ORIGINAL RESEARCH PAPER

COMMERCE

MULTIPLE CROSS-BORROWING TRENDS AMONG MICROFINANCE BENEFICIERIES: AN ANALYSIS OF PERSONAL AND ENTREPRENEURIAL FACTORS

KEY WORDS: Microfinance, Multiple cross-Borrowing, Personal Factors , Entrepreneurial factors

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ABSTRACT

Cross borrowing is the ability of a beneficiary to borrow from different lenders simultaneously or borrows from one lender to make repayment to another debt.The commercialisation of the microfinance sector leads to an increased competition for attaining clients and strict objective to seek profitability, that results in more than one Microfinance Institution (MFI) operating in an area. The rapid growth among microfinance sector offers its beneficiaries a scope to borrow from multiple sources, with easy formalities, within short period of time.While various studies acknowledged that the multiple memberships of credit sources among rural clients makes repayment difficulties and collaboration of total economic sustainability of clients. This paper tries to analyse and enlist some personal, entrepreneurial and microfinance provider related factors which leads them to simultaneous multiple accessing of credit from various sources. The paper concludes that the adverse income shocks in general economic conditions of the client, improper investment of fund, low return from the investment, new commercialised lending pattern of MFIs are the major reasons of simultaneous multiple borrowing trend among microfinance clients.

INTRODUCTION

Micro Finance has proved that, it is the most powerful tool to alleviate poverty worldwide. The normal development strategy of microfinance is that lending money as capital for establishing small income generating activities and allied services to small informal groups formed by low income people. Thus, it acts as a foundation of a sustainable development source to them. The training and technical skills provided may enable them to strengthen their own capabilities and make them growing entrepreneurs. Emergence of microfinance has tremendous success stories of rural poor all over the world.

In recent years, various studies have been taken place on the growth and development of microfinance, both on behalf of provider and beneficiary. The result of most of the studies shows that the growth of number of MFIs (Micro Finance Institutions) and the fund flow by way of microfinance is highly growing in the last decade. Some of them who focused on 'the Challenges faced by MFIs in their activities' found that the goal of MFIs has changed from alleviation of poverty among clients into profit maximisation to the firm. As a result of increased competition among the microfinance lending business each of them offers attractive products to the clients such as in terms of decreased formalities, interest rates,repayment schedules and some attractive product purchase schemes.The economic and psychological weakness of poor clients will make them highly attracted to these marketing strategies of the industry.

Cross borrowing is the ability of microfinance beneficiary to borrow from different lenders simultaneously or borrows from one lender to make repayment to another debt.A study entitled Multiple Borrowing And Loan Repayment of Microfinance clients in Tanzania by Mpangole (2012) shows that 70 % of the sample of microfinance clients have atleast 2 loans from different MFIs, at the same time about 16% had loan from individual lenders from their local areas. Sougatha rai et al.,(2016) had found that more than 56% of the households in rural areas and 35% were over indebted in India on the basis of data collected from across 10 districts in Andra Pradesh, Telengana, Odisha, Kerala and West Bengal in 2015-2016.

This trend in microfinance era is the result of various other socio- economic factors too. The result of various studies shows that the multiple borrowing trend among the poor clients are highly increasing in the last few years, especially in Kerala. But that growth of microfinance providers and fund flow among clients itself does not contribute to the sustainable development of beneficiaries.

So, this paper attempts to explore the real reasons behind the multiple borrowing habit ,and the challenges of this multiple cross borrowing trend among the microfinance clients in Kerala.

STATEMENT OF THE PROBLEM

The result of the recent studies shows that the Micro Finance providers has seen a significant growth in recent years world widely and the access or availability of finance for beneficiary become very easy. Several studies have been conducted by various authors, on this microfinance area. These studies are highly focused on the challenges faced by the "providers" rather than the "beneficiaries". But it should be ensured that whether the goal of poverty alleviation and sustainable development is accomplished or not, through this increased number of sources and rate of fund flow of finance from the profit-oriented MFIs(NBFCs) on borrowers level. Even if, the empowerment factors have emerged and stimulated through Micro Finance programs, it can't be significantly state that, the tremendous growth of micro finance industries and fund flow among customers are the real reason of the customer development i.e, the increased fund flow itself may not help to achieve the real sustainable development of microfinance clients in rural sectors of Kerala. And not just that, it may push them into very critical challenge in their life due to the over indebtedness too. So, it is very essential to explore the reasons of multi borrowing/ cross borrowing trend among the microfinance clients.

OBJECTIVES

- To analyse the personal factors related to multiple debt borrowing patterns of the micro finance clients.
- To evaluate the entrepreneurial reasons of multiple cross borrowing habits of microfinance beneficiaries.
- To evaluate the factors related to microfinance providers in multiple borrowing of microfinance clients.

MULTIPLE CROSS-BORROWING

Since mid-2000s, the Microfinance sector has grown very rapidly. The commercialisation of the sector has led to an increased competition for attaining clients and strict objective to seek profitability, which results in more than one microfinance provider (MFI) operating in an area. While this facilitates members a scope to borrow from multiple sources.

Cross borrowing is the ability of microfinance beneficiary to borrow from different lenders simultaneously or borrows from one lender to make repayment of past debt. The increased debt offers from multiple sources, leads them to an unhealthy non - productive cross borrowing habit. A study entitled Multiple Borrowing And Loan Repayment of Microfinance clients in Tanzania by Mpangole (2012) shows that 70 % of microfinance clients have atleast 2 loans from different MFIs at the same time while about 16% had loan from individual lenders which they were used for non- productive purposes.

REASONS BEHIND THE MULTIPLE CROSS -BORROWING BEHAVIOUR AMONG RURAL MICROFINANCE BENEFICIARIES

General economic condition of the household of the beneficiary, return on the investment (ROI) from the loan are the key factors which influence the repayment capacity of the borrower. Aside these general economic background of a borrower, adverse shocks to the income or expenses reduce their capacity to repay debt and can trigger a situation of over-indebtedness (Disney et al., 2008; Stone & Maury (2006).Earning a low income , probably reduces a borrower's repayment capacity, due to a larger share of total income being bound for essential living expenses. In microfinance, Paxton et al., (2000) found a higher risk for repayment problems among rural borrowers.

I. II. Personal factors (*General economic conditions of person/Households)*

In general context, microfinance beneficiaries are very low-income people. So, microfinance provides an opportunity/ platform to generate sustainable income to the people who can't afford formal financial sources. Nature of income of the beneficiary from the activity started or from other source, is one of the major factors which determine the repayment capacity of the loan taken. Household income, occupation of spouse, family size, permanent family expenses etc determine the rate of income that should be gained or generated through the activity established. When there is no stable and regular income to the beneficiary (income from the business activity or spouse's income) they are forced to depend on other formal or informal sources of funds, for the repayment of the credit over dues or defaults. Sudden fund requirements for emergencies, expected but irregular lump sum expenses (e.g., wedding ceremonies), sudden drop in income (e.g., due to illness) etc., make adverse income shocks to the household economy of the client and their repayment schedules, which leads them to depend on multiple loans .

Unless there is any medical insurance or savings for health emergencies, the medical costs and other hospital expenses have to be met by themselves that leads to depending on more credit sources for making proper repayment. Unexpected shocks (e.g., medical expenses, funerals), may consume most of a borrower's income in a given period and may not leave sufficient cash flow for debt repayment. Bouquet, Wampfler et al., (2007) find that the main reasons for credit problems are sudden increases in expenses or loss of income and declined repayment.

II. II. Entrepreneurial Factors

Return on investment of the loan is the key factor which highly influence the repayment ability of the client. If there is no sufficient income generated from the enterprise the repayment of loan may beaffected and become declined or defaulted. It will drive them to resort to cross debts from other microfinance sources simultaneously. If the enterprise is the only source of income of the beneficiary, the unstable nature of income from the enterprise will also restrict the consumption level of the client's family too.

- **Size of the Loan amount**

Compared to other formal lending schemes, the amount of loan provided through microfinance schemes are small in nature(Priyankara and Sumanasiri,2019) found that most of the respondents had defaulted their loan repayments mainly due to their MFI offering a loan which is inadequate in size. While starting new ventures, the financially weak clients needs more fund to bring forward their tiny business unit to the market. So to establish a well-structured economic activity (to get sufficient income to the sustainable development of the client) they may be compelled to depend upon other sources of finance to acquire the amount, that is required for the project. The easy formalities and accessibility of microfinance products rush them to other "Microfinance providers" more than formal finance sources at the same period of time. The insufficiency of amount affects inversely on the profitability and smooth functioning of the economic activity which they started through the scheme by which the repayment of loan is declined or delayed .This leads the loan defaulters to seek and obtain new loans irrespective of the amount. One of the major reasons of multiple borrowing among micro credit borrowers is small size of loan from MFIs(Tania Afroze, 2014).

- **Inefficient Investment and Management of the Finance**

Lack of efficiency in management of finance with respect to rightly investing in appropriate areas, may affect the smooth running of their income generating activities. The borrower's evaluation skill in choice of what to invest in, the market conditions, the general condition of the microenterprise, the borrower's entrepreneurial skill sector of the activity and other factors (de Mel, McKenzie, & Woodruff, 2008)highly related to its return. If the borrower decides to use the loan (at least partially) for non-productive purposes, it reduces the ROI drastically. Unless there is another regular income source, the implementation of expected project will be failure. There must be an efficient management of application of available resources. Production oriented activities needs more working capital than service oriented and long-term agricultural investments. So, the production oriented entrepreneurs will have high risk on their continuous financial management. The given amount must be effectively allocated to long term assets and current assets. The low educated village people are not aware of these current ratios and are not well prepared for the project implementation. So, it is very essential to ensure whether the current training and skill development programs prevailing under the mf programs are effective for them or not.

- **Income uncertainity /(Uncertain ROI)**

Having a low and unstable income is a major cause of indebtedness in many consumer finance studies in the US and UK (Bridges & Disney, 2004; Disney et al., 2008; Lea et al., 1993; Lea et al., 1995; Livingstone & Lunt, 1992). Earning a low income probably reduces a borrower's repayment capacity, due to a low absolute amount of cash inflow at a borrower's disposal, and due to a larger share of total income being held up for essential living expenses. In general context microfinance beneficiaries are very low income people. So, microfinance provides an opportunity/ platform to generate sustainable income to the people who can't afford formal financial sources. Nature of repayment schedule of microfinance loans are fixed as weekly or monthly instalments which includes a certain portion of principle amount and interest of the credit , which should be regularly paid by the beneficiary in order to complete the loan within the period. When there is no stable and regular income to the beneficiary (income from the business activity or spouse's income) they have to depend on other formal or informal sources of fund for the repayment of the credit over dues or declines. ie, If income is instable but the instalment schedule for a loan is fixed, borrowers may not have the means to serve their debt in low-income periods, *(*Del-Río & Young, 2005; Disney et al., 2008*)* therefore,the unstable nature of client's income is a reason to the multiple borrowing.

- **Diversion of funds.**

The loans provided for running businesses are very often diverted for meeting family obligations as well (Hosea Mpogole, Immaculate Mwaungulu, SerijoMlasu, &Galinoma Lubawa,2012). Inadequate monitoring from the authority providing these funds leads to the mis-utilisation or improper utilisation of given fund. Economic and social empowerment of the client is only possible through productive investments. If there is no income generated through the application of this fund, the repayment declines or gets defaulted. This will lead to depending on another credit option.

- **Over-Indebtedness of loan defaults**

Loan default occurs when a borrower fails to repay a loan. Loan repayment delay refers to a late, partial or a skipped payment of regular repayment scheme fixed by the provider. (Priyankara and Sumanasiri,2019).The link between multiple source borrowing and over-indebtedness are mixed (Roth et al., 2016) he over- indebtedness may take place in two ways. Due to the decline or delay in the past loan repayment and due to more than one loans contracted simultaneously at a period of time and the income of the client is insufficient to make the repayment of all loans. The process of taking credit to repay the declined or delayed another credit repayment is known as "Cross debt". Nowadays the over –indebtedness happens due to not only making cross debt to repay the defaulted loan but also to make consumption purpose too. The consumption loans provided to the clients who haven't any sustainable income source to make repayment will automatically leads to over-indebtedness of declined repayment. This declined repayment is overcome through another credit by the beneficiary. So the multiple borrowing causes for over-indebtedness and the over-indebtedness leads to multiple borrowing.

- **Inadequate marketing avenues**

Inefficiency in marketing, lack of market information, lack of advertisement, packaging facilities, storage capacity and competition from multinational products etc., are the major marketing problems faced by tiny production units among rural area (Padma Narayan B ,2014). It will affect the income of the entrepreneurs. Sales in local markets in village areas is comparatively very less, so the members of a group activity may not get sufficient income from the sales unless there is a good transportation and intra-market trading option. These problems restrict the income generation from the activity and running of the business too and the day to day affairs of the group members. ROI may depend on the general characteristics of the enterprise, for example on its sector of activity. Some sectors of activity may have higher returns than others.

III. III. Micro finance providers related factors

- **Unhealthy competition among MFIs**

Microfinance sector are going through a transforming stage. ie, MFIs are commercialising their activities into legal for-profit organisations as Non Banking Finance Companies (NBFCs) *Venkateshwarlu Maroju (2007).* Along with the status of "beneficiary" also converted as microfinance "customers". The NBFCs are trying to achieve maximum profit to the organisation, for that they adopt more attractive microfinance product offers such as, products loans(eg. mobile, TV, refrigerator etc) consumption loans, collection services etc., through Microfinance schemes. Competition among MFIs seems to have lowered lending discipline, borrower selection standards and weakened the relationships with customers. The incentive and reward structure for external staff only focuses on customer acquisition and portfolio growth rather than growth of the beneficiary. The lack of information exchange between customer and staff also reduces the effectiveness of the purposeful lending. Front line staff want to reach their monthly targets and thus ignore multiple borrowing; *(M. Sreenivasan, 2009)*.The behaviour of financial institutions greatly contributes to client indebtedness by offering financial products through misleading advertising and aggressive selling, which is one of the "dark" side of financial inclusion taking place nowadays (European Commission, Microfinance Centre).

Clients do not reveal their borrowings/membership with other providers and also MFIs do not share the information with other MFIs, whichis also one reason of multiple borrowing among microfinance beneficieries*. (Venkata & Veena ,2010)*

- **High interest charges**

One of the main reasons for the lower rate of repayment is the high rate of the interest. Monthly/ weekly instalments amount includes interest amount too. The income generated from the activity is not enough to repay the instalments and their personal and entrepreneurial day to day financial needs. The rates vary from 4 to 25%. Most of the micro finance clients are not aware of the rate of interest they owe. Even if they know the rates, they are not bothered about the financial loss happening to them(low debt literacy). Automatically which will affect the repayment process and also creates arrears of instalments. And then they will be depend on other finance source additional to the primary microfinance loan.

- **Loan recycling**

When there is a burden of unpaid credit after the completion of micro finance period (ie, 10 months , 1 year , 36 months etc) the beneficiary may be compelled to repay a sum of amount to the provider, which may be a huge burden to them. The very low-income people may depend on another credit source for the repayment of this bulk amount. These credit programmes are almost given in a cycling basis. So, they know that the repaid amount will be got back through the next microfinance cycle, which is within a short period. Then they use the option of getting credit from other source to repay the over due amount. The easiness of availability with low formalities may attract them more to microfinance options than others. These secondary loans are used as a temporary solution for the repayment of the primary loan. This is one of the major reasons for increase in the multiple borrowing trends among microfinance beneficiaries in Kerala.

- **Pressure from the institution and lack of monitoring**

Group lending is a technique of lending institutions to increase the rate of repayment. They also appoint collection agents for each area and fix a particular day for each groups in an area for collecting the amount. The amount is lent individually but considered as group lending. Thus, the amount of each repayment instalment is declared for the group. The lump sum amount of whole members only is repayable to the agent. Otherwise the repayment of whole group will rejected. It creates a mere pressure among group members in order to make the amount repayable which affects the whole economic and sociological activities of the group members. Then, they automatically concentrate more on making repayment amount in any way. For getting the amount they widely depend on other credit options.

Lack of adequate monitoring leads to diversion or unproductive use of finance. The major objective of microfinance is to create income generating opportunities and through this an over-all socio-economic development of the client. Unless there is a direct monitoring and evaluation from the authority, it will leads to diversion of fund from the particular purpose for which it is actually given.

CONCLUSION

An unhealthy borrowing habit slowly leads a man into deeper insolvency in the future. This becomes much more riskier in the case of a poor borrower. The risk of this unhealthy cross borrowing habit, further increases the pressure with the occurrence of adverse economic shocks in the poor borrowers . The likely hood of multiple cross borrowing is higher for borrower with low returns from their activity and if the borrower use the fund for non- productive purpose(Jessica Schicks,2012). General economic conditions ,rate and nature of return from the activity, purpose of lending and actual utilisation of the fund are the main factors affecting the income derived and repaying ability of the microfinance borrowers. Adverse shocks in the income ,repayment defaults, nature of repayment schedule and amount are the main factors which leads the poor borrower to simultaneous credit dependence in a microfinance period. Non-productive use of past loans, adverse income shocks, low returns from the activity, etc., affects their income and then default on their repayments. Some studies acknowledge that a combination of multiple memberships, repayment difficulties of clients, strong collection practices of MFIs programme lead to both a crisis of repayment and then leads multiple debt dependence.

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