RAPID GROWTH OF MICROCREDIT AND ITS DRIFT IN DEPTH OF OUTREACH TO THE POOREST OF THE POOR IN RURAL BANGLADESH

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Abstract

Some posit that as microfinance institutions increasingly pursue market-driven approaches to attain growth and self-sustainability, they experience drift in depth of outreach to the poorest of the poor. . During this process, microfinance institutions might find it optimal to reach out to wealthier clients while excluding poorer clients. Using cross-sectional household survey data at two points in time–2006 and 2009–from 128 villages of rural Bangladesh and applying wealth quintile at the household level as proxy for the depth of outreach, this article assesses the extent of this drift among microfinance institutions. Although the majority of the households reached with microcredit were above the poorest wealth quintile, the poorest were not lagging behind those of other higher wealth quintiles in terms of their participation rate in microcredit.

1 INTRODUCTION

Poverty-targeted microcredit, which extends financial services on the basis of lack of land ownership and low income of households, has now rapidly expanded in many developing countries with the potential to become sustainable without donor subsidies (Armendáriz and Morduch, 2007; MIX Market, 2010). The literature, that discusses the poverty alleviation mission of microcredit, looks at the change in the poverty level of the clients of microfinance institutions (MFIs), commonly referred to as depth of outreach; i.e., those with a higher proportion of loanees from the very poor have greater depth (Schreiner 2002). Large-scale

poverty reduction through financially sustainable institutions is the ultimate promise of microfinance. A stakeholder of microfinance places more weight on the poorest of the poor than on the 'less poor'. For example, since society places more value on the net gain from a small loan to a poorer person than on the same loan to a richer person, the more the gain for the former, the deeper the outreach of microcredit. Growth in the number of users of microcredit and its sustainability is not an end, but rather a means to the end of improved social welfare of the poor (Rhyne, 1998). In rural Bangladesh, one kind of 'minimalist microcredit', pioneered by Grameen Bank, entails little or no service beyond credit. This type of microcredit expanded rapidly among the poor in rural Bangladesh in the 1980s and 1990s (Zaman, 2004; MIX Market, 2010); Rutherford, 2010). Recently, however, concerns have been raised that while seeking to ensure sustainability, MFIs may experience drift—a deviation from the original purpose of reaching the poorest of the poor (Ghosh and VanTassel, 2008).1 This may happen because, in the pursuit of expanding the scale of operation (breadth) and self-sustainability, a rapidly growing MFI may neglect depth (Dicther and Harper, 2007; Hulme, 2008; Mersland and Strøm, 2010).

2 DIVERGENT THEORIES AND EMPIRICAL FINDINGS ON MICROCREDIT DRIFT

Divergent theories have developed regarding Microcredit drift. On the one hand, some theorists hypothesize that expanding the marketing of financial services in order to attain self-sustainability and financial viability leads to drift (Dichter and Harper, 2007; Rosenberg, 2007). This may happen because the cost of judging and managing loans increases as the income level of the borrowers decreases. On the other hand, others claim that a more market-driven approach to microfinance is necessary in order to generate more revenue to cover costs of serving a greater

number of poorer clients on a sustainable basis (Rhyne, 1998; Christen and Drake, 2002). The latter camp also posits that a market-driven approach is better able to serve poorer clients since its cost-recovery motive leads it to become more efficient, earn more revenue, and become more able to serve a growing number of the poor, including the poorest of the poor.

Previous studies on the outreach to microcredit clients in rural Bangladesh have yielded contradictory results. Some researchers found higher outreach to poorer households (Pitt and Khandker, 1998; Evans *et al.,* 1999; Khandker, 2005; Zeller and Jahannsen, 2006) while other studies found more outreach to the 'less poor' (Hulme and Mosley, 1996; 1999; Sebstad and Cohen, 2000; Amin *et al*., 2003). Most past studies were limited by small sample sizes and, since many predated the recent massive growth of MFIs, they were unable to take into account the effect that increased competition may have had on the outreach to poorer clients, particularly, the poorest of the poor (Hulme and Mosley, 1996; Evans *et al.,* 1999; Zaman, 1999; Amin *et al.,* 2003; Khandker, 2005). Thus, most studies have not examined recent trends to explore microcredit drift. Only one recent study, which used aggregate data of average loan size from Bangladesh and other developing countries as proxy for the depth of outreach, concluded that the MFIs had not moved away from reaching poorer clients (Cull *et al.,* 2007). However, while loan size can be customized to fit different financial needs of clients with different poverty levels, average loan size has been criticized as a very rough and inaccurate measure of depth (Hatch and Frederick, 1998; Schrenier, 2002). For example, an MFI could increase its loan size to older clients with strong repayment histories, prompting changes in its lending practices; however, these changes simply could reflect incentives to its older reliable clients, rather than any major shift from poorer clients to 'less poor' clients. Hence, there is a need to use alternative measures

of poverty at the household level to measure any weakening of the depth of microcredit (Mersland and Strøm, 2010). Past studies have used limited indicators of household income and land ownership size as proxies for poverty status (Hulme and Mosley, 1996; Zaman, 1999; Amin *et al*., 2003; Khandker, 2005). A more sophisticated wealth index, constructed from a variety of common household assets, could provide a better proxy for the poverty levels of a household (Rustein and Johnson, 2004).

During the past twenty years, there has been major growth and proliferation of micro-credit institutions but relatively little understanding of how this growth has affected depth and breadth of outreach(Zaman, 2004; PKSF, 2006; Rutherford, 2010; MIX Market, 2010). Among the larger MFIs, Association of Social Advancement (ASA) was the fastest growing MFI (Rutherford, 2010). Entering the microfinance field later with donor support, ASA had to compete with the large MFIs—Grameen Bank and Bangladesh Rural Advancement Committee (BRAC)—for a share of new clients (PKSF, 2006; Rutherford, 2010). Consequently, in order to get a competitive edge, ASA pursued an efficient microcredit programme, emphasizing institutional sustainability by recouping the costs of loan operations, and vigorously and efficiently pursuing innovative savings products (Rutherford, 2010). It accelerated interest-bearing loans and increased resources needed to extend its microcredit to a growing number of new clients throughout Bangladesh, including its remote areas (Jain and Moore, 2003; PKSF, 2006; Collins *et al.*, 2009; Rutherford, 2010). All this enabled ASA to become the fastest growing microcredit programme in Bangladesh, reaching about 6 million clients in 2008, up from 1.1 million in 1999 (Zaman, 2004; MIX Market, 2010; Rutherford, 2010).

On the other hand, Grameen Bank and BRAC, while continuing their initial products of microcredit, also introduced some changes in programme strategies that successfully surmounted many barriers to the growth of their microcredit and moved toward sustainability (Dowla and Barua, 2006; BRAC, 2006; Rutherford, 2010). These changes, together with their early lead in microcredit and higher profits from economies of scale, enabled both BRAC and Grameen Bank to expand their credit to multitudes of new clients throughout Bangladesh (BRAC, 2006; Zaman, 2004; Rutherford, 2010). By 2006, Grameen Bank had reached 6 million clients (Zaman, 2004; MIX Market, 2010). In 1999, BRAC had 2.6 million borrowers; by 2008, it reached about 6 million (Fernando, 2007; MIX Market, 2010). In addition to Grameen Bank, BRAC, and ASA, many new small MFIs also emerged in rural Bangladesh (Wright, 2000; Zaman, 2004; PKSF, 2006, Rutherford, 2010).2 While all these efforts at rapid expansion of microcredit were successful in providing microfinance services to a greater number of clients over time, it is not clear if this growth had negatively affected the depth of outreach to the poorest of the poor; that is, whether competition for clients and market-driven push for growth and sustainability has led to some exclusion of the poorest of the poor from microcredit relative to the 'less poor.'

Given these gaps in knowledge, this paper examines potential drift in microcredit outreach. Using data at two points in time—2006 and 2009—we assess if there was variation in the depth of microcredit outreach. The paper improves on earlier studies since it includes a variety of MFIs—both large and small—allowing us to examine possible drift within these MFIs. We determine the relative poverty status of households through the creation of a composite wealth index from a variety of common household assets (Khandker, 2005; Hishigsuren, 2007; Mersland and Strøm, 2010).

The remainder of this paper is organized as follows. Section 3 describes the study hypotheses, data, and methods. Section 4 describes the findings, and Section 5 gives conclusions.

3 THE STUDY HYPOTHESES, DATA, AND METHODS

Given the twin objectives of poverty alleviation and self-sustainability pursued by MFIs in Bangladesh, the present study addresses the following hypotheses:

1. Over time, an MFI will drift from reaching the poorest of the poor

2. A faster growing MFI will have a greater proportion of borrowers from the 'less poor' than will a slower growing one.

3.1 The Study Population and Sample

Over the past three decades, Grameen Bank has established branches in selected small towns and village market places in rural Bangladesh. In the last decade, it also initiated health centres in the vicinity of these branch offices. In 2005, there were 31 Grameen health centers, located in 31 Upazilas (sub-districts) in hree divisions of the country (Chittagong, Dhaka, and Rajshahi); of these 16 centres in Upazilas with the lowest reported coverage of microcredit were first selected. An enumeration was done of 24 villages in the vicinity directly outside each of the selected health centre catchment areas to find villages estimated to have less than 40-50% of households participating in microcredit. Eight villages with relatively low microcredit participation were then selected from the enumerated villages, with four villages in groups on opposite sides of the centres. The study villages were located 4-8 kilometers beyond these branch offices and thus can be considered remote from those small towns and village market places. A census of households

with adult women was conducted in all 128 villages to establish a sampling frame. From this census, households were categorized into three strata: (1) those not eligible for microcredit, as they owned more than 0.5 acres of land; (2) those eligible and had accessed microcredit, and (3) those eligible but had not accessed microcredit. For the baseline survey, a stratified random sample was taken within these strata in each village. The sample sizes chosen were: 4, 12, and 15 from strata (1), (2), and (3), respectively.

3.2 Data

The baseline survey was carried out in the 128 villages in 2006. A follow-up survey was conducted in 2009. In the baseline survey, a total of 3, 998 ever-married women and, in the follow-up survey, a total of 4, 181 ever-married women were surveyed. From the sample and census information, sampling weights were derived for each household and woman, and used in the analysis. Community and household information was collected from community leaders and heads of the households, respectively. For adult ever-married women, a women's questionnaire included information about the dates of credit group memberships with the names of MFIs, dates and amounts of microcredit taken, purposes of microcredit, actual use of the microcredit, and benefits and costs of microcredit. In the baseline survey, the household response rate was 91.3% and the eligible women's response rate was 98.7%. For the 'follow-up survey', the household response rate was 96.3% and eligible women's response rate was 97.3%.

Approval of the study was obtained from the Institutional Review Board of Johns Hopkins University and Bangladesh Medical Research Council. A professional survey agency conducted the survey using structured and pre-tested questionnaires and trained interviewers and supervisors.

3.3 Methods of Data Analysis

First, the participation in microcredit by the relative economic status of the households is examined. Relative economic status of households is determined through the creation of a wealth index. Wealth is assumed to be an underlying, theoretically measurable construct. It has been shown to be reliably assessed via a collection of indicators representing durable goods owned by the household, materials used in construction of the home, water and sanitation facilities and size of the home (Rutstein and Johnson, 2004). Instead of assigning equal weights to each of the indictors in the wealth index, principal components' analysis is employed, which yields a factor score for each household (Filmer and Pritchett, 2001). The assets are presence or absence of: Electricity; a wardrobe; table; chair; clock; bed; radio; television; bicycle; at least one of a motorcycle, sewing machine or telephone; brick, cement or tin walls; and a modern toilet or pit latrine. The resulting asset scores are ordered and used to divide the households into quintiles, representing their relative wealth with respect to other households in the study.

Borrowers in households were grouped according to their current membership in the following MFIs: (i) Grameen Bank, (ii) BRAC, (iii) ASA, and (iv) other MFIs. Each of these groups was represented with a relatively large number of borrowers, and the last group consisted of borrowers from several smaller MFIs.

To test the hypotheses, two tabulations were done. First, the percentage of those in each wealth quintile who belonged to any MFI in 2006 and the comparable percentage in 2009 were calculated. The differences in participation between 2006 and 2009 for those in each of the five wealth quintiles were calculated and tested with a z-test (3).

Second, for each MFI, the percentage distribution of borrowers by wealth quintiles was

tabulated. Again, the focus was on the poorest quintile and differences in percent distributions between 2006 and 2009 were tested.

To test hypothesis 1, the difference in percentages in the lowest quintile was tested with an adjusted F-test (FN). For hypothesis 2, the MFIs were collapsed into two groups a priori. The fastest growing MFI was ASA; Grameen Bank and BRAC together were considered slower growing and the proportion of borrowers in the poorest wealth quintile was tested between the two groups. We tested for equality of proportions of borrowers in the lowest wealth quintile for the two groups. This was done for 2006 and 2009 separately.[3]

4 RESULTS

Relative to levels of participation among the poorest, in both 2006 and 2009, there were lower microcredit participation rates by those in the top two wealth quintiles (Table 1). This is as expected since many in the top quintiles are not eligible for microcredit. In 2009, the poorest had the highest participation rate. Although there was a significant decrease in the participation rate of those in the 2nd and 3rd quintiles in 2009 (35% and 27%) compared with those in 2006, no such change was observed for the two richest quintiles.

Table 2 shows the percent distributions of borrowers by wealth quintiles for each MFI. Between 2006 and 2009, for the MFIs as a whole, no statistically significant decline in the percent of borrowers from the poorest quintile was observed. In 2006, ASA had a significantly greater proportion of its borrowers from the poorest quintile compared to Grameen and BRAC (not shown). There was no such significant difference in 2009.

5 CONCLUSION

The objective of this study was to assess whether poverty-targeted microcredit programmes experience drift from reaching the poorest of the poor as they increasingly pursue market-driven approaches to attain growth and self-sustainability. The assessment of drift was done by comparing microcredit participation rates by relative wealth and, between 2006 and 2009. Contrary to our hypothesis**,** no evidence of significant drift from microcredit outreach to the poorest of the poor compared with 'less poor' clients was found. Although not statistically significant, all the MFIs maintained a higher share of borrowers in the poorest quintile in 2009 compared with those in 2006, except ASA, which had slightly lower share in 2009. Both in 2006 and 2009, a majority of the borrowers of the MFIs were above the poorest quintile, a tendency also observed prior to the rapid growth of microcredit programmes in rural Bangladesh (Hulme and Mosley, 1996). Like previous studies, this study found no significant bypassing of the poorest clients compared with 'less poor' ones (Khandker 2005; Cull *et al.*, 2007).

The absence of any significant drift in the depth of outreach to the poorest of the poor in our study areas could be due to several reasons. First, the adherence to the original goal of poverty alleviation by the MFIs might have prevented any major drift (PKSF, 2006; Collins *et al.*, 2009; Rutherford, 2010). Not only are these MFIs non-profit institutions, but also none of them pursues profits by raising interest rates to the detriment of the inclusion of poorer clients (Collins *et al.*, 2009; Rutherford, 2010). All this may have created an operating and stakeholders' environment favorable to the poorer clients, preventing any substantial drift in depth of microcredit. This study shows that, instead of pursuing 'less poor clients' to the exclusion of the poorest, the MFIs continued to reach a mixture of both groups.

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Table 1: Percent of women participating in microcredit (and sample size) in 2006 and 2009 by wealth quintile for women in 128 villages of Bangladesh

Wealth quintile	Year of survey			
	2006		2009	
	Percent participating	Number of women	Percent participating	Number of women (weighted)
All quintiles	31.4	3736	27.8	1089
1st (poorest)	37.4	671	37.1	617
2nd	40.3	698	34.6*	723
3rd	37.4	696	26.7**	740
4th	26.9	736	25.7	853
5th (richest)	20.3	935	19.5	984

* $p<0.10$ for test of null hypothesis of no change

** $p < 0.05$ for same test

Table 2: Percent distribution of the borrowers by wealth quintile for selected MFIs in 128 villages of Bangladesh, 2006 and 2009

Wealth quintile	MFI and year									
	All MFIs		Grameen		BRAC		ASA		Other MFIs	
	2006	2009	2006	2009	2006	2009	2006	2009	2006	2009
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
No. of women	1448	1180	525	441	247	199	338	279	338	261
1st (poorest)	20.0	22.0	17.4	20.6	20.1	26.5	24.5	20.0	19.2	23.1
2nd	26.5	21.3	24.2	21.6	31.5	17.9	30.9	23.8	21.9	20.5
3rd	21.4	18.5	23.3	17.1	19.1	1 .2	21.1	26.2	20.8	16.1
4th	15.1	20.0	14.3	21.7	17.8	26.3	11.7	18.7	17.9	14.2

5th (richest)	17.1	18.2	20.9	19.0	11.4	15.2	11.9	11.4	20.2	26.3

* p<0.10 for test of null hypothesis of no change

** p < 0.05 for same test

*** p<0.01 for same test