A Study on Microfinance – Borrowers Debt stress

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Abstract

In this paper the stress caused by microfinance loans among the borrowers had been explained. Only women borrowers from microfinance institutions have been considered for this study. The anxiety of borrowers and support from family members for loan repayment had been described. It is evident that borrowers undergo stress because of loans from microfinance institutions.

Keywords: Microfinance, loan repayment, debt stress, borrower stress, business investment.

Introduction

Financial stress is one of the biggest issues in the modern world. The solutions for financial issues had been addressed through various government schemes for poor along with microfinance loans. Debt stress can be referred as household failing to pay bill or loans due to shortage of money which leads to missed repayment of loans. Debt stress is also caused by insolvency of financial problems, struggling to pay monthly bills and always worrying about money. An average individual who takes loans may not get fixed income but need to pay the loans at fixed time whether it can be home loan, vehicle loan and personal loan. In this study the impact of debt stress on borrowers of microfinance loans had been described.

Research Objectives

1. To analyze debt stress caused by microfinance loans.

2. To know preferred mode of repayment for microfinance loans.

3. To know reason for accessing microfinance loans.

Literature Review

Stress is caused by various sources for human beings and it leads to physical and mental disorders. Human beings irrespective of their age group undergo stress for example students may undergo stress during examinations. Stress is a process in which people get aware of, evaluate, and responds to threats in the environment (Sung & Chao, 2014). From the perspective of health stress considerably impacts quality of people worldwide and it is associated with serious health issues like cardiovascular diseases (Nielsen, et al., 2016).

According to Field et al (2012) less frequent repayment schedules help borrowers to plan effective usage of loan amount and it also reduces financial stress. Microcredit programs provide small loans to individuals who are ineligible for traditional and potentially cheaper financial services – have been hailed as one solution to improving conditions for people living in poverty (Fernald, Hamad, Karlan, Ozer, & Zinman, 2008).

Ashta et al (2015) argued that there is chance pressure of repayment with tight schedule may lead borrowers to undergo depression and there are instances which had even made borrowers to commit suicide. In microfinance sector the mediator between client and microfinance institution will be loan officer. According to Saker (2013) loan officers also undergo pressure with unrealistic targets from top level officers in the microfinance institute and this pressure may also be transferred to the next level which again cause stress to clients at large.

Taylor (2012) had explained about benefits of financial inclusion to avoid the distress caused by informal lending methods to poor people in the society. World Bank also supported financial inclusion in developing countries so that formal microfinance system can be established for helping the poor and needy in the society. In the beginning Andhra Pradesh had become magnet for microfinance institutions but during 2010 the bubble had busted and the sector had gone to deep crisis Mader (2013).

During loan repayment there would be impact of peer pressure and social groups but sometimes it also depends between the distance between borrower and social groups. Breza (2010) had explained about possible mechanisms could be that repayment sends a signal about credit-worthiness in informal financial transactions, information about the likelihood of receiving new loans diffuses through peer groups, groups coordinate on default to prevent collections agents from bothering a community or that groups believe that the MFI will cease to lend to a community unless a threshold group repays.

Worthington (2006) had described that financial stress is higher in families with more children and those from ethnic minorities, especially when reliant on government pensions and benefits, and lower in families with higher disposable incomes and housing values. Kamath (2008) had explained that people from urban areas undergo stress with contingent debt stress from various lenders. When people need to manage money with different institutions it leads to both physical stress and mental stress.

Research Methodology

The sample size for the study is 50 and convenient sampling method had been used for collecting data. The data was gathered using structured questionnaire and the items in the measurement scale had been displayed in Table 1. All the respondents are women who have taken loans from microfinance institutions. The respondents belong villages in Ranga reddy District of Telangana State. Primary data was analyzed using SPSS version 20.0 by implementing statistical tools like descriptive statistics, chi-square tests, mean value and standard deviation. Hypothesis was formulated based on the objectives of this research. Secondary data was collected from journals, books and internet sources.

Table 1. Measurement Scale

S.No	Construct/ Variable	Items
1	Anxiety	• AN1: I am too nervous to remember date of loan repayment. • AN2: I experience sleep disorder when I think about loan repayment schedule. • AN3: I feel uneasy at the time of loan repayment.
2	Support	• SU1: My family members help me to repay the loan at right time. • SU2: I also get support from friends and relatives for timely repayment of loans.
3	Usage of Loans	• UL: I prefer to use loan for (households needs, investment for business and during occasion/ festivals)
4	Demography	• Age group • Family Income

		● Gender (Only Female loan borrowers)
5	Preferred Mode	● MD: Between the following which modes, which one you like for repayment of loan (Cash, Net Banking)

Source: Prepared by the researchers

Data Analysis

The total respondents are 50 and out of them 44 percent belongs to '36 to 45 Year' age group, 58 percent are having family income less than 10,000 INR, 45 percent are taking loan for business investment and 83 percent of them are preferring cash mode during repayment. The frequency analysis for four variables age group, family income, loan usage and preferred mode of repayment are shown in Table 2.

Table 2. Frequencies of variables

S.No	Variable	Characteristic	Percent
1	Age Group	Less than 25 Years	16
		26 to 35 Years	24
		36 to 45 Years	44
		Above 45 Years	16
2	Family Income	Less than 10,000 INR	58
		10,001 to 20,000 INR	30
		Above 20,000 INR	12
3	Loan Usage	Household Expenses	20
		Investment for Business	45
		Occasion/ Festivals	12

		Others	23
4	Preferred Mode of Repayment	Cash	83
		Net Working	17

Source: Primary Data

Table 3. Descriptive Statistics

	N	Mean	Std. Deviation
AN1	50	3.04	0.781
AN2	50	3.28	0.536
AN3	50	3.48	0.505
SU1	50	3.64	0.485
SU2	50	4.08	0.752
Valid N (list wise)	50		

(Source: SPSS Output)

According to Table 3 the mean value for AN1 is 3.04 and standard deviation (SD) is 0.781 which states that borrowers are feeling nervous at the time of loan repayment. For AN2 the mean value is 3.38 and SD is 0.536 which states that respondents are experiencing sleep disorder when they think about loan repayment. The mean value of AN3 is 3.4 and SD is 0.505 which means that borrowers feel uneasy at the time of loan repayment. For SU1 the mean value is 3.64 and SD is 0.485 which means that family members are helping borrowers in loan repayment. The mean value for SU2 is 4.08 and SD is 0.752 which can be understood that borrowers are getting support from friends and relative for loan repayment whenever needed.

According to Table 4 68 percent are using microfinance loans for investment in business. It is also observed that women belonging to '26 to 35 age group' are showing 100 percent interest for investment in business. Only 12 percent of the respondents stated that they prefer to use microfinance loan for occasions and festivals belonging to '36 to 45 years' age group.

H1: There is an association between age group and loan usage type.

According to Table 5, H1 is accepted because the 'p' value is less than 0.05. It means loans sanctioned by microfinance are used by borrowers based on their age group.

Table 4. Cross Tabulation AGE versus LOAN USAGE

			LOAN USAGE			Total
			Household	Investment for Business	Occasions/ Festivals	
AGE	Less than 25 years	Count	2	6	0	8
		% within AGE	25.0%	75.0%	0.0%	100.0%
	26 to 35 years	Count	0	12	0	12
		% within AGE	0.0%	100.0%	0.0%	100.0%
	36 to 45 Years	Count	6	10	6	22
		% within AGE	27.3%	45.5%	27.3%	100.0%
	Above 45 Years	Count	2	6	0	8
		% within AGE	25.0%	75.0%	0.0%	100.0%

Total	Count	10	34	6	50
	% within AGE	20.0%	68.0%	12.0%	100.0%

Source: Primary Data

Table 5. Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	**14.385ᵃ**	**6**	**0.026**
Likelihood Ratio	18.910	6	0.004
Linear-by-Linear Association	.011	1	0.915
N of Valid Cases	50		

a. 8 cells (66.7%) have expected count less than 5. The minimum expected count is .96. (Source: SPSS Output)

Findings, Suggestions and Conclusion

Loan repayment schedules of microfinance cause stress in various ways like nervousness, anxiety, sleep disorder and uneasy feeling. The frequent repayment schedules like weekly and bimonthly cause mental stress and physical stress among the borrowers. The loan officers and peers will remind and also demand for timely repayment of loan. Sometimes due to fluctuating business situations it may not be possible for borrower to make repayment as per the schedule. From this study it is also evident that most of the borrowers still prefer cash mode rather than

digital mode of payment in spite of constant encouragement for digital transaction in recent years by government.

Loan stress can be reduced by using selecting long tenure and it is important to keep money in advance. Whenever possible it is important for borrower to select flexible repayment schedule. The loans are primarily used for business investment rather than using for household needs and other expenses. It is also evident that some quantity of stress is among the borrowers for microfinance institutions.

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