

Microfinance Wolves Strike on Multiple Borrowing and Loan Repayment

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Abstract: - Studies on multiple loans and their effect on repayment of loans between clients and the sustainability of microfinance providers show conflicting results. Some studies indicate that multiple indebtedness has a positive effect on loan repayment and Micro Finance Institutions (MFIs) sustainability, while others show that it leads to over-indebtedness and, consequently, non-compliance with the loan. Therefore, this study analyzed the incidence of multiple loans, the reasons for multiple loans and the effects of multiple loans on loan repayment in Batticaloa District. The target population comprised a total of 22,645 loan borrowers out of which a sample of 100 was picked using simple random sampling, which enable every member of the population have an equal and independent chance of being selected as respondents and also simplest, most convenient and bias free selection method. The data was collected by use of self-developed questionnaire issued to the microcredit borrowers, in depth interviews had with microcredit group leaders and MFIs' Manager and staff. Results showed that prevalence of multiple borrowing at Batticaloa District was very high. Over 85% of the 100 microfinance clients had at least two loans from different MFIs at the same time. In addition, about 47% also borrowed from individual lenders. Major reasons for multiple borrowing were loan recycling, insufficient loans from MFIs, and family obligations. Over 65% of the respondents had problems in loan repayment because of multiple pending loans. Researcher found that age group and number of dependents of the respondent significantly influenced the number of loan contracts.

Keywords: Impact; Loan repayment; Multiple borrowing;

I. INTRODUCTION

Microfinance has been recognized as an essential socio-economic and financial mechanism for poverty alleviation, promoting entrepreneurial development and increasing the profile of disadvantaged people in numerous countries throughout the world (Hossain et al., 2012). Microfinance serves to promote rural livelihoods and urban poor by the creation of entrepreneurship opportunities that encourage the elimination of unemployment by creating potential business based on their interest and skill. Microfinance targets to poor people because these people usually lack of collateral, no steady employment and verifiable credit history, which therefore, cannot even meet the most minimal qualifications to gain access to normal banking. Besides, it can avoid poor people lend with illegal banking such as moneylender or loan shark that charge unreasonable interest rate.

Microfinance is a sustainable means of poverty alleviation leading to lasting and holistic development. Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty. Microcredit is the lending side of microfinance. Microcredit loans help the poor to be involved in income generating activities that allow them to accumulate capital and improve their standard of living. It is claimed that microfinance can be an effective instrument to raise income, production and employment of the poor householders.

Microfinance in Sri Lanka is practiced by a broad range of different organizations for purposes of poverty alleviation, social and community development and as a multi-faceted intervention tool. The rationale, methods and models behind such schemes varies significantly according to actor (AusAID and GTZ survey, June 2002).

Delinquent loans play a critical role in a micro-finance organization's cost structure, revenue and cash flow management. Additional efforts to decrease delinquency usually mean additional costs for closer monitoring, more frequent visits to borrowers, more extensive analyses of the portfolio, legal fees for pursuing seriously delinquent borrowers, and other costs. The more time, effort and resources that are put into controlling delinquency, the less time is available for the organization to reach new borrowers and expand services or outreach.

The last three quarters of the 2012/13 financial year have been hard on 47 players in the country's Licensed Finance Company (LFC) sector which magnified unfavorable conditions in the economy with loan delinquencies expected to increase in the short term, RAM Ratings Lanka said in a report on May 2013.

II. PROBLEM STATEMENT

Delinquent loans (who did not pay their monthly installment) play a critical role in a micro-finance organization's cost structure, revenue and cash flow management. Additional efforts to decrease delinquency usually mean additional costs for closer monitoring, more frequent visits to borrowers, more extensive analyses of the portfolio, legal fees for pursuing seriously delinquent borrowers, and other costs. The more time, effort and resources that are put into controlling delinquency, the less time is available for the organization to reach new borrowers and expand services or outreach.

More than 60 suicides recorded in last few years in the East stemmed from family disputes over debts owed to micro finance companies, according to women-led civil society organizations working at grassroots level in the region.

1st July 2018 <http://www.sundaytimes.lk/180701/news/micro-finance-wolves-strike-again-with-two-more-debtor-suicides-300210.html>

III. OBJECTIVES OF THE STUDY

- To find incidences of multiple borrowing.
- To find reasons for multiple borrowing
- To find effects of multiple borrowing on loan repayment at Batticaloa District.

IV. SIGNIFICANCE OF THE STUDY

This research expects to contribute to the development of the microfinance sector in Sri Lanka. To date, there are few studies on multiple borrowing and loan repayment. This study intended to investigate the factors that influence on multiple borrowing and microcredit loan repayment among borrowers. Examination this among MFI borrowers will benefit these institutions in understanding the factors that lead borrowers to default or miss their loan repayments. This understanding may improve their repayment collection scheme and future profit margins.

The microcredit loans are able to improve the economic and social status of the poor since it provides a working opportunity. Apart of the challenges to reaching out the poor in offering the microcredit loan, the microfinance institutions also having challenge with loan repayment. The lower loan collection can be caused by the borrowers themselves or unfavourable loan product's characteristics designed by the microfinance institution or characteristics of microfinance institution itself. In this regard the repayment is important to make sure that the MFIs are operated in a sustainable basis. Repayment refers to the total loans paid on time as stated in the loan agreement contract.

V. SCOPE OF THE STUDY

As it is impractical to examine all Microfinance Institutions which are operating in Sri Lanka. The researcher has narrow down the scope of this study to the Batticaloa district and also selected only private Microfinance Institutions to carry out this research study. Even though there could be many intervening and moderating variables affecting multiple borrowing and repayment, the study was restricted to study few variables.

VI. DESCRIPTION OF THE STUDY AREA

MFIs provide microcredit services throughout Sri Lanka and have a large number of borrowers. For this research, Batticaloa District was chosen Batticaloa is quiet and cosmopolitan with Tamils, Sinhalese, Muslims and Burghers all living in amity, microfinance services have been growing rapidly.

There are eleven divisional secretariat in Batticaloa District and twelve MFIs are functioning in Batticaloa district among them the study was conducted among five DS divisions where the population density is high in Town & Gravates, Muthur, Kinniya, Kuchchaveli, Thambalahamam and Kanthale namely with five MFIs functioning more than two years and their borrowers. This provided an adequate representative population for the study. The study was conducted by issuing self developed questionnaire.

VII. SAMPLE SELECTION

This study selected 100 borrowers out of 22,645 total population, all borrowers who would provide a better understanding of and sufficient information about multiple borrowing and microcredit loan repayment. This study randomly selected borrowers in various microcredit loan schemes (economic purposes only), such as small businesses, services, plantations, animal husbandry, fishery and manufacturing. This study used simple random sampling procedure.

VIII. DATA ANALYSIS METHOD

The data collected from survey questionnaire were carefully coded and checked for consistency and entered into the SPSS spreadsheet. The analysis was performed with SPSS. Descriptive statistics was employed to analyze data and the results were tested with non-parametric tests of significance. Besides, measures of central tendency (mean, standard deviation) were used to analyze the questionnaire survey result.

Multiple loans

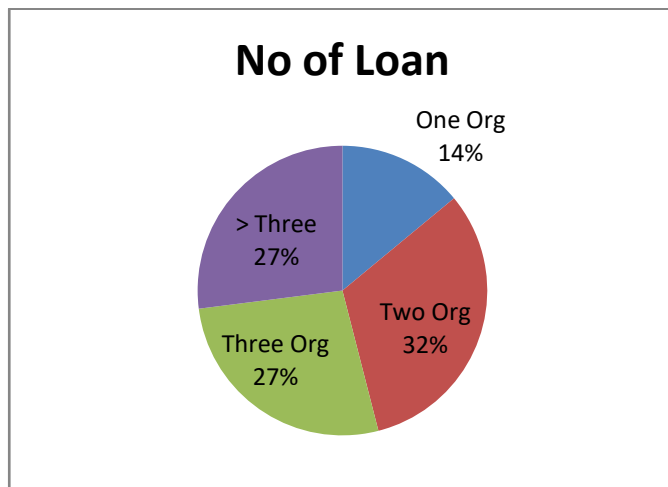
According to the survey result 14% of the respondents were getting loan from only one MFI, 32% of them were getting loan from only two MFIs, 27% of them were getting loan from three, and remaining 17% were getting loan from more than four MFIs.

Table 1: Frequency analysis for no. of loans

Multiple Loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	One Org	14	14.0	14.0	14.0
	Two Org	32	32.0	32.0	46.0
	Three Org	27	27.0	27.0	73.0
	> Three	27	27.0	27.0	100.0
	Total	100	100.0	100.0	

Source: Survey data

Figure -1: Frequency analysis for no. of loans

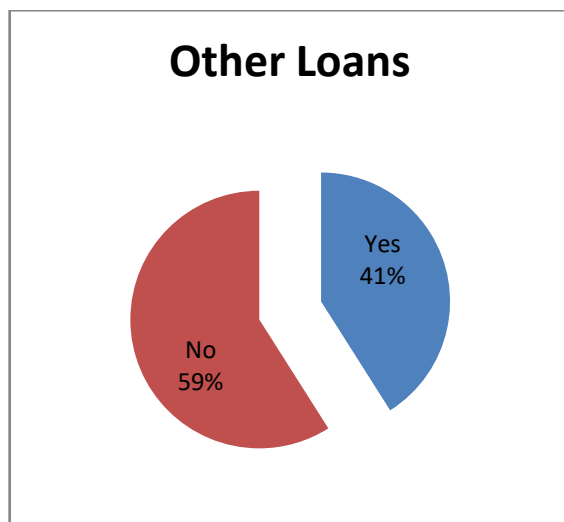


Source: Survey data

Other Loan

Among the sample 100 borrowers, 41% of them have borrowed from friends and relatives and the rest 59% do not have any other loan except microcredit loans.

Figure 2: Frequency analysis for other loans



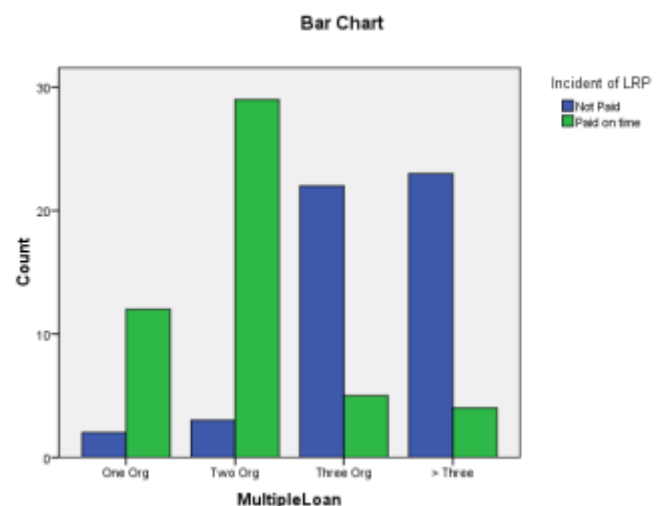
Source: Survey data

Crosstabulation for multiple borrowing and loan repayment

Regarding their loan repayment, 12% of respondents who had taken loan from one microfinance institution repaid their loan successfully, 29% of respondents who had taken loan from two microfinance institutions repaid their loan successfully, 5% who had taken loan from three microfinance institutions repaid their loan successfully, 4% who had taken loan from more than three microfinance institutions repaid their loan successfully.

MultipleLoan * Incident of LRP Crosstabulation				
Count				
		Incident of LRP		Total
		Not Paid	Paid on time	
MultipleLoan	One Org	2	12	14
	Two Org	3	29	32
	Three Org	22	5	27
	> Three	23	4	27
Total		50	50	100

Source: Survey data



Source: Survey data

IX. DISCUSSION

The significant positive sign on the Gender variable indicated that the probability of a loan repayment problem was higher for males than for females. As hypothesized, male borrowers were less responsible and disciplined in repaying their microcredit loans than female borrowers. This finding is similar to the results reported by most previous result that found female borrowers are more creditworthy than male borrowers such as Sharma & Zeller (1997), Papias & Ganesan (2008), Derban et al., (2005), and Roslan & MohdZaini (2009). Chaudhary and Ishfaq's (2003) and Roslan and Abd Karim's (2009). In this study the borrowers' Educational level did not have a significant effect on the probability of a loan repayment problem. This contrasts with Bhatt and Tang's (2002) results in a study of microenterprises in the USA and Chaudray and Ishfaq's (2003). The number of Dependents in the borrowers' household also influences the ability of borrowers to repay the microcredit loan Household Size, it is a continuous variable and it is assumed that the larger the household size the negative impact will have on successful loan repayment performance which is attributed to higher household expenses. Thus, it is hypothesized that the borrower who has many dependents will have a higher probability of having a problem in paying back the microcredit loan (Brehanu & Fufa, 2008).

The Extra Loan variable indicates the commitments of loan repayments faced by the borrower. This study examines whether the borrowers confront their loan repayment when borrowing extra loans from friends and relatives. This result is inline with study reported by Suraya H M (2011), that many Malaysian microfinance borrowers borrowed from more than one face difficulties to repay. The Extra Loan variable indicates the commitments of loan repayments faced by the borrower. This study examines whether the borrowers confront their loan repayment when borrowing extra loans from friends and relatives. Study found that the borrower who has an extra loan is positively associated with a loan repayment problem. The existence of an extra loan apart from the microcredit loan will influence the capability of borrowers to repay their microcredit loan. An extra loan means additional responsibility in meeting loan repayments apart from the microcredit loan. This result is inline with study reported by Suraya H M (2011), that many Malaysian microfinance borrowers borrowed from more than one face difficulties to repay.

Empirical evidences on the effect of multiple borrowing on clients and the MFIs are contradictory. Some studies find that multiple borrowing has a positive effect on loan repayment and sustainability of MFIs (Krishnaswamy, 2007) while others, for example, Chaudhury et al. (2001), Rhyne (2001), Johnson (2004), and Wisniwski (2010) show the opposite. Krishnaswamy (2007) reports that multiple borrowers have been found to have equal or better repayment records than their single borrowing peers in the same villages. Contrary to Krishnaswamy (2007), a number of incidences of failure to

repay because of multiple borrowing have been reported. For example, Chaudhury et al. (2001) find that there have been an increasing number of households in Bangladesh that take multiple loans from different MFIs and that their repayment rate was declining. Similar incidences have been reported in Hosea Met al. (2012) Prevalence of multiple borrowing at Iringa in Tanzania was very high. Major reasons for multiple borrowing were insufficient loans from MFIs, loan recycling, and family obligations. Over 70% of the respondents had problems in loan repayment because of multiple pending loans. It has been found that multiple borrowers had increasingly high debt levels and repayment obligations, which they frequently could not fulfill because of over-indebtedness. For instance, Wisniwski (2010) finds a correlation between over-indebtedness as measured by number of credit contracts and risk of default as measured by over 30 day unpaid loans. Individuals with more credit contracts were at a higher risk of defaulting. On the other hand, Vogelgesang (2003) argues that lower repayment rates may lead to less favourable credit conditions for the poorest borrowers, for example, when interest rates are raised, which may consequently lead them to drop-out from the loan portfolio of the MFI. In this regard, Johnson (2004) argues that caution must be taken when planning for expansion of loan to discourage multiple borrowing and default. Incidences of multiple borrowing and its effects have not been well studied and documented in a Tanzanian context. As such the prevalence of multiple borrowing, reasons for multiple borrowing and their effects have not been documented. This study attempted to bridge this knowledge gap and to propose ways of managing loans for sustainability of the microfinance sector and the informal business sector. According to UK (2007), over-indebtedness threatens the government's goal of improving the well-being of its citizens and is therefore a serious concern. Findings of this study are consistent with previous studies that multiple borrowing among the poor increases loan repayment problem.

X. LIMITATIONS

There are a number of limitations in this research relating to sample selection, data and estimation techniques. These include: Some information collected from the borrowers is not purely correct, they may have manipulated information to get loan by thinking that we collect information for giving loan to them. The conclusion and recommendations have been arrived based on the available information, it assumes that the information used for this research is correct and accurate.

XI. CONCLUSION AND RECOMMENDATION

Microfinance was introduced in Sri Lanka to provide financing facilities to the poor and microenterprises to start up business or to finance business activities such as to buy tools and machines, business equipment and, raw materials. Most of the MFIs in Sri Lanka are subsidized institution where they received funds in the form of grants from the government and foreign countries and majority of them are too dependent on

the grants that make them not sustainable. Therefore, high repayment is important for them to continually providing microfinance to their clients. The study concluded that most of the borrowers did not use the loans they received from the MFIs for the intended and agreed purposes and they do not have adequate return for the repayment. Such multiple borrowing and diversions of loan were the reason why they were unable to keep up to date in their repayments. The study recommends that in order for MFIs to reduce default in loan repayments, they should monitor the borrowers regularly so as to ensure that they use the loans they received for the agreed and intended. This could be done through getting regular account statements from borrowers as well as physically visiting the borrowers to monitor and evaluate the progress of their loan projects. In order to control the incidences of multiple borrowing we recommend that MFIs should devise a way of sharing clients' loan information. In addition, MFIs should provide adequate loans so as to avoid the practice of clients to reapply to other MFIs to meet their requirements. Some form of training should also be provided to help clients distinguish between business and family matters.

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