

1 Introduction

Inclusion of non-poor households or those outside the 'target group' in antipoverty programmes could appear to be a programme weakness. However, this may not necessarily be so. Besley states that 'The theory of incentives demonstrates that transfers to the non-poor can be an essential part of a well-designed cost-minimising programme' (1997: 122). Ravallion (1991) makes a similar point with regards to the fact that a loosely targeted scheme may be more cost-effective in reducing poverty than one with finer targeting.²

The present article³ discusses the arguments for and against the inclusion of 'non-target' households in micro-credit programmes using BRAC's⁴ Rural Development Programme (RDP) as a case study. This programme provides a variety of development interventions ranging from micro-credit, training, extension services, enterprise marketing support, para-legal education and health and sanitation services. However, the core ingredient in RDP's development package is micro-credit.

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² Ravallion's comments are made in the context of employment-guarantee schemes where the costs of participation are in terms of foregone wage income. If the wage rate in the employment-guarantee scheme is set at a very low level in order to discourage the non-poor from participating, the net poverty alleviation gain may be lower than a scheme with a higher wage rate but less well targeted.

³ This article extends the arguments developed by the author in an earlier paper (Zaman 1997) which focused on the determinants of participation in BRAC's RDP.

⁴ BRAC is a local Bangladeshi NGO with three main development programmes; the Rural Development Programme (RDP), the Non Formal Primary Education Programme (NFPE) and the Health and Population Programme (HPP). In September 1997 there were 2.2 million members (primarily women) in RDP of which 1.9 million were borrowers. A more detailed look at BRAC's RDP can be found in Chowdhury and Alam (1997).

Can Mis-Targeting be Justified?

Insights from BRAC's Micro-Credit Programme¹

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Households with less than 50 decimals of land and manual labour as their main occupation constitute RDP's target group (TG). Several studies have shown that 15–20 per cent of members belong to 'non-target group' (NTG) households (Mustafa *et al.* 1996; Khandker 1996; Montgomery *et al.* 1996). The last study is particularly revealing. It reports considerable heterogeneity amongst members in terms of their pre-membership socio-economic profile and suggests that intra-group differences may even affect the access to BRAC resources by particular sections of the group. This issue is highlighted by the case of one particular BRAC group in Sherpur district where it appears that non-target group (NTG) members dominate in number and prevent the minority of poor households from borrowing and taking leadership positions within the village organisation (Montgomery *et al.* 1996). Whilst village organisation members do not have any direct power over the distribution of BRAC inputs such as credit, they can affect a household's chances and timing of borrowing through their own loan repayment behaviour. For instance wealthier members had filed loan applications earlier than the poor members and were being irregular in their repayments, thereby reducing the chances of the poorer households receiving credit. Montgomery *et al.* (1996) also point out that wealthier members generally appeared to join later than poorer households, a trend found for Grameen members (Matin, forthcoming) and as a general rule of thumb in antipoverty programmes worldwide (Lipton *et al.* 1993). Hashemi (1997), using data from four villages where either Grameen Bank or BRAC were present, shows that around 43 per cent of eligible (target group) households did not join either organisation. Of the households which did not join, almost half were inhibited by the prospect of not being able to repay loans and going into debt, thereby suggesting that the poorest are more likely, than the poor, to be excluded from these programmes. Over a quarter of women non-members cited 'conservatism' of the male household head as the reason for not joining. Interestingly, only 13 per cent of non-members were refused entry by other group members. Evans *et al.* (1995) in a study of BRAC's RDP also conclude that there are barriers to participation for the poorest households.

This background evidence raises a number of relevant questions that are addressed in the article: Do

better-off households join BRAC's credit programme after poorer households have been selected? What is the socio-economic profile of 'non-target group' households and do the ultra-poor join BRAC? Do 'non-target' households prevent poorer 'target group' households from borrowing? What are the implications of these results for micro-credit programmes? The article forms part of a larger study based on data collected from 547 households by the BRAC-ICDDR.B joint research project (Bhuiya and Chowdhury 1995) during April–August 1995. The RDP had been in place for three years in ten of the 14 villages that were sampled in Matlab.

2 Does Targeting Become Less Strict With Time?

Using the survey data one can assess whether better-off households join at the start of RDP operations or after a certain point in time. Table 1 presents the socio-economic profile of BRAC members in the study region.

It is crucial to try and distinguish between the 'initial endowment' characteristics of a household and the socio-economic characteristics which can be attributed to BRAC. Whilst assumptions of exogeneity are always debatable, this article argues that given the relatively short average membership length (23 months), the 1995 values for dependency ratio, education levels, household demographics and land can proxy for 'initial endowment' whilst non-land assets, savings and occupational status are likely to be affected by BRAC's credit programme even in the 'short-run'.

Table 1 suggests that the members selected by BRAC more recently started off less poor than the members who joined at the start of RDP's operations; this is clearly reflected in the landholding figures. The oldest cohort of members have less land than households who joined in the 20 months prior to the survey (significant at the 5 per cent level). However this pattern is by no means linear. The 21–30 month cohort appears to be the most disadvantaged group with relatively adverse dependency ratios, lower education levels and value of non-land assets. The households which were the first to join (31–40 months cohort) were 'better endowed' (higher education of the household head, higher average education and lower dependency ratio)

Table 1: Socio-Economic Characteristics and Membership Length of BRAC Members in Study Area

Column number	Membership Length				Differences in means and proportions (at 5% significance)			
	(1)	(2)	(3)	(4)	vs.	vs.	vs.	vs.
	1-10 months (n=79)	11-20 months (n=127)	21-30 months (n=231)	31-40 months (n=110)	(1)	(2)	(3)	(4)
Land owned in decimals	54.9	48.9	31.4	27.2	4	4		1,2
Value of non-land assets (tk.)	29221	26222	19886	31716	3	3	1,2,4	3
Total savings (tk.)	2137	3759	4408	6331	3,4		1	1
Earners to household size ratio	0.23	0.23	0.21	0.22				
Dependency ratio*	0.32	0.31	0.35	0.29			2,4	3
Age of household head	47.5	44.2	43.8	43.2	3,4		1	1
Female headed household (%)	8.9	13.4	15.1	10.0				
Average education in household in years	2.02	2.08	1.35	1.87	3	3	1,2,4	3
Education of household head in years	2.43	2.90	1.43	2.5	3	3	1,2,4	3
Manual labourer household head (%)	25.3	29.1	26.8	17.3		4	4	2,3

Note: * Dependency ratio is (number under nine+number over 60)/(number between 10-60).

The 'column differences' represent the significant (at 5% level) mean differences between one category and another for each variable. For instance, columns 1 (1-10 months) and 4 (31-40 months) are significantly different at the 5% level in terms of land ownership.

Table 2: BRAC Eligibility, 'Poverty Correlates' and Borrowing Patterns

	Eligibility		
	BRAC Member TG n=371	BRAC Member NTG n=176	Non-BRAC Member TG n=1620*
Poverty correlates			
Quantity of land owned (decimals)	13.70	87.91	17.13
Value of non-land assets (taka)	15943	44159	15828
Total savings (in taka)	2455	8292	2226
Proportion of household heads who are manual labourers	0.33	0.07	0.31
Average years of education in household	1.31	2.69	1.40
Dependency ratio*	0.33	0.29	0.34
Borrowing patterns			
Per cent borrowed at least once	89.2	91.1	
Cumulative borrowed from BRAC	7642	7788	
Average loan borrowed from BRAC	2942	3180	
Average number of loans taken	2.54	2.39	

Note: * Includes TG non-members in the ten 'BRAC villages' and four 'non-BRAC villages'.

* (number under nine + number over 60) / (number between 10-60)

compared to the 21–30 month cohort which joined immediately after. The more recent entrants, i.e. those in the 1–10 month and 11–20 month cohorts, are also significantly better off than the 21–30 month cohort.

It is interesting to note that the 'oldest' members have on average the least land but also the highest value of non-land assets. One intuitive explanation is that borrowing from BRAC led to investment in productive capital (e.g. rickshaw, poultry, grocery shop), thereby improving their non-land asset position. Moreover the proportion of manual labourer households is lower in the 'oldest' category, suggesting that the growth of non-land assets may have induced a shift from on-farm activities to off-farm self-employment. Longer membership in BRAC is also associated with a growth in savings as shown in Table 1, due to the requirement that members have to save at least two taka a week. However all these conclusions are tentative as one cannot attribute causality using bivariate data. Even though the trend is 'non-linear', it appears that BRAC targets the poorest households (measured by landownership) towards the start of its operations and the better-off 'NTG' households are likely to join later during the course of its operations. The implication of the presence of NTG households and their joining over time are discussed in the final section of this article.

3 How Much Better-Off are 'Non-Target Households'?

68 per cent of BRAC members in the Matlab survey were classified as 'target group/eligible' (TG) and 32 per cent as non-target group (NTG) by the field investigators using their interpretation of BRAC's official targeting criterion⁵. Table 2, based on data collected in fourteen villages in Matlab, suggests

that the BRAC-member NTG households are significantly better off compared to TG households in all indicators of well-being. However, the average amount of land owned by the NTG members (88 decimals) suggests that they are part of the 'marginal farmer' category. Hossain (1995) shows that 61 per cent of households who have between 50–150 decimals of land are poor, and 25 per cent are ultra-poor. The author points out that most antipoverty programmes in Bangladesh cater to households with less than 50 decimals of land and argues that 'there is a need to bring these [marginal farmer] households under poverty alleviation programmes' (Hossain 1995: 158). This suggests that the majority of BRAC households who are 'non-target' are also likely to be poor or at best part of the 'vulnerable non-poor' group. Whilst Table 2 shows that they are better off than 'target group' households, they are certainly not part of the village elite.

Section 1 discussed whether or not the ultra-poor participate in micro-credit programmes. The Matlab data shows that nearly half of BRAC members have less than ten decimals of land (47 per cent) and 30 per cent have less than five decimals. The national rural proportion of households with less than five decimals is 17.6 per cent (BBS 1995) thereby suggesting that BRAC groups have more than a proportionate share of ultra-poor households. This is also reinforced by the fact that the typical TG (eligible) BRAC member has significantly less land (at 5 per cent level) compared to a typical TG non-member, as shown in Table 2.

An obvious question at this stage is whether 'non-target' households join at the expense of 'target' households. Evidence from the ten villages in Matlab where BRAC intervenes suggests that 59 per cent⁶ of eligible households did not join BRAC, but there is no information about whether they did not

⁵ It needs to be clarified that the eligibility data was collected in 1995, with the typical BRAC member having joined two years earlier and, as such, some households could have 'graduated' from TG to NTG status in this period and vice-versa. However, baseline data collected in 1992 also shows that 28 per cent of households who eventually joined BRAC were from the NTG group. This is because unlike the 1995 data set, the 1992 data does not have the wealth of socio-economic information. Since the proportion of BRAC NTGs in 1995 (32 per cent) is similar to the proportion of NTGs in 1992, the 1995 NTG group, along with

their socio-economic characteristics, is used as a proxy for the households who were 'mistakenly-targeted' by BRAC over the course of the 1992–95 time period.

⁶ In these ten 'BRAC' villages there are 896 'target group' households of which 371 have joined BRAC. Note that Table 2 includes households from all 14 villages in the Matlab survey so the TG non-member category includes households who could have joined but did not, and households who are not in the 'BRAC' villages and so could not join even though they are 'eligible'.

want to join or whether 'non-target' households were selected instead of them. This issue is discussed in detail in the concluding section.

4 Do 'Non-Target' Households Borrow More?

Montgomery *et al.* found one BRAC group where wealthier households were making it difficult for poorer members to borrow. This section explores whether this theme can be detected in the ten BRAC groups in this sample.

The indicators used to measure 'participation depth' are whether the household ever borrowed or not, total credit obtained from BRAC for those who did borrow, the average loan size and the average number of loans taken. Table 2 shows the extent of any differences between eligible (TG) and non-eligible (NTG) BRAC members using these indicators. The comparison of means suggests that NTG members borrow larger amounts, as measured by the average loan size compared to TG members. The difference is small but significant at the 1 per cent level. The cumulative borrowed figure is however not significantly different between the two groups. The average number of times a household has borrowed from BRAC is only just not significant at the 10 per cent level ($p = 0.125$), and, interestingly, we find that TG members appear to borrow more frequently. In other words TG members tend to borrow smaller amounts but more often; these offsetting effects result in the cumulative figure being very similar.

The message that emerges from these figures is that apart from a marginal difference in average loan size, there does not appear to be a difference in the borrowing patterns of 'better-off' and 'poor' BRAC households. There is therefore no evidence in Matlab to support the claim that the presence of NTG households inhibits the borrowing behaviour of TG members.

5 Concluding Discussion

We now turn to some of the possible implications of

the earlier findings for micro-credit programmes focusing on the issue of 'non-target' households.

The findings in this article indicate that better-off (non-target) households tend to join BRAC later than poorer (target group) members. One possible explanation is that the pool of 'target' households who wish to join becomes saturated and as a result 'non-target' households are included. However, evidence of significant numbers of households who could have taken part, but did not, suggests that this cannot be the whole story. Pressures exerted by target-group members themselves to include some influential NTG households may compel programme administrators to 'relax' the official targeting criterion.⁷ These pressures could arise due to poor members wanting to get a wealthier household involved in RDP in order to tide over loan repayment difficulties within the group. As Mosley (1996) points out when analysing Banco Sol in Bolivia, these transfers from better-off to poorer borrowers are not necessarily 'altruistic' as they are often in the form of loans. Moreover, there may be powerful factions within the village who could disrupt the daily operations of RDP if their representatives are not given access to BRAC's inputs.

Whilst the general 'community approach' has been tried and discarded by BRAC due to the impression that the elite were benefiting most, the 'target group' approach may have to be flexible enough to incorporate a number of socially influential households to maintain a link with the other socio-economic classes in the village. This line of argument fits in with Besley's (1997) model which shows that the inclusion of the non-poor may be necessary to a limited degree in order to avoid them capturing more benefits which are meant for the poor.

Another reason for the inclusion of 'non-target' households may be the perception that they are better credit risks than poorer households. They are also more likely to deposit more savings and demand larger loans thereby improving a branch's self-financing ratio. However the 'loan absorptive' capacity of these NTG households is still a matter to be looked into as it will determine the full extent of

⁷ This is a view expressed during conversations with

BRAC programme administrators and field staff.

the revenue-earning potential for a micro-credit organisation.⁸ One crucial consideration in all this is the extent to which NTG members are above the eligibility threshold. If the NTG household is marginally above the cut-off point, then the inclusion may simply be merited on the grounds that BRAC's land and occupation-based eligibility criterion is not perfectly correlated with poverty and that therefore the households could be below the poverty line. The evidence from Matlab suggests that in fact there is a strong possibility that the typical 'non-target' BRAC member is either poor or part of the 'vulnerable non-poor' group. If the policymaker's objective is to reduce the proportion of people below the poverty line, then targeting the moderate poor and even the vulnerable non-poor may be justified (Ravallion 1991).⁹ If the aim is to reduce the severity of poverty, then incentives for the poorest sections need to be targeted.

The proportion of 'mistakenly targeted' households that is permissible is also an important issue in this discussion. There is a fine line between allowing non-target households in the programme, based on the various aforementioned arguments, and tilting the TG–NTG balance to such an extent that the poor are marginalised within the credit group (Montgomery *et al.* 1996). The evidence in this article suggested that the poorer members' borrowing patterns were not affected by the presence of 'non-target households'. This could be due to the fact

that the TG–NTG balance was still in favour of the poorer group. The 'ideal' composition of a group that is targeted by an antipoverty programme ought to be in line with the extent of the benefits that different households derive from participation. The benefits may range from increased economic security (in minimalist credit programmes) to a combination of higher literacy, greater economic security, greater legal awareness etc. (in 'integrated credit' programmes). The merits or drawbacks of including 'non-target' households depends crucially on the extent that they benefit compared to 'target' households. If, for instance, 'target' households benefit less than 'non-target' households, the targeting strategy may have to trade off reaching the poorest with 'low benefit', and including non-target households but with 'high benefit'.¹⁰ This decision in turn is dependent on the weight the policymaker attaches to reducing the incidence or severity of poverty.

The central argument of this article is that the inclusion of 'non-target' households in micro-credit programmes is not necessarily a sign of programme weakness. The costs and benefits of mis-targeting depends on the proportion of 'non-target' households, the extent that they are 'non-target', the extent that they benefit relative to, and at the expense of, 'target' households and the relative importance of reducing poverty incidence versus severity.

⁸ A further argument that can be made to include 'non-target' households is that they have the potential to create employment opportunities for the poorest by setting up small/medium-scale enterprises. BRAC has recently set up a new project lending to 'graduated' or NTG members with proven entrepreneurial ability in order to create such enterprises. The average loan size is around ten times more than the typical micro-credit loan and the loan screening and monitoring process is a combination of micro-credit and formal banking methods.

⁹ Ravallion's comment on the positive correlation between increasing wage-rates and greater mis-targeting

in employment guarantee schemes can be extended to the micro-credit context in terms of a potential trade-off between loan size and accurate targeting. If an overall reduction in the numbers below the poverty line is an increasing function of average loan size, then the inclusion of a larger number of non-poor households, due to the participation incentives offered by higher loan sizes, may outweigh the benefits of improved targeting achieved via low loan ceilings.

¹⁰ In BRAC's 'integrated credit programmes' this trade-off is complicated by the fact that the benefits will vary, as described earlier, due to the multitude of interventions apart from credit.

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