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Consideration in the Placement and Outreach of Microfinance Organizations: The Case of ASA, BRAC, and PROSHIKA in Bangladesh

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Background

Governments, policymakers, and donors attach a great deal of importance to poverty outreach—the extent to which MFIs serve poor and disadvantaged locations—when evaluating microfinance institutions (MFIs). One may ask why this consideration is important. First, for many policymakers and planners, regional or area-specific growth and equity outcomes are important. Second, there is a widespread but implicit assumption that because MFIs serve the poor, by implication they serve the poor everywhere, but this cannot be taken for granted. As with most other industries, the very nature of the products and technology, and the constellation of incentives within MFIs may be such that certain locations are systematically favored while others are systematically avoided. Studies of the location of services by commercial banks in Bangladesh and India find that they generally favor economically well-endowed areas. Is this the case with MFIs as well? For example, what kinds of tensions arise between organizational goals, performance standards, and operational requirements, and how do these affect placement of branches? Once branches have been established, are levels of client coverage similar across branches? What factors drive the differences? Answers to such questions assist policymakers and project managers to recognize operational constraints and improve product design and service delivery. Third, a better knowledge of the determinants of placement assists in disentangling program effects from location effects and hence becomes useful in the assessment of the impact of credit programs.

Institutions and Data

With the above considerations in mind, IFPRI undertook a study of the service placement of three major NGOs in Bangladesh: the Association of Social Advancement (ASA), the Bangladesh Rural Advancement Committee (BRAC), and Proshika Manobik Unnayan Kendra (PROSHIKA). All three institutions have large nationwide networks of branches and provide credit on the basis of group liability to a closely targeted population consisting of poor households.

Three-hundred-and-ninety-one *thanas* from all over Bangladesh were considered for the study. Data on the *thana*-wide existence of branches of three institutions and their client density (number of clients per 1,000 persons in the *thana*) were collected for the year 1994 and then mapped on *thana*-wide indicators of poverty level and infrastructure to discern placement. These indicators were collected from statistical yearbooks published by the Bangladesh Bureau of Statistics and from Helen Keller International in Dhaka.

Considerations in Placement Decisions

Since profit making is not the principal aim of the NGOs, standard economic principles provide little guidance in analyzing determinants of their service placement rules. However, two important pointers are available. First, all three NGOs came into being principally in response to the challenge of delivering basic social services to an impoverished population that had been devastated by war. Second, all three NGOs received—or continue to receive—funding from governments and donors, and are likely to be bound by various conditions related primarily to maintaining minimum standards of financial performance (e.g., caps on delinquency rates and administrative costs) and of positive program impact. These conditions led the authors to hypothesize that there are four expected determinants of branch placement and client coverage that can be empirically tested using the collected data.

1. ***Poverty-targeting***. All three NGOs claim to be guided, first and foremost, by a common mission to serve the poorest in the rural areas. All three

RESEARCH PROGRAM MISSION

The research program titled Rural Financial Policies for Food Security of the Poor seeks to identify policies and institutional arrangements that help the poor integrate themselves into sustainable savings and credit systems in order to increase capacity to invest, bear risk, and preserve livelihoods.

FOCUS COUNTRIES

- Bangladesh
- Cameroon
- China
- Egypt
- Ghana
- Madagascar
- Malawi
- Nepal
- Pakistan

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institutions also claim to have clear, strict, and well-enforced poverty-based eligibility rules. If this is the case, these institutions should be targeting locations with above-average poverty levels.

2. ***Expected level of demand for credit services.*** This consideration is important for two reasons. First, fixed costs associated with branch establishment imply that when demand is lower than some minimum threshold level, credit delivery becomes prohibitively costly to administer. Second, the marginal impact of financial services on participating households is likely to be highest in areas with strongest credit demand. For these reasons, branch and service placement decisions are likely to respond to the level of physical and market infrastructure and the general economic buoyancy of the area, all of which fuel credit demand.
3. ***Cost of supplying services.*** While per-unit costs of supplying services are important, the underlying relationship is not as clear-cut as it is in profit-seeking institutions because of the various types of subsidies received. Nonetheless, there are at least three related considerations. First, credit transactions raise security concerns, and proximity to police stations or other law-enforcement establishments is important. Proximity to branches of commercial banks (which tend to locate in urban areas) is also important, since the NGOs do not provide banking services. Third, to the extent that salaries and other compensations do not reward appointments in more remote locations, managers are likely to prefer locations that have fairly well-developed services (education, market, health). If these considerations are significant in the decision to place branches, placement will be higher in *thana*s that have such services.
4. ***Perceived risk.*** Maintaining high repayment rates is of utmost importance to all three institutions in securing continued access to donor grants and subsidies, and they are thus likely to avoid areas where marginal returns from new microenterprises are low enough to affect repayment rates. They are also likely to avoid areas that are highly susceptible to natural disasters such as flooding and other covariate risks. Some tension between poverty-targeting and financial performance is thus likely.

Results

Results indicate that even though the placement of branches of NGO institutions were attentive to poverty considerations, branches were nevertheless more likely to be established in locations with better access to transport and communication infrastructure. Hence it appears that NGO services are geared more toward the poor who reside in relatively well-developed areas rather than the poor in more remote and less developed regions. Client density of existing branches, however, did not exhibit such a feature and actually tended to be better in less favorable and more “distressed” locations.

Greater concentration of branches in more developed areas may in part be because in these locations, the marginal impact of credit services is the greatest. For example, loans for financing production of highly market-dependent outputs, e.g., commercial crops and other nonfarm microenterprises, are less suitable for remote areas. Moreover, banking services become especially risky in remote areas where covariance in household incomes is likely to be very high. In such areas, the high repayment rates necessary to maintain NGOs’ access to donor funding are harder to achieve. Furthermore, the unavailability of commercial banks limits financial operations in remote or poor locations. Hence, NGOs may follow a strategy of placing fewer branches in distressed areas, but with each of these branches serving a larger number of clients. The tension between poverty targeting and ensuring adequate financial performance is thus quite evident in the way the NGOs place their services geographically.

Policy Implications

If efforts to simultaneously reach the poor, maximize marginal impact of services, and keep loan repayment rates high introduce considerable tension in service placement decisions, solutions for reducing this tension may lie in innovative lending technologies that reduce transaction costs to both lenders and borrowers and increase marginal returns of loans to the poor in disadvantaged locations. Three specific recommendations are suggested: (1) set in place an institutional mechanism that provides freedom and incentive for front-line managers (rather than headquarters staff) to assess market potential and constraints and identify, design, and price services accordingly; (2) create additional incentives for NGOs to locate branches in remote areas where access to basic social services and economic infrastructure is lacking; and (3) introduce mobile banking, where remote locations are served by regional or district-level branches on a prescribed time schedule. ■

Selected Reference

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