

**CAUSES OF INDIVIDUAL MULTIPLE BORROWING IN MICROFINANCE:
A CASE STUDY OF PYUTHAN MUNICIPALITY**

A Thesis Proposal

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1. Background of the study

Microfinance plays an important role in fighting the multi-dimensional aspects of poverty. Microfinance is an innovation for the developing countries. It provides self-employment opportunity for poor people who are unemployed, entrepreneurs and farmers who are not bankable because of the lack of collateral, very low level of income. It has successfully enabled poor people to start their own business generating income and often beginning to build up wealth. It has the capacity to enhance the socio economic development of the vulnerable and marginalized people, especially women.

Microfinance is a simple but effective credit tool that enables the most poor to pull themselves out of poverty. It involves advancing small loans to the working poor. These loans are usually less than \$200 and made by local organizations called microfinance institutions (MFIs). Microfinance helps the working poor to establish or expand small businesses that generate additional income for the family use. This extra income allows a poor family to buy food, access healthcare, educate their children, put aside savings and lay the foundation for a better future. Microfinance is one of the best alternatives to generate self-employment. It provides services to the communities who have no collateral to offer against the loans they take but have indigenous skills and strong desire to undertake economic activities for self-employment and income generation (Shrestha, 2009).

Microfinance increases household income, which leads to food security, the building of assets, and an increased likelihood of educating children. Microfinance is also a means for self-empowerment. It enables the poor to make changes when they increase income, become business owners and reduce their vulnerability.

“Microcredit, or microfinance, is banking the un-bankable, bringing credit, savings and other essential financial services within the reach of millions of people who are too poor to be served by regular banks, in most cases because they are unable to offer sufficient collateral. In general, banks are for people with money, not for people without” (Maanen, 2004). Microfinance has emerged as an effective poverty alleviation tool because it is based on the fundamental principle that human beings are motivated to do whatever it takes to make themselves as well as possible.

People in the society are not equally capable and skillful. Therefore, an access, opportunity, right to control over resources should provide these people according to their capabilities. Control over loan, loan related activities, and expenditure of earnings are three kinds of benefits that must be equally shared among male and female members in the family. The question arises whether loanees share the benefits or not.

Microfinance is the provision of savings accounts, loans, insurance, money transfers and other banking services to customers that lack access to traditional financial services, usually because of poverty. Making small loans to individuals who lack the necessary resources to secure traditional credit is known as micro credit.

Microfinance has emerged as an economic development approach to benefit low-income section of the society. Microfinance is a kind of service products viz. savings, credits, training, insurance and social intermediation services such as group formation, development of self-confidence, training in financial literacy and management capabilities among members of a group. Microfinance is the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services.

Rapid expansion and diversification of microcredit/microfinance programmes have been accompanied by borrowing of the same individual from multiple microfinance institutions. The microfinance industry has experienced a phase of rapid growth during the last decade. Governments are supporting the sector and financial success is continuously attracting new entrants. The increasing competition has strongly changed the characteristics of the microfinance sector. One of the main changes concerns the range of microcredit products and suppliers: borrowers are now able to choose between a variety of microcredit products from multiple institutions. The freedom to choose between several possible suppliers is considered to be one of the main benefits of competition. It puts pressure on microcredit prices and forces competitors to innovate and to drive down costs. But freedom of choice can also be problematic in a microfinance environment.

Borrowers can simultaneously hold loans from multiple credit suppliers, and thus engage in what is termed multiple borrowing. Multiple borrowing in microfinance is

caused by factors from both the demand and supply sides and poses a credible threat to the long-term sustainability of the sector. Multiple borrowing refers to the multiple membership of an individual or a household (Faruqee and Khalily, 2011; Lahkar and Pingali, 2014; Lutzenkirchen and Weistroffer, 2012). When an individual borrows from more than one microfinance institution (MFI), it is called ‘individual multiple borrowing,’ whereas if more than one person from the same household (normal household unit) borrows from the same or different MFIs, it is known as ‘household multiple borrowing’ (Faruqee and Khalily, 2011).

2. Statement of the Problem and research questions

- i. How the supply factors (Growth of MFIs, Strong competition and service quality) affects the multiple borrowing?
- ii. How the demand factors (consumption demand, micro enterprises) affects the multiple borrowing?

3. Objective of the study

- i. To analyze the effects of supply factors (Growth of MFIs, Strong competition) of multiple borrowing.
- ii. To evaluate how demand factors (Consumption demand, Microenterprises) affects the multiple borrowing.

4. Rationale of the study

This study intended to investigate the factors that influence on multiple borrowing. The study will conduct in Pyuthan municipality. This study will help to attract the policymakers, researchers, and other people to know and research on the factors of individual multiple borrowing in microfinance.

The study will carry the rural areas test of micro finance institutions activities.

- i. This study aims to find out the actual reason of individual multiple borrowing.
- ii. To understand and present the rationale and impact for multiple borrowing from a client perspective.
- iii. It also helps to policymaker of micro finance related with multiple borrowing.
- iv. This study can be used for other researcher as a reference who wants to study further in this or related areas or to serve as a reading material for anyone who is interested.

5. Limitation of the study

This research tries utmost care to cover most of the important sector however it is still subject to limitation. The main limitations of the study in terms of its scope, methods and assumptions are as follows:

- i. The study is based on multiple borrowing membership of microfinance in Pyuthan Municipality, which may not represent the overall scenario of Nepal.
- ii. Due to the illiteracy of respondents the statistical bias may exist.
- iii. Data and information collected from the respondents are based on their opinions and knowledge which may be subject to bias.
- iv. Lack of sufficient literature review regarding this topic in the context of Nepal.
- v. The study only covers limited variables such as supply factors and demand factors and rest of the other variables are ignored.
- vi. The responses might not be very representatives of the population due to sample limitations, area limitations and result cannot be generalized since collected questionnaire is small.

6. Literature review

Few studies find that multiple borrowing has a positive influence on loan repayment and sustainability of MFIs (Krishnaswamy, 2007). But number of studies like the works of Mpogole et al (2012), Chaudhury & Imran (2002), Johnson (2004), Rhyne (2001) and Wisniwski (2010) show that the influence is negative.

Chaudhury & Imran (2002) found that there had been dramatically increasing households in Bangladesh those take multiple loans from different MFIs and their repayment rate had been declining. Occurrences like these had been found in Bolivia, Morocco, Bosnia, Herzegovina and Nicaragua (Rhyne, 2001; Wisniwski, 2010). It had been found from different studies that multiple borrowers had increasingly high debt levels and repayment obligations, which they frequently could not bear out because of over-indebtedness.

Vogelgesang (2003) discussed that lower repayment rates may lead to less favorable credit conditions for the poorest borrowers, for instance, when interest rates are raised, which may therefore lead them to drop-out from the loan portfolio of the MFI.

Krishnaswamy (2007) argues about the direct positive impact of multiple borrowing on loan repayments. He found multiple borrowers performing equally or better in loan repayment than those who had single loan in the same villages. But this findings is not quite consistent with the other works on the similar topics. A number of occurrences of failure to repay because of multiple borrowing have been found by different researchers which is very much contradictory with the findings of Krishnaswamy (2007).

Krishnaswamy (2007) analyzed the extent of multiple borrowing between MFI clients in a competitive state in India. The findings of the study found that multiple borrowers had an equal or better repayment records than their single borrowing peers in the same villages. The study also established that repayment performance does not worsen in more competitive locations for most of the MFIs which suggests that good risk management, screening and monitoring by those MFIs and that there was collective behaviour in multiple borrowing.

Krishnaswamy (2007) examined the degree of multiple borrowing between MFI clients in a competitive state in India. A higher percentage of multiple borrowers said that gathering more credit was completely their voluntary decision and they used the second loan for investment purposes. The study also found equal or better repayment records of the multiple borrowers than that of single borrowers. The results of this study would point to no significant negative impact of multiple borrowing.

According to Srinivasan (2009), intense competition among MFIs is considered among the root causes of poor people's addiction to microcredit, especially the kind of competition which lowers borrower selection standards, weakens relationships with customers and leads to multiple borrowing and high defaults.

A comparatively recent research study by Burki (2010) in Pakistan shows that many borrowers feel the need to take multiple loans to meet their increasing business and consumption expenditures. 23 % of the borrowers surveyed admitted the need to borrow from multiple sources because the current loan size from any one microfinance provider did not meet their business needs. Furthermore, many borrowers felt the need for patching loans due to the declining purchasing power of

the average microcredit and the rising cost of living, thus, admitting the need for multiple loans.

As Wisniwski (2010) stated, key reasons for multiple borrowing are clients rustling and loan pushing from the MFIs side and loan recycling from the borrowers' side. There are contradictory results on the effects of multiple borrowing on the borrowers and the MFIs.

Wisniwski (2010) found a relationship 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.

Mpogole et al. (2012) analyzed the incidences of multiple borrowing, reasons for multiple borrowing, and effects of multiple borrowing on loan repayment at Iringa municipality in Tanzania. The findings of the study found that prevalence of multiple borrowing at Iringa in Tanzania was very high and over 70% of the 250 microfinance clients had at least two loans from different MFIs at the same time. The study also found that 16% had also borrowed from individual lenders and the major reasons for multiple borrowing were insufficient loans from MFIs, loan recycling and family obligations. The study also found that over 70% of the respondents had problems in loan repayment because of multiple pending loans.

Enevirathne et al. (2013) explored whether multiple borrowing facilities of microfinance lead for over indebtedness among paddy farmers in Sri Lanka. The study collected primary data through face-to-face interviews, from 60 respondents using cluster-sampling technique. The study employed descriptive and inferential statistical analysis to analyze the data. The findings of the study established that; gender, type of income, net monthly income, multiple borrowing had significant impact on level of over-indebtedness among paddy farmers in Sri Lanka.

Boiwa and Bwisa (2014) studied the effects of multiple borrowing on the living standards of microfinance clients at Kenya Women Finance Trust, Trans Nzoia Region. The study used descriptive research design and collected data from 47 clients using structured questionnaires and document analysis. The study research found that the major reasons for multiple borrowing were insufficient loans from MFIs, loan recycling, and family obligations. The study also found that over

70% of the respondents had problems in loan repayment because of multiple pending loans and that education level and number of dependents of the respondent significantly influenced the number of loan contracts. The study also found a strong relationship between multiple borrowing and investment of client's variables and recommended that in order to control the incidences of multiple borrowing Micro finance institution should devise a way of sharing clients' loan information.

Chichaibelu and Waibel (2015) also examined the dynamic interdependency between over-indebtedness and multiple borrowing in the context of micro-borrowers in Thailand and Vietnam using the dynamic random effect bivariate probit model. The findings of the study established that taking multiple borrowing simultaneously does positively influence household's risk of becoming over-indebted in Thailand, while in Vietnam it had no significant influence on household's risk of over-indebtedness. The study concluded that over-indebtedness reinforces households to refinance ultimately un-payable debts and trap households into a perpetual debt cycle.

Mungure (2015) examined the impacts and causes of loan default to MFIs activities in Tanzania using a case study design. The study focused on the impacts of loan default on MFIs operational costs, income, profit and lending, examining extent in which loan supervision, monitoring and control affects loan repayment, identifying whether multiple borrowing by clients leads to loan default. The study sampled 100 clients and 10 loan officers using simple random sampling and purposive sampling techniques. The study findings revealed that interest rates charged on loans, diverting funds from its intended use, multiple borrowing had a direct impact on repayment.

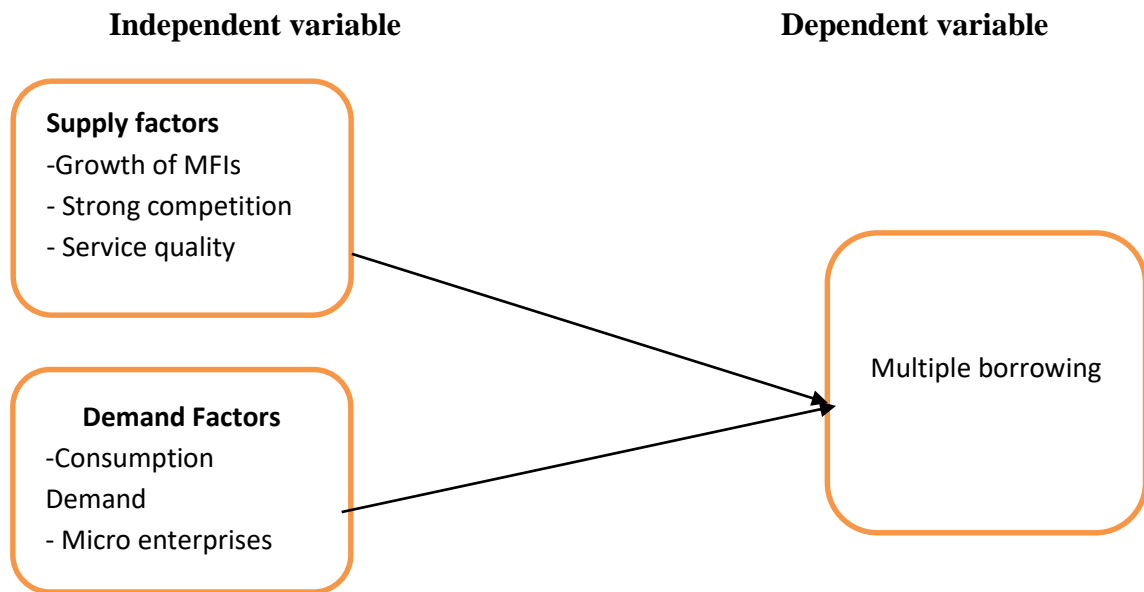
Ravichandran (2016) analyzed the incidence of multiple borrowing, reasons for multiple borrowing, and effects of multiple borrowing on loan repayment from a sample of 100 respondents. The study collected data using self-developed questionnaires issued to the microcredit borrowers, in depth interviews with microcredit group leaders and MFIs' Manager and staff. The research findings showed that the prevalence of multiple borrowing was very high among the respondents as over 80% of the 100 microfinance clients had at least two loans

from different MFIs at the same time. The study found that the major reasons for multiple borrowings were loan recycling, insufficient loans from MFIs, and family obligations. The study also found that the age group, number of dependents of the respondent, previous loan settlement and inadequate loan amounts provided by MFIs significantly influenced the number of loan contracts.

Lahkar, Pingali, and Sadhu (2016) using a survey dataset collected from Andhra Pradesh, India, we test if multiple borrowing is equivalent to over-borrowing. Results suggest that over-borrowing and multiple loans are not necessarily synonymous. As the number of credit agencies in a village increases, the average loan burden of villagers does not increase. We also find evidence of substitution of formal sources of credit for informal ones with increased presence of formal credit institutions. Such substitution is greater with addition of microcredit institutions than with other formal lending agencies. Our results indicate that joint liability setup seems to ensure that individuals at a greater risk of non-repayment are discouraged from obtaining microcredit.

The fast growth of microfinance services is leading to the risk of multiple borrowing by clients, which makes governance of the loans being more difficult (Johnson, 2004; Krishnaswamy, 2007). In fact, multiple borrowing is becoming a common practice for many clients in areas where there is concentration of MFIs (Wisniwski, 2010). According to Wisniwski, some of the causes of multiple borrowing are clients poaching and loan pushing on the MFIs side, and loan recycling from the clients' side.

7. Conceptual framework



Source: Mia, (2017)

8. Research methodology

Research methodology will follow to achieve the objective of this research paper. The research methodology includes research design, population and sample, sources of data, data collection, and processing procedure and data analysis tools and techniques.

The research methodology is the way to solve the research problem in order to make any type of research systematically, which fulfills the objective of the study. This study will be based on the descriptive and analytical study in order to achieve the objective of the study. The study is based on primary data. The relevant and needed data will be collected through sample survey, questionnaire, observation, direct interview as well.

8.1 Research design

To conduct the research and realize the above mentioned objectives this research adopted descriptive and causal research design. In this study, the approach can be employed to establish how variables such as demand factors and supply factors. The main aim of descriptive research is to provide an accurate and valid representation of the factors or variables that pertain to the research questions. As this research topic is based on multiple borrowing membership on microfinance of Pyuthan municipality. Exploratory research helps to gather preliminary information

that defines the problem to obtain deep insights into the multiple borrowing measurement process of microfinance institution and relate it with research questions related to the multiple borrowing. Similarly, descriptive research describes individual's perception and demographics to the multiple borrowing on the member clients involved in microfinance institutions at Pyuthan municipality, Pyuthan district.

8.2 Sources of data

The questionnaires has been structured in two sections. It also try to find out the level of financial knowledge of respondents. The questionnaires include both Likert scale questions and multiple choices question and option based questions.

8.3 Population and sample

This study has been carried out the study of multiple borrowing membership on microfinanc in Nepal with reference of Pyuthan Municipality which the MFIs are Chimeki, Mahila samudayek, Suryadaye, Chautari, Mirmire, Diprox, Nepal agro, Mero microfinance, Bijay laghu bitta. The people who are member of different micro finance in Pyuthan Municipality of Pyuthan district is a total population of the study, where the member of microfinance are nearly 1200 Out of the population 10% member such as 120 members has been selected conveniently all together from the different microfinance.

The study has been based on primary data. Primary data is used as a convenience sample survey through questionnaires of 120 members of microfinance in Pyuthan Municipality, Pyuthan district.

8.4 Methods of analysis

The response categories, tabulated, processed, and analyzed, using different methods. Frequency distribution means and standard deviation calculated. To test the hypothesis, multiple regression analysis has been use.

The method use stepwise regression in order to find out checking the causal association between dependent and independent variables. SPSS software application will use for interpreting data.

9. Chapter plan

The study is divided into five chapters.

Chapter I: Introduction

This chapter will explain background of the study, statement of the problem, objective of the study significance of the study, research hypothesis and limitation of the study.

Chapter II: Review of literature

This chapter will include review of literature which incorporates the theoretical review, the review of previous studies, conceptual framework and research gap.

Chapter III: Research methodology

This chapter will includes research design, justification for the selection of the unit, population and sample size, Nature and sources of data, data collection procedures, data processing and Analysis tools.

Chapter IV: Results and discussion

This chapter is data presentation and analysis. This chapter will includes data presentations, data analysis, findings and discussion of the study.

Chapter V: Summary and conclusion

This chapter will deal with summary, conclusion and implications, reference and appendices will also be attached at the end of the study.

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