What is “Mission Drift” in the context of the microfinance industry?

Pressure to expand outreach can pose a dilemma to MFIs. The concern is that efforts to reach a significant scale by securing financial sustainability may lead to a tendency to provide larger loans to less poor clients and to employ stricter loan screening procedures. In other words, scale-up could lead to a drift from an MFI’s poverty alleviation mission.

How does scaling up affect an MFI’s mission?

Positive implications of expansion include lower operating costs, increase in the breadth of outreach and sustainability. However, there are also potential negative implications. Expanding the portfolio too rapidly may increase PAR (e.g. due to changes in the risk composition of the client group, hiring new field officers with less experience). The number of clients per loan officer also tends to rise as an MFI expands. This can lead to low morale, beginnings of turnover, MIS backlogs, and declines in portfolio quality.

In an effort to address these challenges, MFIs may drift away from their original mission of serving the poor. For instance, to prevent loan arrears and losses the MFI might target a better-off and less risky clientele. As a result, they will move to serve an upper income market with larger loans (“loan-size creep”), thereby drifting away from the mission to serve the original target clientele – the poor.

How can mission drift be measured?

A key problem with detecting mission drift is that few MFIs really define the type of poor they are trying to serve or the types of impact they expect to have on their clients. In general, however, mission drift is seen in terms of change in the poverty level of an MFI’s clients. Average loan size is a commonly used indicator, but this has drawbacks:

- Even larger businesses sometimes apply for small loans.
- Poor clients may be graduating to larger loans.
- The MFI may be entering into new markets eg. SMEs, agricultural loans.

Other accepted poverty measurement tools include household expenditure/consumption surveys, such as CGAP’s Poverty Assessment Tool (PAT). Opportunity International uses a comprehensive system called the Client Impact Monitoring System (CIMS). CIMS replaced the previous methodology used by Opportunity to measure impact. This was a “means test” form for all new clients, with indicators including transportation and housing (e.g. construction material, ownership, utilities etc).

Other measurements of mission drift include the following:

- Average size of first loans as a percentage of Gross Domestic Product (GDP).
- Housing index surveys.
- Monthly household income per capita (i.e. measuring poverty as a flow of resources that enables individuals and households to sustain their living).
- Geographical distribution of clients (e.g. poverty is generally more prevalent in rural areas due to access to infrastructure, resources, service and market).
- Sectoral distribution of loans (since some sectors such as agriculture and manufacturing are traditionally considered riskier than others).

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