*Micro*Save Briefing Notes on Grameen II # 7

Uses and users of MFI loans in Bangladesh

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For an introduction to Grameen II, please see the first Note in this series, 'What is Grameen II?'[1] For additional background on the economy and demography of households described in this note, please see Note 8 in this series.

Following the money

Our use in the Grameen II study of the 'financial diaries' methodology provides unusual and valuable insights into how MFI loans are actually used, and why. This is because we tracked the day-to-day activities of a number of village households over two or three years in great detail, helping them to construct 'diaries' of their financial lives. Unlike questionnaire-based surveys, and unlike rival ways of using case-studies, which depend on recall by the interviewees, our method let us watch as people struggled to decide what to use their loans for, and then dealt with the consequences of their choices.

Our diarists[2]

Our diarists are from 53 households in neighbourhoods served by the three 'sample Grameen branches' of our study. They were interviewed at least twice a month, most for three years but some for only two years, by local researchers trained to gain their confidence.

Half of the diarists (27 of them) were Grameen members when we met them. Another 11 were chosen because they were *not* members of Grameen but were in other MFIs. Fifteen of our sample were not, at the time we met them, in any MFI, and of these 10 had never been. But the growth of MFIs in Bangladesh has been rapid since then, so three years later only 12 diarists were not using an MFI and only 7 never had.

A big part of their portfolios

Forty-three of our diarists used at least one MFI loan during the three years of the diary research[3]. If we count all the MFI loans that they held when we met them, and all those they took during the research, they used between them 239 MFI loans with a total disbursed value of 2.34 million taka (about US$39,000 at the average exchange rate for the period). This is an average of $910 for each borrowing diarist. The average disbursed value of the individual loans was $165 (with a median of $120).

Impressive though these numbers are, they represent only a part of all their borrowing, since they were also borrowing from their families, and from savings clubs, neighbours, moneylenders, and even a little from banks. Our 'diary' technique allows us to compare these sources for all 53[4] of our diarists, as shown in table 1.

Table 1: total disbursed value of loans, by source, 53 diarists (all loans outstanding at start of period, and taken during period)	**US$** at $ = 60 taka
Interest-free loans from family & neighbours	15,989
Credit advanced by shop-keepers	1,692
Loans on interest from family, neighbours & moneylenders	9,033
Loans from savings-and-loan clubs	2,468
Loans from formal banks	2,167
Loans from MFIs (including Grameen)	39,668
Total	**71,099**

MFIs, then, supplied comfortably more than half (almost 56%) of all loans taken by these 53 households, though all of them also borrowed from one or more other sources. This large MFI share suggests an advance over the situation in 1999-2000, when the same author used 'financial diaries' to study another small group of Bangladeshi households. The samples in the two studies were selected using different criteria and cannot be compared directly, but in both cases MFIs had reached a high proportion of the sample. In the earlier study, however, the MFIs provided a much smaller share of all borrowing done by the diarists. Grameen's 'top-up' system (described overleaf) may be responsible for much of this change.

The uses…

As shown in table 2, we sorted the 239 MFI loans used by the 43 MFI borrowers into six main categories.

Table 2: Number and disbursed value of MFI loans, by use category: n = 239 MFI loans used by 43 MFI borrowers

	Number	**US$**
Stock for retail or trading businesses and crafts	75	15,231
Asset acquisition and/or maintenance	37	5,583
On-lending to others outside the household	27	5,764
Paying down other debt	25	3,413
Consumption	18	1,425
Mixed uses	55	7,535
Total	**237**	**38,951**

Note: the 2 loans unaccounted for were placed into savings instruments

[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

[3] Of the 53 diarists in all, 7 never joined an MFI and another 3 saved but never borrowed from their MFIs.

[4] 53, since all ten diarists who did not borrow from MFIs did borrow from other sources

We were able to allocate most loans to a single broad category of use, but the 55 in the 'mixed' category were clearly split between various uses. Of these, 35 (almost two-thirds) included a large share for 'consumption'; 30 (a little over half) included a large share for paying down other debt; and 26 (just under half) included some kind of investment (in assets or in business stock) as an important use. So a typical 'mixed use' loan might be '$150, of which $30 used for food, $70 for repairing the house, and $50 for repaying other debt.'

Strictly speaking, an even larger proportion of loans had mixed uses, not only because of the natural tendency to spend a little of a new loan on treats[5], but also for the important reason that since most MFIs require that repayments begin the week following disbursement, it is still very common for households to hold back enough of the loan principal to service these weekly repayments, especially in the early weeks of the loan.

Our 'asset' category is broad, and includes the purchase, mortgaging-in or leasing-in of real estate, house construction and repair, and the purchase or repair of a wide range of vehicles and boats, farm or business equipment, and tools for trades like carpentry.

Most MFI members are women, and many hand their loans to husbands sons or brothers to use. We have allocated such loans to the category of its final use, and not to the large 'on-lending' category. The on-lending category is only for loans that were lent to people outside the household. The on-lending may or may not be on interest. More and more commonly, MFI loans are on-lent with the requirement that the borrower respect the MFI's weekly repayment schedule.

The debt repayment category does not normally indicate over-indebtedness in a household. As explained in our report '*Grameen II: The First Five Years*' MFI loans are often used to service other loans which have been invested in productive business, health or welfare needs. This helps explain why health needs and marriage costs appear less often in the 'consumption' category for MFI loans than they do for private loans: these needs are often met in the first place by more flexible private debt, and then refinanced from the MFI loans.

Average disbursed loan sizes vary with the category. Loans that are used for business or are on-lent, are the biggest (averaging around $200): loans for assets average $150, 'mixed loans' and 'debt repayment' a little less, and consumption loans the smallest, at $80.

And the users…

Some uses are associated strongly with particular kinds of users. For example, six borrowers were responsible for $11,810 – three-quarters – of the value of loans in the biggest category, 'business', and between them took two-thirds of all loans issued in that category. Thus, although business was the most common use of loans measured by the number of loans and their value, it was *not* the most common when measured by the number of borrowers involved. More borrowers took loans for mixed uses, and for assets, than for business purposes.

The six households who dominate the business category all have well-established retail or trading businesses and borrow as often as they are allowed, to buy stock. For several of them, Grameen II's introduction of the loan 'top-up' system (under which, part way through repaying a loan, you can re-borrow the value of repayments already made) is a boon. Often, they take capital from several MFIs. One cattle trader, for example, has a Grameen basic loan which he (or rather his wife) tops up every six months, taking around $100 each time, and has concurrent loans of up to twice that value from both ASA and BURO, two other MFIs. The user who has taken more loans, of a higher total value, than anyone else in the sample, runs a well-stocked grocery store: during the 3 years of the research he borrowed $4,580 in 15 loans from 3 providers (Grameen, ASA and *Safe*Save), the biggest being a $1,670 'special investment loan' from Grameen.

Another rather 'concentrated' category is on-lending. Just 3 borrowers are responsible for two-thirds of the value of loans in this category, so we can learn something about this behaviour by studying them. One is woman whose husband works abroad. While he is away, she prefers to retain her membership in two MFIs (not including Grameen) but, since she cannot utilise the loans herself, she on-lends them all to her husband's brother who lives in the same village. Another is a woman who acts as a neighbourhood moneylender, having started this when her husband was abroad and was remitting money to her regularly. He is now back home, but his wife continues to lend locally from loans she takes from Grameen and one other MFI. She is also an excellent saver, with a large balance in her Grameen pension scheme. The third of these on-lenders is a quite different case: she is a poor woman, housebound with arthritis, who holds membership in several MFIs and on-lends the loans partly to maintain her creditworthiness and partly to maintain her social life.

Diversity and concentration

The most striking finding of this brief review is the diversity of uses on display, set against the concentration of some uses among distinct types of users.

Thus, on the one hand it is clear that an early hope of MFI lending – that virtually every loan would be invested in a microenterprise – has not come about. On the other hand, businesses and asset-investment uses are responsible for more than half the value of loans disbursed, though concentrated among the minority of borrowers well-placed to use them in this way.

Some readers may also be surprised at the high levels of on-lending we found, but reassured by seeing that this behaviour is rational and well-adapted to the particular and diverse needs of the borrowers.

[5] Loans are commonly disbursed in cash, often in small-denomination bills