Dimensions and dynamics of microfinance membership overlap – a micro study from Bangladesh

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The microfinance market of Bangladesh is getting rapidly crowded. In certain areas there is also quite high incidence of households taking loans from a number of microfinance providers. Why is this happening? How does it affect the providers? What should be done? These are some of the questions that this paper begins to address based on data collected from BRAC’s operations in Tangail.

We find that a number of crises often gives rise to an urgent need for lump sums of cash, and this is why households often need access to several loan sources. Though repayment irregularity is found to be on the increase, somehow it is being managed from turning into a major default problem, suggesting a level of in-built resilience of the system. This needs further research. In terms of what should be done, we chalk a broad agenda consisting of better information-sharing mechanisms and developing better risk-responsive financial products. In this sense, the phenomenon of multiple microfinance membership is as much an opportunity as it is a challenge.

The growth of the microfinance industry in Bangladesh especially during the 1990s has been very rapid. The situation now is such that it is quite common to have more than one microfinance provider operating in any given area. Indeed, a recent Bangladesh Institute of Development Studies (BIDS) study reports on the difficulty of finding ‘control’ villages without any microfinance institution (MFI) presence: in 95 per cent of the 80 study villages, more than one MFI was found to operate (Zohir, 2001). The Research and Evaluation Division (RED) of BRAC reports a similar situation: in a panel survey, 55 per cent of the control group households of BRAC’s 1st Phase (1990–93) impact assessment study were members of at least one MFI by 2001 (BRAC, 2001).

On the one hand, the availability of choice should be to the advantage of the clients, leading microfinance providers to be much more demand driven and responsive to issues such as client retention and searching for new markets and opportunities. Such moves, however, would require much innovation and careful market research for better product design to serve a much more differentiated market and matured group of clients. On the other hand, given the absence of any formal information sharing mechanism across institutions on delinquent clients, clients have more opportunities to behave strategically as the traditional repayment incentives based on peer pressure and expectations of future credit become less effective. The possibility of borrowing from several sources and making a run also increases (Rhyne and Christen, 1999; Navajas et al., 1998).

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What are the various ways in which such overlapping happens? What types of households are these? Is this leading to over-indebtedness? What are the implications for providers? These are some of the questions that this paper seeks to address, based on a micro-level study of all BRAC Village Organization (VO) member households in 9 villages of two upazillas in Tangail district.

We found that high levels of MFI concentration in certain pockets have led to quite alarming degrees of overlapping which occurs uniformly across the poverty groups. The repayment performance of the deficit households is worse than that of break-even or surplus households. The overall repayment performance shows a declining trend over time with increasing repayment irregularity. We have a situation where there is a difference between the individual MFI’s short-term optimal strategy and a collectively optimum one: in trying to attain its outreach and disbursement targets within the shortest possible time, each MFI may be adversely affecting itself and the others in the long run. The interdependence of the microfinance market in Bangladesh is quite strong given the similarity in lending technology and the target market. In such a market, effective mechanisms are needed for information sharing about clients between the various institutions. It is important to shift the focus from trying to prevent overlapping to calling for more information co-ordination among the providers.

We also found complex dynamics as to why and how a household chooses to borrow from multiple NGOs and how repayment is managed. What lies at the heart of these dynamics are a variety of shocks that gives rise to an urgent need for lump sums of cash. The dominant microcredit lending technology in Bangladesh is not well equipped to deal with such emergencies. MFIs should take the livelihood dynamics of the poor more seriously and design a more risk-responsive variety of financial products focusing more on the protective needs of the clients rather than just their requirement for business loans.

Methodology

The study was exploratory in nature, and concentrated on understanding the phenomenon of membership overlap by studying the loan-taking behaviour of BRAC members who had multiple NGO membership. We soon realized that this gave an underestimation of the extent of multiple-membership, as a household can be obtaining loans from multiple NGOs even if each of the NGO members borrows from only one NGO. We thus collected information on NGO membership of other household members of the BRAC client’s household. Instead of going for a large or representative sample, we opted for an area with a high prevalence of membership overlap, as we were mostly interested in examining the complexities of the dimensions and dynamics of the phenomenon. We found 27 NGO-MFIs operating in the study villages located in Tangail district. Tangail is known to be home of ‘microfinance entrepreneurship’: beside the national providers, there are some MFIs working mostly in the district and some only operating in a few upazillas of the district.

The sample respondents of the study were all current BRAC members. They belonged to BRAC’s Village Organizations (VO), which on average had 30 adult female members. There was one BRAC VO in each of the sample villages, and all the available VO members were included in the study sample, making the total sample size 240 households. We collected NGO participation and loan related information for the last three years.
from all the members of these 240 households.

The loan repayment status of borrowers (belonging to both BRAC only and overlapping households) has been classified into three groups: regular, irregular and defaulter. Regular borrowers are those who have paid the full amount of their instalments within the scheduled time for all their loan instalments except one or two. Irregular borrowers are those who have been regular in repaying a major portion of the loan instalments but have not been able to repay 10 to 25 per cent of the instalments. Defaulting borrowers are those who have stopped repaying altogether. We collected this information by examining the credit passbooks of the members.

Given the time and budgetary constraints, we could not collect consumption or income information for the households and thus do not have any income-based measure of poverty. However, we included in our questionnaire a poverty self-assessment measure based on food adequacy. This measure has been used in several other poverty studies and found to be a credible proxy measure of poverty (Rahman and Hossain, 1995).

**Dimensions and dynamics of multiple MFI membership: research findings**

In what ways are the overlapping households different? What are the factors driving a household’s decision to take the ‘overlap strategy’? Is overlapping a response to distress or to an opportunity? Is repayment performance affected by overlapping? These are important questions for a wide microfinance audience, and they have implications for programme strategy and policy.

Table 1 shows the average values for a number of variables between overlapping and BRAC-only households. The last column shows the results of a difference in means test. No significant differences in the socio-economic profile is observed between the two groups of households: although the BRAC-only category tends to include more landless,

| Table 1. Differences in means between BRAC-only and multiple MFI households |
|-------------------------------------------------|-----------------|-----------------|---------------------|
| Variable                                         | BRAC-Only HHs   | Overlapping HHs | T-value             |
| **Socio-economic profile**                       |                 |                 |                     |
| Land owned per HH (decimals)                     | 43.7            | 50.6            |                     |
| % of landless HHs                                | 12%             | 7%              |                     |
| % of chronically deficit HHs                     | 10%             | 8%              |                     |
| % of surplus HHs                                 | 50%             | 48%             |                     |
| **Demographic information**                      |                 |                 |                     |
| Number of adult females per HH                   | 0.80            | 1.54            | 3.37***             |
| % of female headed HHs                           | 15%             | 10%             |                     |
| Dependency ratio (No. of HH members of working age (15–50 years)/HH size) | 0.53 | 0.49 | 1.09 |
| **Loan-related information**                     |                 |                 |                     |
| Total loan amount per HH in the last 3 yrs       | Tk. 11,822      | Tk. 35,960      | 4.46***             |
| % of HHs with regular loan repayment             | 87%             | 70%             | 2.29**              |
As households borrow from more NGOs, their repayment performance declines.

lower average landownership, more chronically deficit (though not less surplus) households, the differences are not statistically significant. This similarity in the socio-economic profile is interesting as it suggests that a diverse group of households adopt the multiple membership strategy and no obvious constraint as far as socio-economic factors are concerned can be seen.

The demographic patterns of the two groups seem to differ, however. Though not significantly different, BRAC-only households have a larger share of female-headed households. It is to be expected that the difference between the two groups in terms of the number of adult females will be important as this is the core target group of most NGO-MFI's in Bangladesh: households rich in this 'resource' will tend to be more able to take on multiple membership.

Both the loan-related variables take significantly different values for the two groups. If a significant part of the multiple-memberships were non-credit type, then one would have expected a similar value between the two groups for total loan amount. This is not the case, suggesting that a large part of the multiple-memberships in our sample are credit sources. If we plot number of NGO memberships of the household against total loan taken, we get the relationship shown in Figure 1. Loan repayment performance of the multiple-membership group of households on average is also significantly worse than for BRAC-only households. A general declining trend is found between the number of NGOs a household is a member of and its overall repayment performance (Figure 2). This has important implications for the MFI's which we will discuss later.

The similarity of NGO participation and loan-taking intensity across the poverty groups is the main theme that emerges from the survey. We do not observe any discernible differences in multiple-membership across the various poverty groups: the average NGO membership per household of chronically deficit households is two, and this is not significantly different from the corresponding figure for other poverty groups. If anything, the total amount of loan taken by each household in the last three years is on average the highest for the chronically deficit households.

Figure 1. NGO membership intensity and loans (Tk.1000=$16.8)

Figure 2. NGO membership intensity and loan repayment regularity
This is almost Tk.50,000 ($840) for the chronically deficit households; about Tk.33,000 ($555) for the occasionally deficit households; about Tk.25,000 ($420) and about Tk.34,000 ($570) for the break-even and surplus households.

However, these groups are quite different from each other in terms of their loan repayment performance. We observe a general upward trend in repayment performance as we move up the land or poverty self-assessment groups (Figures 3 and 4). Households that borrow from multiple MFIs are more prone to have irregular repayment and thus pose more risk for the provider.

Clearly, multiple membership and chronic deficit status of the household adversely affects the regularity with which it is able to manage the loan instalments. We can see this more clearly if we construct a base case where the household is not chronic deficit and multiple-membered and compare it with alternative cases. We see how the probability of regular repayment decreases as we include chronic deficit and multiple NGO membership status (Table 2).

It appears that the poorer households face more difficulty in regularly managing the large instalments of the loans they take on from multiple NGOs. We can take a closer look at this difficulty. In our survey we asked about the difficulties faced in managing repayment and what adverse effect it had had; Figure 5 reveals the different tactics adopted by various poverty groups. The pattern we see suggests that chronic deficit households adopt more ‘hard options’ in managing the high levels of loan

<table>
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<th>Cases</th>
<th>Probability of paying on time</th>
<th>Change from base</th>
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<tr>
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<td>.89</td>
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<tr>
<td>HH not chronic deficit but multiple membered</td>
<td>.70</td>
<td>-21%</td>
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<tr>
<td>HH chronic deficit but not multiple membered</td>
<td>.69</td>
<td>-22%</td>
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<td>HH both chronic deficit and multiple membered</td>
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Poorer households tended to go without food when they had difficulty repaying loans on instalments: none of the chronic deficit households reported ‘no difficulties’ when asked about loan repayment difficulties. This is in sharp contrast to other poverty groups. Reduction in consumption was the predominant response of deficit households to managing loan repayment difficulties, but surplus households facing repayment difficulties do not use this strategy at all. The same is true for ‘increased borrowing’ as a response strategy to addressing repayment difficulties.

We also collected information on a household’s general repayment sources. This response disaggregated by poverty groups is shown in Figure 6. The importance of ‘income from loan activities’ as a source of loan repayment increases as one moves up the poverty groups. This is the most important source for all poverty groups except the chronic deficit households. For them ‘income from day labouring’ is the most important source and, as one would expect, the importance of this source decreases as we move up the poverty groups. ‘Money from other NGOs’, i.e. cross-financing as a general repayment strategy was interestingly another common response, especially reported by the deficit households.

The various trends and the differences across poverty groups we get from analysing our data can now be summarized:

- Chronic deficit households participate and borrow from NGO-MFIs to the same degree as other poverty groups.
- They repay less regularly than other poverty groups.
- Poorer households need to use ‘hard options’ much more to manage their repayments generally, and during lean periods in particular.
- They face more difficulties in repaying, and manage it through reducing consumption and further borrowing.

What drives a household to choose the multiple-NGO borrowing strategy? In general, one can think of a range of reasons from emergencies to economic opportunities that makes a household take up multiple membership. It is possible to start from an opportunity-driven multiple membership strategy, for example to fund enterprise expansion, but end up with a distress-based strategy, driven for instance by business failure or crises such as illness. We carried out a number of case studies to understand the various dynamics related to multiple microfinance membership
strategy adopted by household members. It appears that for deficit households, distress management is the reason for multiple borrowing (see the example in Box 3), while for better-off households multiple borrowing is mostly opportunity driven (see Box 1). The main supply-side challenge is that the lending technology fails to distinguish between the two types of clients and offers uniform products. We turn to this theme next.

The supply-side implications

There are two versions of the supply-side implications: one simple and the other complex. Let us first start with the simple story, which focuses on the institution. We have already laid the foundations for this in the previous section.

We found that poorer households participate and borrow from multiple sources as much as other groups but they face far more difficulties in managing regular repayment: the simple interpretation of this is that they are being over-indebted due to the irresponsible lending of the providers. The solution would be for the providers to exercise more caution when lending; setting up a credit bureau-type of institution may facilitate this through more systematic sharing of information. To be sure, there are important issues that would need to be tackled relating to the types of information that need to be shared, incentives for information disclosure to other providers, and the challenge of maintaining an up-to-date information database including providers whose management information systems are ill equipped. But the problem is clear: it is essentially about managing the threat of clients biting off more than they can chew.

Now, we turn to the complex version of the story. In the simple version, the providers are not that interested in asking the question, ‘why are clients taking multiple loans?’ – but this is the basis of the complex story. It is clear from our case studies that multiple-loan taking by households is driven by a variety of forces and there are often reverse dynamics due to shocks. Coping with these shocks often requires a quick lump sum. This is not easy given the lending technology of most providers in Bangladesh. Such loans require fixed regular repayments and one-year long loans, with the interest rate calculation making it costly to repay early to take a repeat loan before the year is up. This often means that multiple membership becomes the only alternative for many, and especially the poorer households. For better-off households, rich both in physical and social

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Lenders seldom offer products that help with distress management as well as business investments

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Box 1. Driven by new opportunities: the popular stories we like to tell

Kabita, age 34, is a mother of three sons. Her husband is a small businessman dealing with cane and mats. Several years ago when her husband started the business, there was no NGO in her village. Since his business required a lot of money, he used to borrow money from the village mahajans, paying an interest of 5 per cent per month. The repayment conditions required him to repay the entire money at one time. She took a loan from the Grameen Bank, which was used by her husband for business. Her eldest son used to work in a shop. He told his mother that if she could give him the money he would be able to start a business. He would go to Sylhet, buy cane there and sell it in Kalihati market. Since she already had a loan from the Grameen and knew that she would not get a second loan as the previous one had not been completely repaid, she decided to take a loan for her son from BRAC. Today her husband along with two of her sons is successfully carrying out the cane business and she makes cane mats at home.
capital, such steps may not be necessary. The alternative to multiple loan-taking for many poorer households could simply be to do nothing and live with the crisis, or take on more expensive coping mechanisms: the poverty consequences for both of these can be quite severe.

However, it should also be noted that taking loans from multiple sources to cope with crises is essentially a risk-prevention mechanism – not necessarily a risk-coping one. When the crisis occurs, it is not easy to join another NGO and take a loan quickly, even if there are many NGOs around. There are a number of barriers, such as having ‘empty space’ in the NGO group, the saving requirement and so on. All this means that joining multiple NGOs is often driven by risk-prevention consideration. This came out quite clearly during our focus group discussions.

We also noted that the repayment performance of the poorer clients is less regular than the better off. This is an obvious relationship and would

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**Box 2. Building a repayment strategy that (just about) worked**

Khadija is currently the president of a BRAC Village Organization (VO). Besides BRAC, she is also a member of Proshika. There are 10 members in her family and five of them are NGO members. One of her daughters is a member of two NGOs. She keeps herself busy with household work. Her husband is engaged as a small farmer. Two of her children are in service. During the last three years she has taken six loans from BRAC (Tk.8000) and Proshika (Tk.64 000) and her son has taken one loan in the current year from Proshika (Tk.3000). These loans went to purchase a baby taxi, releasing a piece of mortgaged land, agricultural activities, business, house construction and medical treatment for her injured son. Five loans were paid regularly and two irregularly. When her son was injured in a road accident she had to raise and collect money for his treatment and was forced to stop payment of loan instalments for four months. After she bought a second-hand baby taxi for her son with another Proshika loan, she became irregular in repaying its instalments. She had used up most of her savings to buy spare parts for the baby taxi. Although she faced difficulties temporarily in repaying her loan instalments, she eventually repaid all the loans. This has been possible because of a steady source of income from agriculture (her husband owns 172 decimals of land) and the salary income of her two children who are in service.

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**Box 3. A costly and unsustainable strategy … but what were the alternatives?**

Marium is a multiple borrower from both BRAC and Grameen Bank. Her husband and son both work as day labourers, and this is their main source of income. Her husband gets work for about five months on quite a regular basis and her son works occasionally. They regularly face food deficits. Last year her husband faced a financial crisis arising from her daughter's marriage and an operation to remove a gallstone. She took seven loans from BRAC (Tk. 9000) and Grameen Bank (Tk.72 000) over the last three years. During that time she also took loans intermittently from the money-lenders totalling Tk.41 000 at an interest rate of 4 per cent a month. The loans from the MFIs were spent repaying the moneylender's loan, refinancing a loan, repaying an NGO loan, consumption, house construction and also for onlending to another borrower. She failed to repay two loans, irregularly paid one loan and regularly paid four loans. The reason she could pay the four loans regularly was that these repayments were made in 1997–98 and 1998–99, when she was borrowing from the money-lenders. Her current loan status is bad, as she has stopped repaying instalments of two loans and has been irregularly repaying instalment of another loan. Above all, she has to repay the loan taken from the moneylenders, which is increasing every day. She has reduced her household expenditure, including consumption.
Microfinance leaves a large part of poor people’s financial needs unserved.

Repayments are becoming more irregular, but there is still very little eventual default.

Microfinance leaves a large part of poor people’s financial needs unserved.

be seen as almost axiomatic according to the simple version of the story. However, for the complex version, what is interesting is the repayment strategies and what they say about the products, their use and relationships with the livelihoods of the poor. Households tend to adopt mixed repayment strategies; there are very few cases where the household is not repaying any of the loans taken. The usual pattern is one where some of the loans are repaid regularly while the others are repaid irregularly: this is true even for better-off households, but more so for poorer ones.

Interestingly, we observed an apparent ‘instability’ by which households switched strategies between sources: a household repaying one NGO regularly and another irregularly at one time suddenly changes strategy later. This partitioning of loans and adopting different repayment strategies for them we believe is not random but a conscious strategy undertaken for a variety of reasons ranging from crisis management to preparing for an imminent opportunity. To be sure, there could be supply-side forces at work as well. In general, it is both an outcome of certain rigidities of the microfinancial products and mechanisms on offer and of the livelihood opportunities and constraints of the poor.

Even in terms of repayment, we observe significant irregularities, but very little eventual default. To be sure, such irregularities can be interpreted as early warning signs of which providers will do well to take heed. We see some indications that this is already happening: several of the major microfinance providers have become much more cautious in terms of repeat loan size increases (Wright et al., 2001; RDP, 2001). A nationally representative study conducted by PKSF-BIDS argues that the net drop-out rate of about 6 per cent from the entire microfinance system over 1996–2000 could be due to a more cautious screening by the microfinance institutions (Zohir, 2001). But what is more interesting is the internal resilience of the microfinance system: there seem to be mechanisms in place through which short-term irregularity is managed and prevented from getting out of hand in the long run. The PKSF-BIDS study finds that though the percentage of borrowers who are overdue with their repayments for a short time is quite high, the long-term incidence of overdue repayment is very low. We need to understand the mechanisms by which short-term fluctuations are prevented from becoming major long-term crises better.

In terms of an action agenda, the complex story highlights how limited and rigid are the range of financial products, and it suggests the need for a protective as well as a promotional vision. It also draws attention to the role of multiple borrowing as a risk-prevention mechanism against the myriad web of shocks and vulnerabilities faced by the poor.

Conclusion

The microfinancial market in Bangladesh is getting crowded and probably reaching the limits of simple horizontal expansion (Zohir, 2001). Yet the microfinance technology has not changed much over the years (Matin, et al, 1999; Rutherford, 2000). It is perfectly honed towards serving a small part of poor people’s financial service needs, but it leaves a large range of other needs of existing clients and new markets unserved.

There have been mainly two responses to this so far: one involves taking steps to prevent multiple membership from happening, such as asking the multiple-member client to make a choice between providers. This perspective fails to view overlapping as an active household strategy to meet certain livelihood ends. The other response, mostly driven by the Latin
American microfinancial experience, views the phenomenon merely as a missing information market problem. Credit bureaux can be seem as possible solutions to this problem. There are obvious prior challenges that need to be attended to before such an information collecting mechanism could be developed, not least because Bangladesh, like many other developing countries, does not have any national identification system.

We argue that the traditional notion of overlapping that takes the client as the unit underestimates the real incidence, which is better measured at the household level. If overlapping at the household level is a more relevant information unit than at the level of the individual client, it poses new challenges for credit information bureau. Collecting individual level information on NGO loan taking is one thing, doing so at the level of the household, is another.

Poorer households often take out multiple loans as a strategy of risk-prevention. Yet, microfinance institutions in Bangladesh view their product as essentially a business loan, evidenced by the almost interchangeable use of the terms microcredit and income generation. The problem is that given its design as essentially a livelihood-promotion product focused on opportunity needs, quite clever secondary financial intermediation is needed to adapt the business loan for other financial service needs, such as an emergency or life cycle event. Such secondary financial intermediation often means expensive borrowing from the informal credit market or other NGOs, when possible – and poorer households may have to rely on much more expensive forms compared to the better-off people.

Multiple-membership calls not only for creating arrangements such as credit bureaux, but also for more concrete advances in providing protective financial services while diversifying the range of promotional ones. In this sense, it is an opportunity as much as a challenge.


