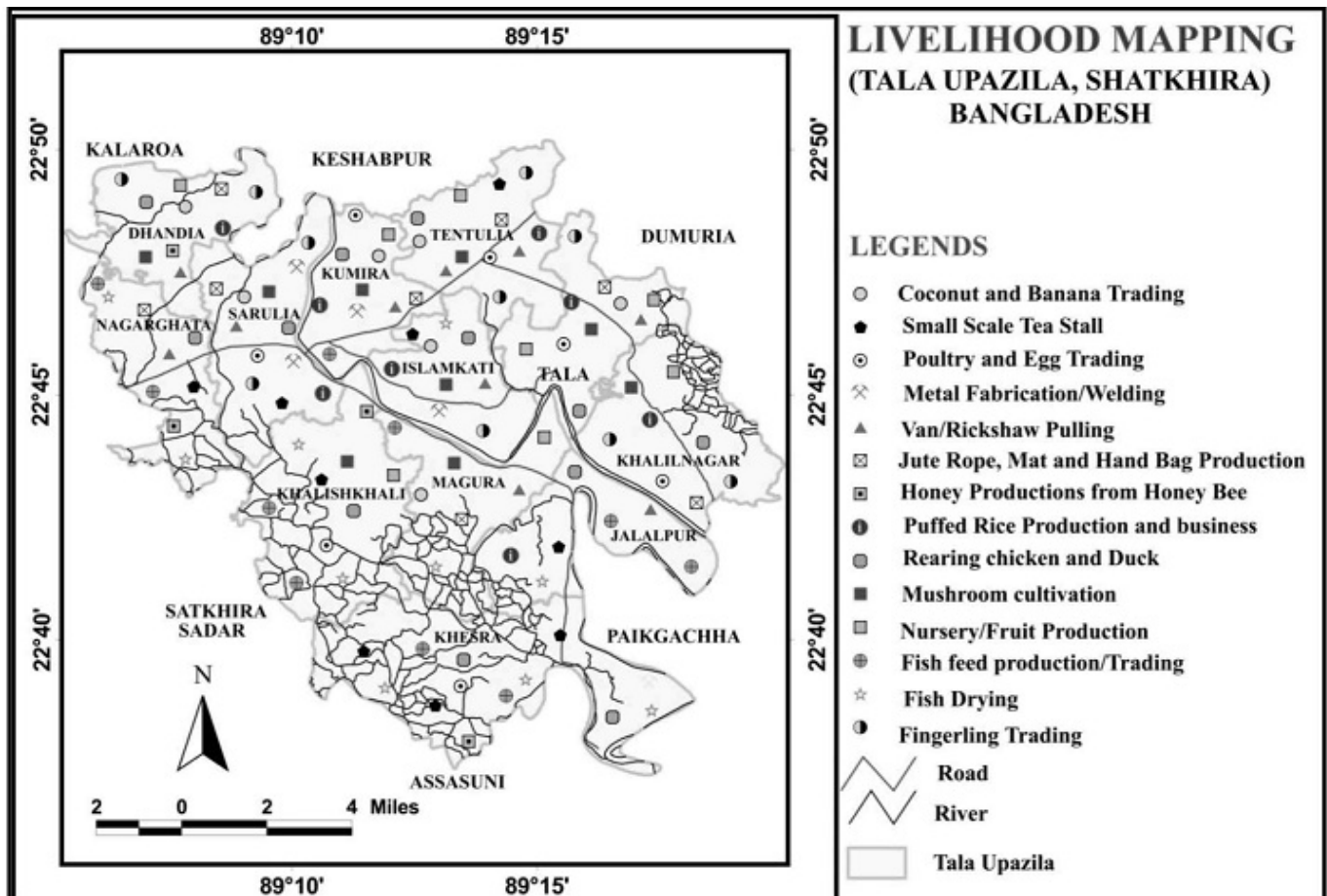
### Integrating income generating activities into the microcredit model

Two broad challenges stand in the way of making microcredit available to a significantly larger portion of the needy. The first is that there are so many poor people that require viable income generating activities (IGAs) within limited localities. The other challenge is that there are vulnerable people who are not able to handle funds independently. The author implemented a project based on integrating IGAs into microcredit programs.

In the Tala sub district of Satkhira in the south-west of Bangladesh, the author worked on a project addressing existing challenges of microcredit were addressed, which brought people together and helped them to identify IGAs. The project was implemented with the support of the UK Department for International Development (DFID) Shiree project and in conjunction with Uttaran, a leading local NGO involved in *Khas* land (government owned land) distribution to the landless in Khulna.

It was found while reviewing the poverty alleviation program that *khas* land transfer alone was not enough to alleviate poverty as most recipients, for one reason or another, lost that land within a short period of time. A comprehensive list of 300 potential IGAs was prepared by the NGO as a ready reference with high market potential in the area. This wide range of options was developed so as to reduce the risk of market saturation and competition. Three important criteria were considered to identify an IGA for inclusion in the list: (i) Market demand; (ii) Low operating budget (US\$175–180); (iii) user-friendly technology.

An important component of this new model is the drawing up of a new type of livelihood map.



The present model connects different income generating activities in a particular sub-district or even in a part of a

sub-district with resources available from NGOs or any other welfare institutions operating in that area. In order to avoid demand constraints or market saturation, project staff were trained to prepare a new type of livelihood map for the entire Upazila (sub-district). The analysis was conducted for each Union (the lowest administrative unit), using a Participatory Rural Appraisal (PRA) mapping technique.

Dots were placed on the map indicating the type of IGA that was considered suitable at a particular location. Sustainability risk factors such as flooding, water logging, river erosion, cyclones, drought, and pests were taken into account.

Under the commodity marketing approach, the main consideration was to identify locations suitable for selling specific types of goods. Locations included local markets, village shops, approach roads to the markets, intersections of local roads, school and college gates, Union Parishad office gates, other office building gates, local assembly places, gathering places, bus and truck stands, railway stations, river jetties, land offices and so on.

Commodities considered were fruit, vegetables, fish, toys, children's clothes, ladies items, books, hot foods, crackers, prepaid cell phone cards, and so on. Likewise, service selling IGAs included repairing shoes, umbrellas, vans and rickshaws, bicycles, and school bags etc. These various hawking and service IGAs were paired with a location, based on the potential or existing demand of a commodity or service ascertained through consultation with the local people. The process was somewhat different for IGAs involving production. A list of locations was prepared, identifying where land, water and forest-based IGAs were possible.

Water-based IGAs encompassed fish production, fish fry catching, crab production, duck rearing etc. Forest-based IGAs included production activities based on the collection of different raw materials from the forest like honey, plants, leaves, straw, firewood, and so on.

The information linking IGAs to localities was used to produce two different types of maps. The first kind showed the localities where a particular IGA was feasible. The other type approached it from the opposite direction, showing the different types of IGAs possible at any particular location.

The final crucial step involved is to match a specific beneficiary to a specific IGA from the list of location-specific IGAs shown on the livelihood map. IGAs were assigned to particular beneficiaries according to specific criteria, because if the income from an IGA is minimal and there is no justification for recommending that IGA to a household. Therefore, for each of the IGAs to be potentially feasible in the locality of the beneficiary household, the NGO worker and household calculate the projected per day income and the opportunity cost for the household. If daily income does not exceed daily needs, it is struck off the list. These calculations were also used to rank the potential of IGAs for the household in order to facilitate the best possible choice.

## **Microcredit Support**

Once a household was matched with an appropriate IGA or IGAs, continued technical and institutional support was needed. Credit was extended in order to implement the business plan as a sustainable, viable IGA. The stages, target, timing, loan amounts and interest rates/service charges were adjusted accordingly. The outcome of the project showed that microcredit could be expanded to the poorest by adopting an all-inclusive IGAs approach which can be fully integrated into the traditional microcredit banking system.

*Note: This article gives the views of the author, and not the position of the South Asia @ LSE blog, nor of the London School of Economics. Please read our [comments policy](#) before posting.*

## **About the Author**

**Dr. Kurshed Alam** is the Chairman, Bangladesh Institute of Social Research Trust (BISRT). He worked over 29 years as a senior consultant in many government departments, ADB and World Bank. He was a university teacher.

*He was involved in preparing the national plan for the country by the government of Bangladesh in 2008.*

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