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Multiple Borrowing in the Philippines:

Review of the Literature and Research Design for a Pilot Area Study

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Multiple Borrowing in the Philippines

Review of the Literature and Research Design for a Pilot Area Study[1]

by Ronald T. Chua and Erwin R. Tiongson

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INTRODUCTION

Microfinance provides resources to households that otherwise face constrained access to finance.[2] Many low-income households seek access to finance to build their businesses, but they generally lack the collateral to access financial resources. Because microfinance has collateral requirements that are more flexible than those of traditional banks, it can help promote productive behavior and foster income-generating activities among low-income households.

Microfinance operations appear to have been clustered around the same communities, both in urban and in rural areas, which may be associated with multiple borrowing. The concentration of microfinance in the same geographic areas suggests that there could be multiple MFIs operating in the same community. In the absence of a microfinance census, it is difficult to quantify precisely the number of MFIs present in various communities in the Philippines. Anecdotal evidence collected from conversations with various stakeholders and key informants suggests, however, that in some metropolitan areas, there can be up to 10 MFIs providing loans to the same community. The literature suggests that existence of multiple MFIs offering loans to the same households living in a community can lead to instances of households incurring multiple debts simultaneously. In the absence of a central credit bureau with consolidated credit information, this phenomenon is unrecorded and unmonitored. Neither has there been any apparent, previous effort to share credit information multilaterally, among several MFIs, nor even bilaterally, between pairs of MFIs.

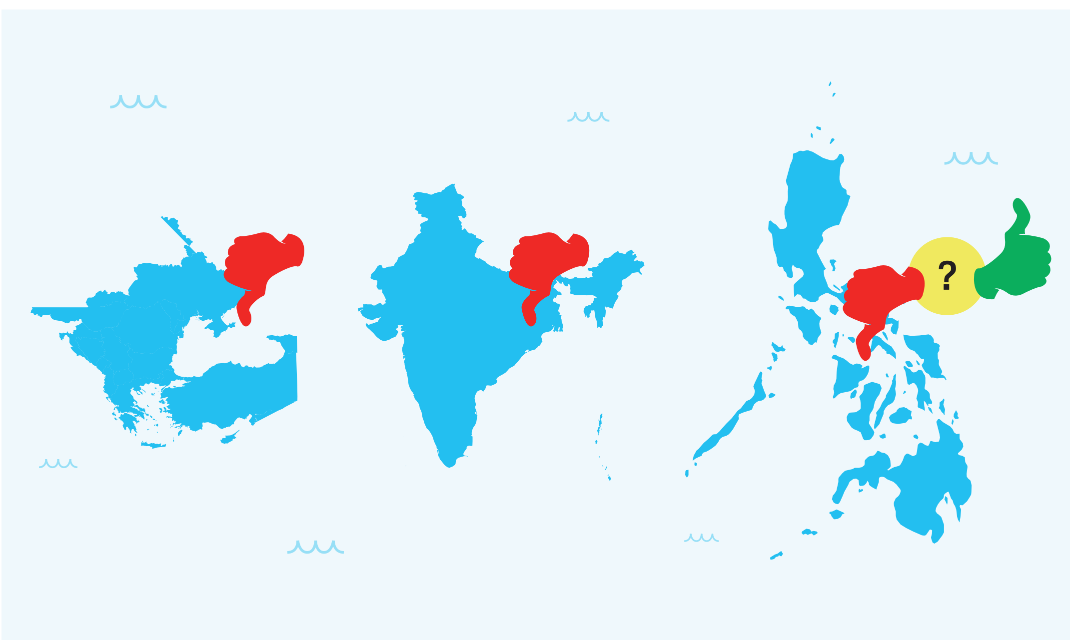
However, to date, little is known about multiple borrowing in the Philippines. But two recent developments have served to heighten interest in the subject:

Globally, recent crises in the several microfinance communities – whether brought on by a larger, global financial crisis (as in parts of Southeastern Europe) or whether largely homegrown (as in Andhra Pradesh in India in late 2010) – have fueled interest in multiple borrowing. There is of course a confluence of political and economic developments and shocks, complicating any effort to disentangle crisis origins. However, public discussions of these crises have been typically associated (rightly or wrongly) with some degree of multiple borrowing and over-indebtedness.

[2] See, for example, Johnston and Morduch (2008), Morduch (1999) and UN (1999 and 2007).

Locally, a number of MFIs have been reporting anecdotal evidence of multiple borrowing. In part, it is claimed, multiple borrowing has been brought on by increased competition, possibly by some client poaching, largely by multiple MFIs serving the same community, along with other formal as well as informal lenders. Initial public discussions regarding this phenomenon have yielded various phrases to refer to multiple borrowing—"loan pushing," "credit pollution," "client poaching," "over-indebtedness," and "multiple indebtedness"—conflating both perceived causes and perceived consequences of multiple borrowing and reflecting various underlying normative judgments. In fact, no one knows for sure how prevalent multiple borrowing is, how it is distributed, and what the consequences are for repayment. Though some have raised concerns that multiple borrowing could lead to unsustainable household debt burdens, there has been no systematic evidence linking multiple borrowing to, e.g., deteriorating repayment rates or default. In the absence of any systematic information on the magnitude of the problem and its distribution, there is little guidance on moving forward. In the middle of these differing views, there is, nonetheless, a shared understanding that multiple borrowing is likely nontrivial and growing.

This paper reviews the relevant literature and proposes an empirical framework to guide a pilot effort to understand multiple borrowing in the Philippines. First, it summarizes selected studies of multiple borrowing conducted in other countries, noting the limits of various data sources. Second, it proposes a general framework for understanding the different consequences of multiple borrowing. It also outlines the research questions that can be addressed, depending on the empirical approach used. Finally, it proposes a research design to assess the incidence and (data permitting) the consequences of multiple borrowing in a selected community in the Philippines.



REVIEW OF LITERATURE

Data Sources and Dimensions of Multiple Borrowing

Our understanding of multiple borrowing is due to a large number of country studies that have become available in recent years. Some of these studies were crisis-related and conducted during a time of rising and widespread delinquencies. Some others were conducted during non-crisis periods. The country studies available to date include studies of Bangladesh, Bolivia, Bosnia and Herzegovina, India, Kenya, Morocco, Nicaragua, Pakistan, South Africa and Uganda.

Existing studies of multiple borrowing in microfinance communities typically draw information from one or more of the following sources:

The first two sources are of course quantitative and the last two sources tend to be more qualitative ("oral testimony"). The first two lend themselves to statistical and econometric analyses, while the others are more descriptive. Every information source implies a particular notion of multiple borrowing and is subject to various measurement errors. Depending on the data source, multiple borrowing may be referring to households that borrow from multiple MFI sources or to households that borrow from MFIs as well as from other sources. Some studies use some combination of these sources. Krishnaswamy (2007) uses data from the first source. The estimate makes an effort to verify the accuracy of matches, but suggests that only about 70 percent were correctly matched, and the extent of multiple borrowing could therefore be understated. The findings are then corroborated by qualitative assessments, including interviews with selected clients and loan officers. One dimension not particularly explored in the existing literature is the possibility of households obtaining multiple loans from various branches of the same MFI ("within MFI multiple borrowing"). In fact, in the absence of electronic databases consolidated across its own branches, an MFI may be unaware that households or members of the same household are borrowing from several branches of the MFI.

The scope and coverage of the study varies also by data sources. Households are known to borrow from formal sources of credit (MFIs and other financial institutions) as well as from informal sources of credit (relatives, neighbors, others). These sources are likely to be treated differently by the households. In particular, the size and timing of repayment obligations may be considered by households as binding, depending on the source of credit. Even among formal sources of credit, there could be an implied order of preference in meeting repayment obligations. This could of course be part of the study's scope—to document precisely the disparities in treatment of payment obligations, similar to insights drawn from the "mental accounting" strand of the behavioral finance literature. Although household surveys and FGDs with households may provide information on these issues, the other data sources will provide more limited information.

The treatment of individual borrowers in a single household is also critical and will again vary by data sources. There are at least two possible scenarios: One, the household may be borrowing from several sources as a unit. Alternatively, individual (adult) members of the household may be borrowing from various sources, independently. Under the second scenario, it is possible that no consolidation of finances takes place at the household level. One adult member may be in default (or in arrears with respect to his financial obligations), but the head of household is able to meet his own repayment obligations. How should such a household be classified, for analytical purposes?

The quality of information varies across sources. Households may under-report levels of indebtedness, either because (as, e.g., single units with multiple members) they are unaware of the sources of their credit or because they are reluctant to provide accurate information about their finances. For, example, the results of a study by Zinman and Karlan (2007) suggest that some borrowers do not accurately report their recent, high-interest consumer loans. Data on indebtedness drawn from household surveys alone may then provide inaccurate estimates of the incidence of multiple borrowing.

Incidence of Multiple Borrowing: Existing Estimates

Estimates of the incidence of multiple borrowing vary across countries. They also seem to vary depending on when the study was conducted—a "normal" period, the period just before a crisis, or during the crisis itself. Krishnaswamy (2007) estimates that in one state in India where 17 MFIs operate, the incidence of multiple borrowing is about 7 percent. In Bolivia in the late 1990s, near the beginning of the microfinance crisis, close to a third of MFI clients had taken on multiple loans. Table 1 summarizes available information.

It should be noted, as in the previous section, that the definition of multiple borrowing varies across data sources. In the case of studies reported in Table 1, it is taken to mean borrowing from multiple MFI sources and excluding other sources of credit.

The definition of course matters for the estimated size of multiple borrowing. In Andhra Pradesh, for example, a study conducted just before the 2010 crisis suggests that 3 percent of households had multiple MFI loans (Table 2). Of those households with MFI loans, the great majority, 82 percent, have other formal loans outstanding. Of those with Self-Help Group (SHG) loans, 58 percent had other formal loans outstanding (Johnson and Meka (2010) and Oliver (2010)).

Table 1 : Incidence of Multiple Borrowing

Country	Year	Incidence
Bolivia	2000	24.0
Bosnia and Herzegovina	2009	40.0
India (unnamed state)	2006	7.0
Morocco	2009	29.0
Nicaragua	2009	40.0
Pakistan	2009	21.0

Source: Chen and others (2010); Vogelgesang (2003); Krishnaswamy (2007)
Incidence: Percent of borrowes with loans from more than one MFI

Table 2 : Multiple Borrowing in Andhra Pradesh

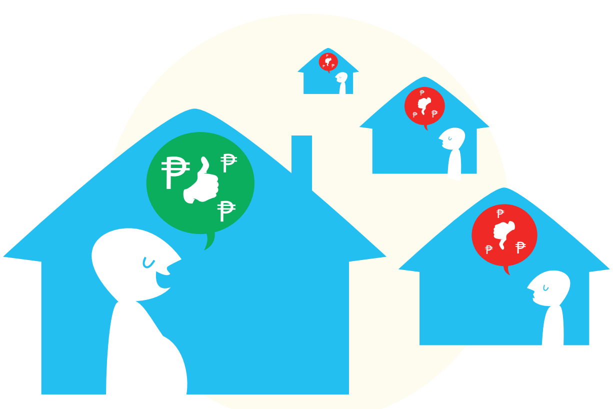
Source	Percentage of households with multiple loans
Bank	10
MFI	3
SHG	9
Informal Source	70
All	84

Source: Johnson and Meka (2010)

Causes and Consequences of Multiple Borrowing

The apparent causes of multiple borrowing reflect both crisis-driven motives as well as opportunity-driven ones. We say "apparent" because it is not clear whether the methods used by existing studies in fact allow them to draw strong conclusions about the underlying causes of multiple borrowing – as opposed to statistically documenting associations with other phenomena. Because the data are from a cross-sectional survey, the results may be biased by unobserved characteristics (such as ability, responsibility, etc.). Lower-ability households/individuals may be more likely to incur multiple debts compared to higher-ability households/individuals. On average, when observed in a single period alone, it may then appear that households that incur multiple debts are more likely to be in default. However, this may not necessarily be due to multiple borrowing per se but be due instead to the selection of high-risk households into multiple borrowing. It is, therefore, possibly a screening or risk-assessment issue, rather than a multiple borrowing issue.

Despite their shortcomings, existing studies suggest important insights about the phenomenon. The findings of Krishnaswamy (2007) suggest that there is some possibility of opportunistic, collective behavior—that is, multiple borrowing is known, and tolerated, by a client's peers in a center—as evidenced by the substantially higher incidence of multiple borrowing (9 to 15 percent versus 7 percent, on average) in centers where at least one client is a multiple borrower. A study of the microfinance market in Bangladesh (Chaudhury and Matin 2002) suggests that economic shocks drive the need for multiple sources of credit, thus implying that multiple borrowing is a "risk-coping" strategy rather than a "risk-prevention" measure.[3] Venkata and Veena (2010) list a number of reasons for multiple borrowing, from the household perspective, including for specific consumption and investment needs. They also suggest that lower-interest loans are used to repay higher-interest loans.



On the MFI's side, there are also notable institutional and administrative changes that are associated with multiple borrowing. Again because what can be said about causal factors tend to be limited, it is not clear whether these changes led to multiple borrowing or are merely associated with multiple borrowing. The changes include changes in credit policy and processing time, in the general direction of more liberal credit policy and a faster processing period.

Not surprisingly, there is mixed evidence on the consequences of multiple borrowing at the household level. On one hand, Krishnaswamy (2007) finds that multiple borrowers perform as well as single borrowers, in terms of repayment record. This is based on average repayment rates by MFI, classified according to whether they are "single borrowers" or "multiple borrowers". Qualitative evidence provides some corroborating information on the characteristics of multiple borrowers. Not surprisingly, given the results of the study, Krishnaswamy (2007) claims, based on a small sample, that multiple borrowers seem more "business savvy," able to manage multiple obligations and confident in their capacity to meet their repayment schedule. They borrow for investment purposes and have clear business expansion plans. On the other hand, Chaudhury and Matin (2002) suggest that households borrowing from more than one MFI are observed to have a higher likelihood of irregular payment. However, it has not led to any system-wide increases in default, at least until a few years ago. In contrast, in Bolivia, multiple borrowing led to rising over-indebtedness that led to a wave of default and delinquencies in the late 1990s. The latter example suggests that the larger economic environment matters, likely triggering a vicious cycle: there is worsening repayment in crisis years.

These contrasting findings suggest that there are several possible outcomes associated with multiple borrowing. A household with multiple debt obligations may be in default, at risk of default, or not at risk of default, but such outcomes do not necessarily reflect financial distress and the degree of financial distress experienced by the household. Defaulting on a specific obligation may reflect a calculated, strategic choice, with no measurable impact on, e.g., current or subsequent household consumption or current and future ability to borrow from other MFIs.[4] Even among households that are all uniformly at risk of default and experience financial distress along measurable dimensions, the sources of financial distress as well as their ability to manage finances may vary. For example, households with members who are seasonal (e.g., agricultural) workers may experience seasonal fluctuations in wage income which, in turn, may affect their ability to service debt obligations in a single period, but not over the course of a whole year. Meanwhile, other households may be able to meet their repayment obligations, in part due

[3] This is a study of 240 households.

[4] See Pearson (2008) for game-theoretic perspective and the calculations underpinning the choice to repay or not repay. See also Chaudhury and Matin (2002) and Wright and Rippey (2003).

to “loan recycling”, or by using the most recent loan to finance current repayment obligations. This practice of using loans to pay off other loans is sometimes referred to as “patching”.

Among households that have multiple debts yet are able to manage their finances, the choice of borrowing from multiple sources may reflect various consumption and investment patterns. One possibility is that current loan sizes are too small to finance a household’s microenterprise activities. Alternatively, the household’s demographic profile (e.g., higher young dependency rate) may be associated with consumption patterns that require multiple (and multi-purpose) loans. This suggests that, in the absence of rising indicators of household financial distress, multiple borrowing may reflect weakness in microfinance product design. That is, the growing incidence of multiple borrowing may be simply a symptom of MFIs’ inability to provide lending products that meet the consumption and investment needs of households.

These possibilities, along with the associated indicators, are summarized in Table 3.

Table 3 : Possible Consequence of Multiple Borrowing and Corresponding Indicators

General Outcomes	Specific Outcomes	Indicators by Data Source		
		Household Survey	Branch Client Data	Qualitative
In default	**Financial distress:** unable to meet repayment obligations **Not in financial distress:** in default by choice	Self-reported level of distress. Debt burden as a share of disposable income. Dissaving rate. Debt payment in arrears.	Repayment record.	Self-reported
At risk of default	**Rising financial distress:** able to meet repayment obligations, with increasing difficulty **Rising financial distress:** able to meet repayment obligations through “loan recycling” **Occasional financial distress:** able to meet repayment obligations, with some seasonal fluctuations	Self-reported level of distress. Debt burden as a share of disposable income. Dissaving rate. Subjective assessment. Debt payment in arrears. Change in food and non-food expenditures.	Repayment record. Change in repayment date.	Self-reported
Not at risk of default	**Not in financial distress:** able to meet debt obligations	Self-reported level of distress. Debt burden as a share of disposable income. Dissaving rate. Subjective assessment. Debt payment in arrears. Change in food and non-food expenditures.	Repayment record.	Self-reported

From the MFI's perspective, a few other indicators appear to convey useful information on whether there is a microfinance crisis due in part to multiple borrowing. For example, if multiple borrowing is leading to more instances of households unable to service their debt, these may show in the MFI's portfolio-at-risk. Table 4 summarizes some of the relevant information. Table 5 suggests that during such crisis periods, the scope or the number of MFIs affected can be considerable, in part possible due to the cascade of delinquencies associated with multiple borrowing. In Bolivia (2001) and Pakistan (2008-2009), there was a "debtors' revolt" as well, borrowers organizing large demonstrations and refusing to pay their loans (Chen and others (2010) and Rhyne (2001)).

Table 4 : Crises and PARs

Country	Period	Indicators
Bolivia	1996 - 2001	PAR rising to 16% from > 10%
Bosnia and Herzegovina	2008 - 2009	PAR rising to 7% from about 4% (higher without write-offs)
Morocco	2008 - 2009	PAR rising to 10% from about 5%
Nicaragua	2008 - 2009	PAR rising to 12% from about 5%
Pakistan	2008 - 2009	PAR rising to 13% from about 2%

Source: Chen and others (2010) Fiendler and others (2002)

Table 5 : Number of MFIs Affected by Rising Delinquencies

Country	Period	Number of MFIs Affected
Bosnia and Herzegovina	2008 - 2009	All 12 largest MFIs
Morocco	2008 - 2009	All 12 MFIs
Nicaragua	2008 - 2009	All 22 largest MFIs
Pakistan	2008 - 2009	2-4 MFIs

Source: Chen and others (2010) Fiendler and others (2002)

Taken together, existing studies in the literature suggest useful features of a new, pilot effort to study multiple borrowing in the Philippines. The review of the literature and the design of appropriate research strategy to study multiple borrowing in the Philippines took place over a couple of years. Over this period, the research team's understanding of the nature of multiple borrowing also evolved significantly. As originally conceived, this research project was aimed at studying "over-indebtedness". The team has since taken on a more agnostic approach, allowing for the possibility that multiple borrowing may be crisis-driven as well as opportunity-driven. It also acknowledges that multiple borrowing does not necessarily translate to over-indebtedness, and by now a variety of country experiences serve to challenge whatever initial, relatively narrow conceptions one may have of multiple borrowing. Meanwhile, the review of various approaches to understanding multiple borrowing across countries significantly informed the proposed research design and the choice of research instruments.

There are three research objectives:

The first objective is to shed light on various dimensions of multiple borrowing. This includes allowing for the possibility of multiple borrowing across MFIs, within MFIs, and across a variety of loan sources (MFI, non-MFI, informal).

The second objective is to estimate the incidence of multiple borrowing. This requires allowing for different notions of multiple borrowing as above. The relevant indicators include multiple borrowers in percent of all MFI clients, in percent of all households, etc.

Finally, the third objective is to understand the correlates of multiple borrowing. This could be through a statistical profile of multiple borrowers (contrasted with non-multiple borrowers) and an assessment of their repayment behavior.

These objectives, in turn, guide the choice of study area and the key data sources of this pilot effort. The data sources, by construction, also imply different notions of multiple borrowing, as explained below.

Choice of Study Area

This area study focuses on the Commonwealth area in Quezon City in the National Capital Region. There are 6 barangays in this community: (1) Brgy. Commonwealth, (2) Brgy. Payatas, (3) Brgy. Holy Spirit, (4) Brgy. Bagong Silangan, (5) Brgy. Fairview, and (6) Brgy. Batasan Hills. The barangays together account for some 300,000 households, according to the latest Population Census.

The choice of study area was both deliberate and arbitrary. In the absence of a nationwide, community-level census of MFIs, the key informants and stakeholders were in general agreement that the Commonwealth community at the time this review was initiated was being served by at least 10 MFIs. A workshop convened at the Asian Institute of Management in January 2011 by the partner institutions provided an opportunity for the research team to meet with representatives of these MFIs and further refine the proposed research design. In turn, these representatives confirmed that a number of MFIs operate in the Commonwealth area and directed the team to other MFIs not represented at the meeting. Combined with government listings, information from other key informants, and other sources of information, the total number of MFIs in the Commonwealth area turned out to be higher than the team's initial estimates. As of mid-2011, some 14 MFIs appeared to be active in the Commonwealth community, not counting informal lenders.

Data Sources

There are three sources of information. As the preceding review of the literature suggested, every source is critical but is also subject to important weaknesses. The simultaneous reliance on these three sources helps mitigate some of the respective weaknesses. However, other weaknesses will persist. The three sources are also not fully comparable and cannot be consolidated, as explained more fully below.

Area Household Survey

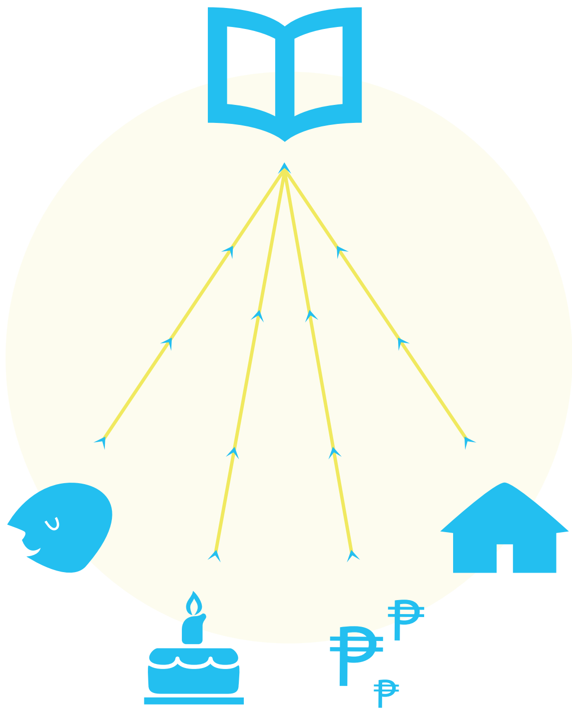
The objective is to draw a representative sample of several hundred households in the Commonwealth area and produce a statistical profile of household borrowing, including all sources of credit. There are key strengths and weaknesses that need to be noted:

On one hand, the potential measure of household borrowing is comprehensive. That is, using this household survey, MFI borrowing can be compared with other forms of borrowing. The implied definition of "multiple borrowing" is therefore *broad*, referring not just to households that borrow money from multiple MFIs, but more generally, to mean borrowing money from multiple sources of finance – formal and informal sources alike, including family, friends, private commercial banks, etc. This is consistent with the findings of the CMF study of Andhra Pradesh cited earlier – in particular, that most households owed money to informal lenders and self-help groups and less than 10 percent of all households were MFI borrowers. In addition, using various modules of a household survey, households can be ranked by income or by some appropriate socio-economic classification, thus facilitating the creation of labor market profiles, expenditure profiles, and demographic profiles of indebted households, assuming sufficient observations exist. For example, the statistical analysis can focus on a particular segment (call it the "D" and "E" segment) and generate their respective household debt profiles.

On the other hand, a household survey is subject to at least two important shortcomings. First, households may or may not choose to provide accurate information about sensitive topics, particularly about their finances and about multiple borrowing. In some cases, they may not know, because during a survey (the interview), one household member (typically the head of household) speaks on behalf of every member of the household. This representative member may or may not know every household member's actual finances. In other cases, they may lie deliberately, as seen in the existing literature. Second, because the survey is representative of the entire area and thus covers the full spectrum of households across various socio-economic segments living in that area, by construction, only a fraction of the final sample of households will turn out to be MFI borrowers. Depending on how large this fraction of MFI borrowers in the final sample, there may not be sufficient number of observations to generate a profile.

More important, for a variety of reasons, this household survey is a *cross-sectional* survey or conducted at a single point in time. As such, it does not provide information on changes over time. In contrast, an alternative approach that uses longitudinal or panel data approach – with households now observed over at least two periods – can determine changes in income and expenditure over time, changes in labor market status over time, among many other changes, which, taken all together, can help isolate the causes and consequences of multiple borrowing. Using a longitudinal approach, a research project can asses changes in consumption and asset ownership over time and draw inferences on household strategies for coping with financial distress and managing financial obligations. Do household sell assets or reduce consumption? Do they drop out of programs? Unfortunately, the proposed cross-sectional survey is unable to address these questions.

Branch Client Information



To complement the area household survey described above, branch client data will be used to produce more detailed estimates of the prevalence of multiple borrowing and possibly the profile of multiple borrowers, using individual-level information from branch client databases. The idea is to first consolidate branch client data collected from all the MFIs operating in the Commonwealth area, thus constituting the "universe" of all MFI clients in the area, by construction. This consolidated database—as agreed with participating MFIs—includes a few selected fields common to all MFI branch client databases: the name of the client, birthday, street address, spouse name, loan size, repayment information, etc.

Next, a search function (sometimes called a "search algorithm") then matches households across MFIs (such as for example, by matching the names and birthday of MFI clients, along with their address, allowing for spelling, encoding, and other errors in the database). If a client (or a household) appears in more than one MFI database, then that client can be considered a multiple borrower. Aggregating the information then produces an estimate of the incidence of multiple borrowing (or multiple borrowers in percent of all MFI clients in the area). This process of data consolidation and matching yield several key advantages as well as disadvantages.

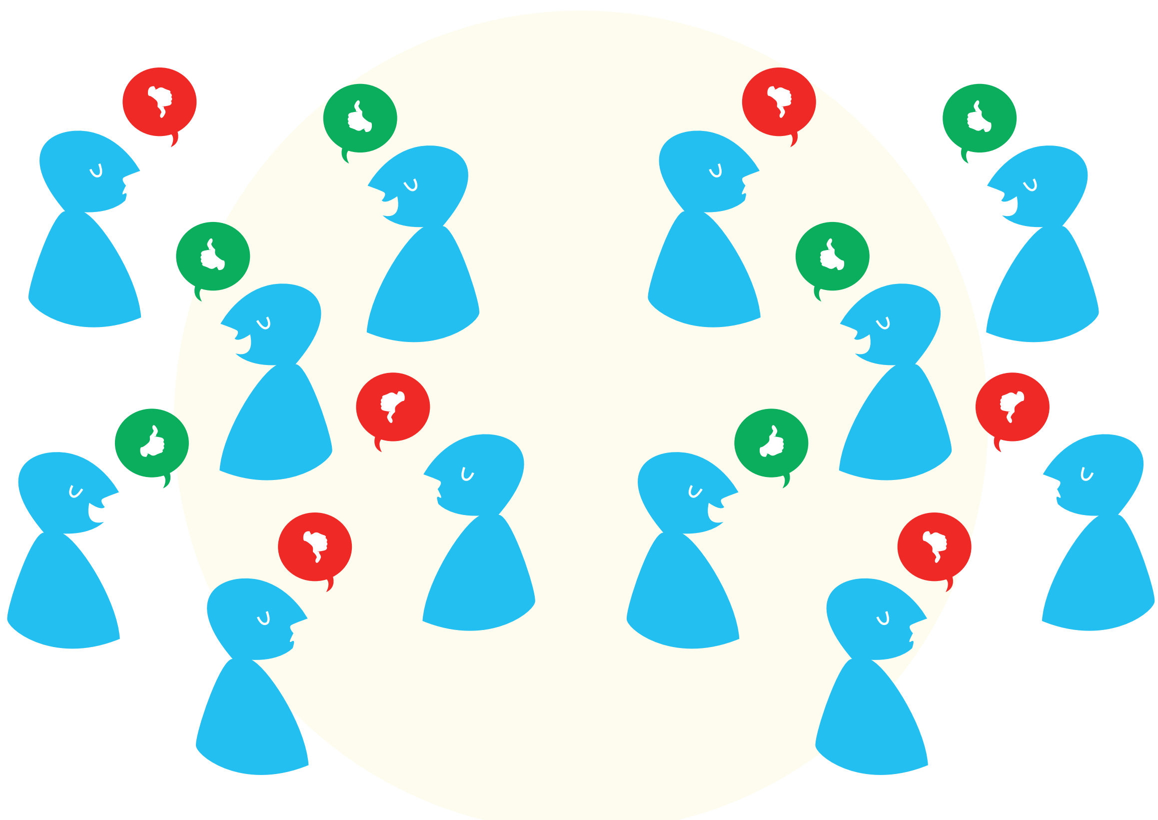
On one hand, if the matching process is reasonably successful, the information can be considered more credible than the household survey. Rather than rely on self-reported information on multiple borrowing, the use of consolidated branch client data confirms that indeed a particular client (or household) is simultaneously borrowing from several MFIs. In addition, if the number of confirmed multiple borrowers is sufficiently large, a profile of such borrowers (by loan size, for example, or by self-reported loan use) can be estimated. The analysis can also shed light on one important subset of this group who may be borrowers that have multiple loans from various branches of a single MFI ("within MFI multiple borrowing"). In the absence of a database consolidated across its own branches, an MFI itself may be unaware that the same household is currently receiving multiple loan products (e.g., microenterprise development lending product, educational loans, multi-purpose loan, etc.). More important, together with information on repayment and delinquency, the analysis can confirm whether or not multiple borrowing is associated with delinquency or late payments. It should be noted that this is merely a measure of statistical association, not causation (in neither direction - multiple borrowing leading to delinquency or delinquency leading to multiple borrowing), as databases from a single point in time cannot be used to draw conclusions about causality.

On the other hand, this consolidated branch client information is subject to several important weaknesses. First, the analysis is unable to determine whether MFI clients are simultaneously borrowing from other sources of credit—including commercial banks, moneylenders, government institutions, and informal sources such as family and friends. As such the implied definition of multiple borrowing is narrow, referring only to households that borrow from MFIs. In addition, unlike the household survey, consolidated branch client information cannot produce detailed profiles of multiple borrowers, in the absence of labor market, expenditure, and household roster information. Finally, the analysis of this type of data is also subject to errors of inclusion and exclusion. In particular, the quality of the estimate of the prevalence of multiple borrowing is directly linked to the quality of the matching process. If the matching process fails to identify certain types of multiple borrowers (e.g., those who deliberately provide false names and other personal details to MFIs), then the incidence of multiple borrowing is underestimated (i.e., error of exclusion). If the matching process includes clients who, by coincidence, share the same names (not uncommon, among relatives) then multiple borrowing is overestimated (i.e., error of inclusion). The risk of this error is mitigated somewhat by also using birthdays and street addresses. Nonetheless, errors of inclusion are possible.

Focus Group Discussions (FGDs)

FGDs with selected MFI clients are the third key source of information. These are typically small samples and are not representative. The implied definition of multiple borrowing using this information source is, along some dimensions, much narrower than that of consolidated branch client data. In particular, these discussions attract a certain profile of multiple borrowers – those openly admitting that they are borrowing simultaneously from multiple MFIs. They are also less likely to be in distress.

On the other hand, this process may yield insights not generated by the two other data sources. In FGDs, MFI clients speak freely about the causes and consequences of multiple borrowing. In the absence of credible data on the dynamics of multiple borrowing, in-depth interviews can provide information on whether multiple borrowing is sequential or whether multiple borrowing occurs simultaneously. The clients may also provide additional information on the non-monetary reasons for borrowing from multiple sources, including the importance of certain auxiliary services.



SUMMARY AND CONCLUDING REMARKS

In response to growing concerns about the prevalence of multiple borrowing and likely adverse consequences, this paper reviewed the relevant literature and proposed an empirical framework to guide a pilot effort to understand multiple borrowing in the Philippines. First, it summarized selected studies of multiple borrowing conducted in other countries, noting the limits of various data sources, the different definitions of multiple borrowing, and gaps in the understanding of multiple borrowing's causes and consequence. It then proposed a suitable research design to assess the incidence and the consequences of multiple borrowing in a selected community in the Philippines, drawing from three key sources of information.

The use of multiple data sources sheds light on various aspects of multiple borrowing and offsets some of the known weaknesses of each data source. Notwithstanding the efforts to have a comprehensive understanding of multiple borrowing, some weaknesses remain and should be highlighted:

First, although the use of several sources of information represents an improvement over the existing literature, these data sources are analyzed separately and cannot be consolidated. They vary in degree of representativeness and they vary in scope and comprehensiveness. Second, they remain subject to various errors, include misreporting, sampling errors, encoding errors, etc. Third, the data are cross-sectional (from a single point in time) and provide little information about the dynamics (i.e., how things evolve over time). As such, the analysis can only produce insights into associations rather than causal relationships (e.g., if multiple borrowing is correlated with financial distress: did multiple borrowing cause distress or was it distress that initially led to multiple borrowing?).

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