*Micro*Save Briefing Notes on Grameen II # 6

Membership in Bangladeshi MFIs: growing, volatile, and multiple

Stuart Rutherford

For an introduction to Grameen II, please see the first Note in this series, 'What is Grameen II?'[1] For more information on the growth and structure of Grameen's own membership please see Note #5.

New light on an old problem

Estimating the number of Bangladesh's microfinance clients (known almost always as 'members') has never been easy in an industry that lacks a credit bureau or other reliable way of tracking users of financial services. Simply adding up the member numbers reported by the MFIs themselves leads to gross over-reporting, because MFIs may exaggerate their numbers, because they rarely distinguish accurately between active, inactive and lapsed members, and because such a method takes no account of multiple membership in two or more MFIs. Understanding multiple membership is made harder still by the fact that many MFIs (including Grameen) officially outlaw membership in other MFIs, leading to its under-reporting. And because MFIs usually expect their members to borrow continuously, we have little information on how many MFI account holders are in fact savers rather than borrowers.

This Briefing Note cannot dissolve this uncertainty. But it can use data from the 'financial diaries' element of the Grameen II study to examine the growth, volatility and multiplicity of MFI membership among a small number of villagers whose financial activities we tracked carefully for up to three full years (end 2002 to end 2005)[2]. We can show why these diarists made the decisions that they did about joining, using and leaving MFIs.

Our diarists

Our diarists were a carefully selected set of men and women from 53 households in neighbourhoods served by the three 'sample Grameen branches' of our study. They were all chosen because of their relationship with Grameen: half of them (27 diarists) were Grameen members when we met them: mostly well-established members, but also some recently joined ones, and some who had been in trouble with their loans and held 'flexi' (rescheduled) loans. Another 11 were chosen because they were *not* members of Grameen but held membership in other MFIs. Of these, 7 had formerly been in Grameen membership, and our sample included a further 4 who were 'ex-Grameen' but not at the time in any other MFI. Fifteen of our sample were not at the time in any MFI, and of these 10 had never been. These 10 who had never been in MFI membership included 4 from wealthy households of the sort that MFIs prefer to exclude from membership, and 3 from very poor households of the kind that MFIs have had difficulty reaching down to. Note that *none* of our diarists were chosen because they held membership in more than one MFI – though we learned later that several did.

Our diarists were interviewed at least twice a month, and sometimes more frequently, by researchers from their localities trained to gain their confidence. Even so, it often took several weeks before important facts – including all memberships in MFIs – emerged. Our experience therefore suggests that conventional one-interview surveys of financial service use are likely to encounter serious under- or misreporting.

Analysis of the MFI memberships of these 53 diarists shows good growth, high volatility, and multiple-membership rates well above those usually reported.

Growth

Our first table shows memberships of MFIs (all, including Grameen) held by various sub-groups of diarists at opening and closing of our 3-years of study.

Table 1: growth rates, MFI membership

Description	MFI memberships held: at start	at close	change
46 diarists who have ever held any MFI membership	57	69	+21%
31 diarists who held GB membership at close of research	37	54	+46%
22 diarists who held GB membership throughout research	31	36	+16%
27 diarists who held GB membership at start of research	43	41	-5%
10 diarists who had never held any membership at start of research	0	6	n/a

The overall picture comes as no surprise: growth in MFI activity has been strong this century, with all the MFIs that are very large (1 million or more clients) or large (half million or more) engaging in vigorous expansion and competition. In our sample, growth was fastest among the 31 diarists that held Grameen membership at the close of the research: of these, 11 diarists joined Grameen during the research, easily offsetting the 3 who *left* Grameen during the research, and 14 diarists joined other MFIs (sometimes more than one) during the research, easily outnumbering the 8 that left other MFIs in the same period. These diarists come from what we might call the 'MFI-aware' – folk who understand how

[1] All Notes in this series are based upon the research project 'Grameen II: A Grounded View' commissioned by ***MicroSave*** from a team led by Stuart Rutherford. We are grateful to the bank for the support given to the researchers.

[2] For more on the 'financial diaries' see the study's terminal report 'Grameen II: the First Five Years' (on the ***MicroSave*** website) and www.financialdiaries.com

MFIs work, and how to join and use the services quickly. They join for many and often multiple reasons – for investment in businesses and farming or to raise capital for sending labour abroad or to pay for marriage alliances, for everyday money-management, and to save. This 'MFI-aware' category is growing by adding newcomers to microfinance: the table shows how the 10 diarists who had never held MFI membership at the start of our research held 6 memberships three years later. They include a woman from a very poor household who found that MFI competition suddenly made her much more desirable to the MFIs than she had been before and who joined both Grameen and BRAC; a man from a rich household who had disdained and criticised MFIs when we first met him but who sent his wife off to join Grameen and open the attractively-priced GPS commitment savings plan as soon as he heard of it, and who himself joined another MFI to take loans when he found he didn't actually have to attend weekly meetings.

The only sub-set of diarists who recorded a reduced total of MFI memberships during the research are the 27 diarists who were Grameen members when we started. Seven of them left Grameen during the research, 3 because they moved out of the area (one abroad, one to Dhaka, and one just disappeared). Two left because they suffered a downturn in their income and couldn't manage the weekly repayments – of these one then rejoined after a private loan had allowed them to reinvest in a vehicle. One left to preserve her substantial Grameen savings: she feared that if she was unable to make loan payments her savings might be confiscated, but a worker later persuaded her to rejoin. One is an 'MFI junkie' – forever joining, leaving and rejoining MFIs.

Volatility

Alongside this growth comes considerable 'volatility' - shifting between MFIs. Table 2 shows what the 46 diarists who have ever held any kind of MFI membership got up to during the 3 years of the research.

Table 2: 46 diarists' volatility during the 3-year research period

	Number	%
Joined (or rejoined) Grameen	12	26%
Joined (or rejoined) other MFIs	21	46%
Left Grameen (may have later rejoined)	9	20%
Left other MFIs (may have rejoined later)	14	30%

Almost half of them joined or rejoined at least one non-Grameen MFI and a quarter joined or rejoined Grameen. Meanwhile, a third left at least one non-Grameen MFI and a fifth left Grameen. Several diarists are of course represented in more than one of these categories, but 31 diarists – fully two thirds of them – joined either Grameen and/or another MFI in the period, and 22 – almost half – left either Grameen and/or at least one other MFI. The total number of memberships (as opposed to members) created during the period by these 46 diarists was 40, and the total number of memberships closed was 27.

Observers who have followed the consequences of escalating competition between MFIs will not be very surprised by these numbers. Field staff are under pressure to recruit quickly, so waiting time to join a group has been reduced to zero and waiting time for the first loan to one week or less. A blind eye is turned to existing memberships in other MFIs. Memberships are now 'hard sells' with staff promising enticing future prospects – such as big 'microenterprise' loans, high-reward savings instruments, and special loans and grants for social purposes like education.

Multiple membership

Figures for multiple membership are summarised in table 3. They show that for Grameen the incidence of multiple membership is growing rapidly and has now reached over 60% for our sample. Multiple membership in general, (not just for Grameen members) looks to be growing just as fast, though from a lower base.

	Table 3: multiple membership	**at start**	**at close**
A	Diarists with Grameen membership	27	31
B	Of whom, those holding membership in at least one other MFI	11	19
C	'B' as proportion of 'A'	41%	61%
D	Diarists who had ever held MFI membership	43	46
E	Of whom, those holding membership in at least two MFIs	14	22
F	'E' as proportion of 'D'	33%	48%

Regional variation

Two of our three measures – growth and multiple membership – are similar in areas served by all three of our sample branches. Volatility is lowest in the villages served by the sample branch with the best record for loan portfolio quality and savings mobilisation and the least intensity of competition from other MFIs. It is higher in the sample branch in a comparatively wealthy location close to Dhaka where the branch faces intense competition, and highest in the poorest and most isolated branch area, where loan repayment rates and savings mobilisation are the least successful but competition between MFIs is strong.

Conclusions

Our sample is small and shows considerable regional variation. But the quality of our data is unusually high, because of the intense effort over three years to understand precisely what our 'diarists' did, and why. With some confidence, then, we conclude that:

- Growth in membership has been rapid for Grameen and other MFIs in the three years 2003-2005
- Multiple membership, by 2002 already at the high end of estimates made by observers, has accelerated recently and may reach as high as 60% of members for some Grameen branches
- Volatility of membership (frequent opening and closing of accounts with numerous MFIs) is already high and is growing higher, perhaps highest of all in areas characterised by both poor economic performance and strong competition between MFIs.