Performance of Multiple Borrowing Clients in Gandaki Province of Nepal

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ABSTRACT

The multiple borrowing problems are more common in microfinance institutions in Nepal. The study aims to evaluate the performance of multiple borrowing clients in Gandaki province of Nepal with reference to Muktinath Bikas Bank Limited (MBBL). The performance of multiple borrowing clients, in terms of women empowerment, consumption expenditure, capital expenditure, micro-enterprises creation, saving, investment, and profit, has been examined with the help of descriptive and inferential statistics. The study has been confined to five districts of Gandaki province and the data have been collected from MBBL clients who are involved in microfinance intervention at least from the last five or more years. The performance of most of the observed clients was empowered by microfinance activities but no significant difference in terms of changes in the livelihood parameters. Although microfinance programmes empower clients, the results of the investment, saving, micro-enterprises creation, capital and consumption expenditure, and income generation of clients are not convincing. The regulatory authority should identify the problems of multiple borrowing whether the financing from microfinance institutions is just for their profit or for productive application of loan. The socio-economic performance of clients is connected with the effective monitoring of clients made by microfinance institutions whether the loan has been properly utilized or not.

KEYWORDS: Microfinance institutions, multiple borrowing, productive applications

INTRODUCTION

Microfinance is a tool of connecting the unbanked people to formal financial services through a group-based lending system. It provides micro-credit to the people who cannot pledge any mortgage for the loan. Microfinance institutions provide a wide range of financial services generally micro-savings, micro-credit, micro-insurance, and payment services. It delivers both financial and non-financial services to the clients that help to transform the socio-economic status of the poor and marginalize people through the productive application of loan.

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). Multiple borrowing refers to the multiple memberships of an individual or a household (Faruqee & Khalily, 2011; Lahkar & Pingali, 2014; Lutzenkirchen & Weistroffer, 2012). Generally, borrowing from different microfinance institutions (MFIs)

and investing the finances together in a productive business may enhance the social wellbeing of the borrowers (Krishnaswamy, 2007). However, it may have a disastrous effect if borrowers keep accumulating debt with little or no ability to repay. Multiple borrowing is sometimes synonymous with over-indebtedness when monthly loan repayments exceed 50 percent of income (Maurer & Pytkowska, 2010). Over-indebtedness has been defined as a situation whereby a borrower fails to make repayments, which in the long run increases the borrower's financial vulnerabilities (Schicks, 2014). Many Indian farmers from Andhra Pradesh (one of the areas most penetrated by the microfinance industry) committed suicide because they were unable to repay multiple loans taken from MFIs (Levin, 2012). Multiple borrowing may have a direct impact on such incidents (Ashta et al., 2011); however, its severity and actual effect are still largely unknown. Multiple borrowing and the causes of multiple borrowing have become a topic of interest among academicians in microfinance.

MF services in densely populated areas pose a threat to the maintenance of quality operations. Among the multiple borrowing cases, some of the clients have taken loans from various institutions and circulating this amount to pay off loans rather than involved in productive investment. Multiple borrowing has created over-indebt to the clients due to the high amount of loans taken from various institutions beyond their capacity. As a result, the drop-out ratio has been increased which threatens to the MF industry for maintaining the quality of operations.

There is unfair competition in the Nepalese microfinance industry due to the high concentration of such institutions in urban and sub-urban areas. The majority of the MFIs have engaged in unhealthy competition and forgetting the ethical standard in the name of increasing membership, loan size, and other aspects of outreaches. The excessive supply of MF services in the same ground of clients and geography poses a threat to maintaining quality operations. Since institutional sustainability largely depends on the financial and social performance of the service delivery institutions so, a healthy competitive environment should be build-up for the smooth and sound development of the MF industry (Dhungana, 2014).

Multiple borrowing is becoming a common practice for many clients in areas where there is a concentration of MFIs. The causes of multiple borrowing are clients poaching and loan pushing on the MFIs side, and loan recycling from the clients' side (Wisniwski, 2010). Large numbers of people are still depending on the informal lending system in the country, especially in hilly and rural areas due to poor financial Inclusion. The status of financial inclusion in Nepal is not satisfactory and more than half of the adult population (55.0 percent) are still unbanked (World Bank, 2017). Unless financial inclusion is made effective, the majority of the people will be deprived of formal financial services. However, building an inclusive financial system is a challenging task that requires a high degree of effort and commitment. The government should provide enough supports to develop financial infrastructure, sound MF policies, strengthening the regulatory authority, and inclusive economic growth that will help to build-up an inclusive financial environment in the nation.

Borrowers from a single source can spend more on quality life than those who borrow from multiple sources. The borrowers from a single source have a significantly higher amount of savings and non-land assets than those who borrow from multiple sources (Islam, 2019). The ex-post loan record verification is inefficient and inadequate considering the socio-economic and informational asymmetries in micro-credit markets. Instead, household characteristics can predict multiple-borrowing behaviour (Debnath & Roy, 2018). Many microfinance institutions have experienced high levels of borrower turnover, deteriorating portfolio quality, and weak financial performance. The high and

rising levels of multiple borrowing among MFI clients suggest the need for greater client protection, more effective monitoring and regulation, credit information sharing among MFIs, and strengthening the performance of MFIs (Tilakaratna & Hulme, 2015).

The evidence from countries such as India, Nicaragua, Bosnia, Herzegovina, and Morocco shows that multiple borrowing in the microfinance sector led to increased debt levels among MFI clients, causing repayment crises in these countries (Chen, Rasmussen, & Reille, 2010; Microfinance Focus, 2011). The experience of Andhra Pradesh in particular may be leading to a partial reversal in the outlook for microfinance. Doubts about whether microfinance does benefit the poor (Bateman, 2010; Roodman, 2012) and concerns over multiple lending, multiple borrowing, and client over-indebtedness. Policymakers and donors should focus on a series of new concepts such as 'responsible finance' and 'client protection' (Center for Financial Inclusion, 2011).

Clients often use multiple loans for non-productive purposes, such as meeting emergency expenses or for another more viable or lucrative opportunity. Multiple loans are commonly used for emergencies. If the clients receive funds at an inappropriate moment in their business cash flow cycle, they may also be tempted to divert them to other needs like education, festivals, consumption, and so on. However, the real concern is with clients taking multiple loans from different MFIs who have similar products with rigid instalment schedules. The chance of getting over-indebted is high because of the inadequate control mechanisms in MFIs to prevent multiple lending (Venkata &Veena, 2010).

The objectives of the study are to evaluate the performance of multiple borrowing clients in Gandaki province of Nepal with reference to Muktinath Bikas Bank Limited (MBBL). The performance of multiple borrowing clients in terms of women empowerment, consumption expenditure, capital expenditure, micro-enterprises creation, saving, investment, and profit has been examined with the help of descriptive and inferential statistics.

METHODOLOGY

This research is based on an interventional approach related to the effects of micro-finance on multiple financing clients. The research is based on primary sources of data, collected through structured questionnaires. The authors designed the questionnaire considering the literature in this field. Before administrating the questionnaire for data collection, the authors did pilot testing and pre-testing of the questionnaire for validity. After that, the structured questionnaires had been administered to the MF clients of Muktinath Bikas Bank who have been involved in micro-credit programs at least from the last five or more years. The survey was based on a multi-stage cluster sampling method to represent the sample from Gandaki Province of Nepal. The multi-stage cluster sampling techniques, applied in clients' survey, has been presented in Figure 1.

Figure 1
Sampling Techniques
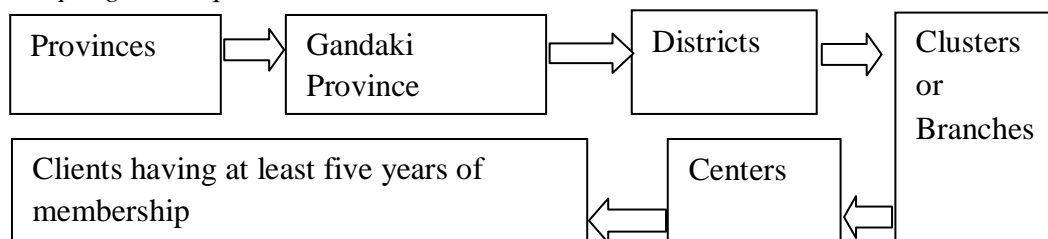
Geographically, there are seven provinces in Nepal. The study area has been confined to Gandaki Province of Nepal that comprises eleven districts. Since a microfinance service of Muktinath Bikash Bank is confined in nine districts of Gandaki province, the authors selected randomly five districts and selected some branches of Muktinath Bikash bank from these districts. From selected branches, the authors selected some centres randomly and at last, the authors selected randomly 230 clients of microfinance as respondents from which the author got a complete response from 185 clients. The sample size required is 188 at an unknown population with a margin of error of 6 percent and 90 percent confidence interval which is convincing on the study (Godden, 2004).

For reliability analysis authors calculated Cronbach's Alpha, whose value is 0.72, which fits the criteria of 0.60. This confirmed the reliability of the data. Data analysis tools used for the study are both descriptive such as frequency, percentage, mean, etc and inferential such as Chi-square test, the single sample mean test, and Wilcoxon rank test.

RESULTS AND DISCUSSION
Demographic Profile of Respondents
The demographic characteristics for the individual respondents have been presented in Table 1 with variables such as household head, age structure, ethnic group, marital status, educational status, and occupational status that were recorded and analyzed in percentiles using SPSS. The summary of the demographic characteristics of respondents has been presented in Table 1.

Table 1
Respondents' Demographic Profile

Demographic variables	Categories	Frequency	Percent
Household head	Male	78	42.16
	Female	107	57.84
Age structure	20-30	38	20.54
(Years)	31-40	75	40.54
	41-50	48	25.95
	More than 50	24	12.97
Ethnic group	Dalit	56	30.27
	Janajati & Adhibasi	51	27.57
	Others*	78	42.16
Marital status	Married	170	91.89
	Divorced/separated	2	1.08
	Widow	13	7.03
Education	Illiterate	35	18.92
	Primary education	84	45.41
	Secondary education	53	28.65
	Above the secondary level	13	7.03
Occupation	Job	2	1.08

	Business	83	44.86
	Agriculture/Livestock	94	50.81
	Others	6	3.24
Total		185	100.00

Note: *Others include upper-caste such as Brahaman, Chhetri, and so on.
Source: Field survey, 2019.

It is obvious from Table 1 that 57.84 percent of household heads are female followed by 42.16 percent of respondents have a male household head. A large number of respondents (42.16 percent) are Brahaman, Chhetri, and Others in terms of the ethnic group whereas remaining are Janajati, Adhibasi (30.27 percent), and Dalit (27.57 percent). Likewise, in terms of educational status, 45.41 percent of respondents have primary education followed by secondary education of 28.65 percent. Among the respondents, 91.89 percent are married. Furthermore, the table shows that 50.81 percent of respondents were involved in agriculture followed by 44.86 percent in business.

Multiple MFIs Account of Clients
The multiple MFIs account of clients has been presented in Table 2.

Table 2
Multiple MFIs Account of Clients

Number of MFIs	Frequency	Percent
2	109	58.9
3	58	31.4
4	11	5.9
5	7	3.8
Total	185	100

Source: Field survey, 2019.

Multiple borrowing is one of the serious issues in the case of Nepalese microfinance sectors. The majority of the respondents (58.9 percent) have accounts in two MFIs, 31.4 percent have an account in three MFIs, 5.9 percent have accounts in four MFIs and 3.8 percent have accounts in five MFIs. The multiple financing threats the microfinance sectors, creates overburden to the clients, and reduces the productive application of loan.

Reasons behind Multiple Borrowing
The reasons behind multiple borrowing have been presented in Table 3.

Table 3
Reasons behind Multiple Borrowing

Reasons (multiple reasons)	Frequency	Percent
Insufficient loan	62	33.5
Presence of other MFIs and loan request	111	60.0
To repay other MFIs loan	36	19.5
To meet other requirements (marriage, health, education, etc.)	43	23.2

Repayment of the high-interest loan (such as money lenders)	4	2.2
Lending to others at high interest	16	8.7
Forced by friends	120	64.9
Total	185	100

Source: Field survey, 2019.

A large portion of respondents (64.9 percent) reported that the main reason behind multiple borrowing was forced by friends and the presence of other MFIs and loan request (60.0 percent). Similarly, 33.5 percent reported insufficient loan, 23.2 percent reported to meet other requirements (such as marriage, health, education), 19.5 percent reported to repay other MFIs loan, 8.7 percent reported lending to others at high interest and 2.2 percent reported repayment of the high-interest loan was the reasons behind multiple borrowing. Unhealthy competition among the MFIs should be discouraged in the microfinance sectors.

Geographical Access of Financial Services to the Clients
The geographical access to financial services to the clients has been presented in Table 4.

Table 4
Geographical Access of Financial Services to the Clients

Distance	Frequency	Percent
Less than half an hour	118	63.8
Half an hour to one hour	42	22.7
One to two hours	18	9.7
More than two hours	7	3.8
Total	185	100

Source: Field survey, 2019.

Most of the respondents (86.5 percent) reported that geographical accesses of financial services were within an hour. Among them, 63.8 percent of clients have to travel less than half an hour and 22.7 percent of clients need to travel half an hour to one hour to get financial services. Likewise, 9.7 percent of respondents have to travel one to two hours and 3.8 percent of respondents have to travel more than two hours to get financial services from banking and financial institutions.

Monthly Saving of Clients
Table 5 is the cross-tabulation between saving ranges of clients with their living districts. The result is mentioned in the table.

Table 5
Clients' Number across Saving Range and Living Districts

	Number of clients having saving range (in Rs) of				
Living district	up to 20,000	20001 to. 40,000	40001 to 60,000	60,001 and above	Total
Baglung	18	14	0	1	33

Tanahun	7	14	2	0	23
Kaski	7	23	9	2	41
Parbat	20	23	3	2	48
Syangja	8	19	5	8	40
Total	60	93	19	13	185

Chi-square p-value = 0.0001

Note: Rs denotes Nepalese Rupees and 1 $ = NRS 120.05 as per 24th August 2020.
Source: Field survey, 2019.

Table 5 shows the saving of multiple borrowing clients across different districts of Gandaki Province. From the table, it is clear that clients of Syangja have the greatest saving range followed by clients of Kaski and then Parbat. The Chi-Square test shows that there is an association between saving range and districts from where a client belongs to. From the Table, it is also clear that most of the clients (50.2 percent) saved within the range of Rs. 20,001 to Rs. 40,000.

Total Investment

Table 6 shows the total investment made by multiple borrowing clients along with their number across different districts.

Table 6
Clients' Number across Investment Range and Living District

Clients' living district	Number of clients having investment range (in Rs) of				
	Below 100,000	100,001 to 300,000	300,001 to 500,000	500,001 to 1,000,000	Above 1,000,000
Baglung	1	3	7	8	14
Tanahun	2	3	4	10	4
Kaski	3	6	7	17	8
Parbat	5	13	9	12	9
Syangja	4	8	7	8	13
Total	15	33	34	55	48

Chi-square p-value = 0.0001

Note: Rs denotes Nepalese Rupees and 1 $ = NRS 120.05 as per 24th August 2020.
Source: Field survey, 2019.

Table 6 shows the total investment of multiple borrowing clients across different districts of Gandaki Province. From the table, it is clear that clients of Syangja invested more i.e. more than Rs 500,000 followed by Kaski and Parbat. The Chi-Square test shows that there is no association between total investment and districts from where a client belongs to. From the table, it is also clear that most of the clients (55) have total investment within a range of Rs 500,0001 to Rs 1,000,000 followed by above Rs 1,000,000.

Consumption Expenditure

Table 7 shows the increase in consumption expenditure of clients along with their number across different districts.

Table 7
Clients' Number across Living Districts and Consumption Expenditure

| Living district | Number of clients having increased in consumption expenditure (in Rs) of | | | |
	Up to 15,000	15,001 to 25,000	More than 25,000	Total
Baglung	16	5	10	31
Tanahun	12	8	0	20
Kaski	27	6	1	34
Parbat	19	12	8	39
Syangja	14	7	16	37
Total	88	38	35	161

Chi-square p-value=0.001
Note: Rs denotes Nepalese Rupees and 1 $ = Rs 120.05 as per 24th August 2020.
Source: Field survey, 2019.

Table 7 presents the increase in consumption expenditure of multiple borrowing clients across different districts of Gandaki Province. From Table 7, it is clear that clients of Syangja had the greatest increase in consumption expenditure more i.e. more than Rs 25,000 per month followed by Baglung and Parbat. The Chi-Square test shows that there is an association between an increase in consumption expenditure and districts from where a client belongs to. It is also clear that most of the clients (88) had an increase in consumption expenditure only Rs 15,000. Out of the 185 clients, 24 clients' consumption expenditure did not increase after involvement in microfinance.

Estimated Profit per Month from Microfinance Involvement
Table 8 shows the estimated profit per month from microfinance involvement by clients of different districts.

Table 8
Clients' Number across Living District and Profit per Month

| Living district | Number of clients having profit per month (in Rs) of | | | | |
	Up to 20,000	20,001 to 30,000	30,001 to 40,000	40,001 to 50,000	Above 50,000
Baglung	6	11	6	5	5
Tanahun	8	11	3	0	1
Kaski	9	12	12	4	4
Parbat	24	13	2	9	0
Syangja	11	12	9	3	5
Total	58	59	32	21	15

Chi-square p-value=0.007
Note: Rs denotes Nepalese Rupees and 1 $ = NRS 120.05 as per 24th August 2020.
Source: Field survey, 2019.

Table 8 depicts the profit per month of multiple borrowing clients across different districts of Gandaki Province. From the table, it is clear that clients of Syangja and Baglung have the greatest profit i.e. more than Rs 50,000 per month followed by Kaski.

The Chi-Square test shows that there is an association between monthly income and districts from where a client belongs to. From the table, it is also clear that most of the clients (59) have a monthly profit between Rs 20,000 and Rs 30,000 followed by up to Rs 20,000.

Capital Expenditure

Table 9 shows the capital expenditure of clients after involvement in the microfinance program along with their numbers.

Table 9

Clients' Number across Capital Expenditure and Living Districts

Living district	Number of clients having capital expenditure (in '000' Rs) of						
	Up to 1,000	1,001 to 2,000	2,001 to 3,000	3,001 to 4,000	4,001 to 5,000	More than 5,000	Total
Baglung	16	2	2	0	0	0	20
Tanahun	10	0	0	0	0	0	10
Kaski	14	1	0	0	0	0	15
Parbat	20	0	2	0	0	0	22
Syangja	22	2	0	2	1	2	29
Total	82	5	4	2	1	2	96

Chi-square p-value=0.439

Note: Rs denotes Nepalese Rupees and 1 $ = NRS 120.05 as per 24th August 2020.
Source: Field survey, 2019.

Table 9 presents the increase in capital expenditure per year of multiple borrowing clients across different districts of Gandaki Province. From the above table, it is clear that clients of Syangja and Parbat are the greatest in number 29 and 22 respectively to increase capital expenditure. The Chi-Square test shows that there is an association between capital expenditure and districts from where a client belongs to. It is also clear that most of the clients (82) have an annual increase in capital expenditure up to Rs 1,000,000. Among 185 clients only 96 have an increase in capital expenditure; the remaining 89 did not increase capital expenditure. The chi-square value shows that there is no association between an increase in capital expenditure and residents of clients.

Micro-enterprises Creation

Table 10 shows the micro-enterprises creation by the clients due to access to micro-credit.

Table 10

Micro-enterprises Creation

Clients' living district	Yes	No	Total
Baglung	14	19	33
Tanahun	4	19	23
Kaski	6	35	41
Parbat	20	28	48
Syangja	19	21	40

| Total | 63 | 122 | 185 |

Chi-square p-value=0.004

Source: Field survey, 2019.

Table 10 presents the creation of a micro business of multiple borrowing clients across different districts of Gandaki Province. From the table, it is clear that clients of Syangja and Parbat are the greatest in number 19 and 20 respectively to create a micro-enterprise. The Chi-Square test shows that there is an association between micro-enterprise creation and districts from where a client belongs. The table shows most of the multiple borrowing clients did not create micro-enterprise.

This shows that most of them might use loans and assistance from microfinance for their personal use such as marriage, consumption activities, and other unproductive uses. If microfinance institutions and regulatory authority does not regulate and focus the activities of microfinance institutions it will result in serious problems from multiple financing (Microfinance Focus, 2011).

Changes in Different Parameters after Involvement in Microfinance

Table 11 shows the change in different parameters after involvement in microfinance. For that, parameters' change before involvement in microfinance is compared with parameters after involvement in microfinance. The result is presented in Table 11, which is shown below.

Table 11

Change in Different Parameters after Involvement in Microfinance

Variables	Ranks	Number	P-value
Going school	Negative Ranks	2	
	Positive Ranks	**3**	0.655
	Ties	180	
	Total	185	
Studying in govt. school	Negative Ranks	2	
	Positive Ranks	3	0.655
	Ties	180	
	Total	185	
Studying in boarding school	Negative Ranks	2	
	Positive Ranks	3	0.665
	Ties	180	
	Total	185	
Home tuition/tuition facility	Negative Ranks	0	
	Positive Ranks	1	0.317
	Ties	184	
	Total	185	
The good environment at home	Negative Ranks	2	0.564

	Positive Ranks	1	
	Ties	182	
	Total	185	
A regular visit to the school	Negative Ranks	4	
	Positive Ranks	23	0.0001***
	Ties	158	
	Total	185	

Note: *** significance at 1 percent level of significance
Source: Field survey, 2019.

Table 11 shows the result of the Wilcoxon rank test. It is clear that there is no significant improvement in going to school after involvement in microfinance, no significant change in going boarding school, and government school. Furthermore, there is no improvement in in-home tuition facilities and a good environment at home, but a regular visit to the school by parents is decreased significantly.

Status of Empowerment after Involvement in Microfinance
Table 12 shows the status of the empowerment of clients after involvement in the microfinance program.

Table 12
Status of Empowerment

Items	N	Mean	S.D.	P-value
It helps to increase participation in decision making	185	1.58	0.567	0.0010***
It supports in household works	185	1.54	0.73	0.0010***
It reduces discrimination by family members	185	1.81	0.829	0.0010***
It supports mobility/freedom for movement	185	1.88	0.808	0.0010***
It helps to increase the involvement in entertainment activities	185	2.34	1.155	0.0010***
It helps to increase public relationship or network	185	1.42	0.536	0.0010***
It helps to increase political awareness	185	2.19	0.979	0.0010***
It helps to increase the capacity to influence others	185	1.64	0.646	0.0010***
It helps to increase the access to cash/credit	185	1.53	0.617	0.0010***
It helps to increase the ownership in the property	185	2.99	1.441	0.9188
It helps to increase Health awareness	185	2.02	1.011	0.0010***
It helps to increase the use of nutritious foods	185	2.51	1.323	0.0010***
It helps to increase the use of safe drinking water	185	2.68	1.204	0.0003***

It helps to increase the use of toilet	185	3.29	1.133	0.0006***
It helps to increase regular health check-up	185	2.54	1.151	0.0010***
It helps to increase sanitation and hygiene	185	2.51	1.189	0.0010***

Note: *** significance at a 1 percent level of significance.
Source: Field survey, 2019.

Table 12 shows the status of the empowerment of clients after involvement in microfinance activities. Here, five points Likert scale was used to measure the status where 1 represents strongly agree, 2 represents agree, 3 represents neutral, 4 represents disagree, and 5 represents strongly disagree. The authors calculate the single sample t-test taking 3 as a test value. From this, it is clear that a mean score of less than 3 represents they agree with the empowerment variables and more than 3 represents disagree. From the table, it is clear that almost all clients are agreed on all empowerment items except increases to use of the toilet. Among all the agreed variable only increases in ownership of property is insignificant. Clients have disagreed with the use of toilets significantly. The results show that microfinance plays an effective role for the empowerment of its clients by increasing occupational status, focusing on hygiene, and enhancing capacity to work in a group (Alshebami & Khandare, 2015).

CONCLUSION AND SUGGESTIONS

Multiple borrowing is one of the serious issues in the case of Nepalese microfinance sectors. The majority of the respondents have multiple accounts in microfinance institutions due to the high concentration of these in urban and sub-urban areas. The excessive supply of microfinance services in the same ground of clients and geography poses a threat to maintaining quality operations in the sector. The multiple borrowing creates a high degree of risk to microfinance sectors, overburdens to the clients, and reduces the productive application of loan. Unhealthy competition among the MFIs should be discouraged in the microfinance sectors.

The study finds that most of the multiple borrowing clients did not create micro-enterprises. They have often used micro-credit for their personal use such as marriage, consumption activities, and other unproductive uses. Most of the observed clients are empowered after microfinance intervention, but there is no significant difference in terms of changes in the livelihood parameters of their children. Although microfinance programmes empower clients, the results of the investment, saving, micro-enterprises creation, capital and consumption expenditure, and income generation of clients are not convincing. MFIs should identify the problems of multiple borrowing whether the financing from microfinance institutions is just for their personal use or for productive application of loan. The socio-economic performance of clients is connected with the effective monitoring of clients made by microfinance institutions whether the loan has been properly utilized or not. Once the clients are committed towards the productive investment of funds, there is no doubt of socio-economic transformation.

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