

Copyright is owned by the Author of the thesis. Permission is given for a copy to be downloaded by an individual for the purpose of research and private study only. The thesis may not be reproduced elsewhere without the permission of the Author.

# DRIFTING INTO DEBT?

Exploring Household Over-indebtedness  
amongst Salaried Microborrowers  
in Bangladesh

*A case study of Kailakuri Health Care Project*

*A thesis presented in partial fulfillment of the requirements for  
the Degree of Masters of International Development  
Massey University, Manuwatu, New Zealand*

**Nadine Vickers**

2017

## ABSTRACT

Salaried microborrowers in Bangladesh take loans for a variety of reasons but they can fall into repayment difficulties, leading to further loan-taking and potentially household over-indebtedness. This thesis uses a case study of Kailakuri Health Care Project staff to explore over-indebtedness amongst salaried microborrowers. Data was gathered from two participant-groups, namely twenty four KHCP staff and eleven microfinance lenders. Four focus groups were held. Seven staff participated in a set of household interviews and financial diaries, which tracked their income, expenditure, savings and borrowing behaviour over a one-month period.

The thesis explores local meanings of over-indebtedness and compares these to academic definitions. It compares the lending terms and conditions of microfinance lenders including moneylenders, banks, credit unions, NGOs and others with outstanding loans to research participants. It also examines how borrowers perceive the advantage and disadvantages of different lenders and the strategies they use to manage multiple repayments. Finally it considers how borrowers' decision-making influences their risk of household over-indebtedness, as well as the effect of their income, expenditure, savings and borrowing-related behaviour.

The research findings show that in contrast to the literature, which provides a mainly financial analysis, research participants focused on social symptoms of over-indebtedness such as the stigma attached to lender visits, deceitful behaviour by borrowers and debt-related stress. What is also illuminated is that borrowers weigh up a number of factors aside from interest rates when deciding on which lender to approach and they tend to prioritise NGO loan repayment because of the pressure on timely installments. This can lead borrowers to fall behind on other repayments to moneylenders, banks and credit unions, leading to an increased risk of over-indebtedness. Many borrowers struggle with over-indebtedness because of insufficient income, social aspirations, cultural expectations and a number of other factors. However, microfinance lenders are unlikely to reduce interest rates and fees due to financial sustainability concerns. This thesis concludes that it is crucial to look outside the lender and borrower bubble and to consider the external pressures which are creating the demand for so much credit. The Bangladeshi government and international NGO community have an important role to play.

## ACKNOWLEDGEMENTS

First of all, thanks to God who has always inspired me to look beyond the privilege I was born into and seek to support and encourage those who face challenges far greater than mine.

To my grandparents, Graeme and Sylvia, who supported me through all my studies, and my parents Rodger and Shirley whose travels imparted a love of South Asia and New Zealand.

I am grateful for the Massey University Fieldwork Research Grant which helped towards the research costs and especially to Kailakuri Health Care Project colleagues and their families who have welcomed me into their community since 2013. They have taught me so much about Bengali language and culture, and it would not have been possible to undertake this research without the willingness of Kailakuri staff to share about their debt struggles.

Thanks to my research assistant and now husband, Ratan Bormon, who has been wonderfully patient and made most of the wedding arrangements while I continued to write up my thesis! And to my Bangladeshi mother, Kanon Bala, for looking after me so well.

My main supervisor, Vicky Walters, has been an amazing support with her constant Skype calls and emails and her sharp analytical bent. Regina Scheyvens has contributed her wisdom from our very first meetings in Palmerston North to the thorough review of my final draft.

Approval for this research has been obtained from the Massey University Human Ethics Committee, under the low-risk approval process.

Finally, thanks to those who proof-read my draft and passed on your valuable feedback. I owe you all some Whitakers and hugs once I get back to New Zealand.

## TABLE OF CONTENTS

<b>Abstract</b> .....	i
<b>Acknowledgements</b> .....	ii
<b>Table of Contents</b> .....	iii
<b>List of Figures, Tables and Illustrations</b> .....	v
<b>List of Acronyms</b> .....	vi
<b>Glossary</b> .....	vii

### **Chapter One: Introduction**

1.1 Introduction.....	1
1.2 Personal Background and Research Interest.....	2
1.3 Research Aim and Objectives.....	3
1.4 Introduction to Microfinance.....	5
1.5 Structure of the Thesis.....	7

### **Chapter Two: Bangladeshi Country Profile, Microfinance and KHCP Case Study**

2.1 Introduction.....	8
2.2 Country profile: Bangladesh.....	8
2.3 History of Microfinance in Bangladesh.....	9
2.4 Current Lending Landscape.....	11
2.5 Case Study: Kailakuri Health Care Project.....	14
2.6 Conclusion.....	16

### **Chapter Three: Methodology**

3.1 Introduction.....	17
3.2 Research Aims and Objectives.....	17
3.3 Research Ethics.....	17
3.4 Methods of Data Collection and Analysis.....	18
3.5 Giving back to the Community.....	25
3.6 Conclusion.....	26

## **Chapter Four: A Contextualised Understanding of Household Over-indebtedness**

4.1 Introduction.....	27
4.2 What is Over-indebtedness? A Review of the Literature.....	28
4.3 Household Over-indebtedness - Salaried Microborrowers.....	37
4.4 Continuum of Over-indebtedness.....	44
4.5 Conclusion.....	47

## **Chapter Five: Lending Terms and Conditions, Borrower Decisions & Over-indebtedness**

5.1 Introduction.....	48
5.2 Types of Microfinance Lenders.....	48
5.3 Lending Terms and Conditions & Over-indebtedness.....	52
5.4 Conclusion.....	73

## **Chapter Six: Borrowers' Income, Expenses, Financial Behaviour & Over-indebtedness**

6.1 Introduction.....	74
6.2 The Financial Diary Participants.....	74
6.3 Household Income.....	78
6.4 Household Expenditure.....	80
6.5 Financial Behaviour of Borrowers.....	82
6.6 Financial Behaviour & Over-indebtedness.....	85
6.7 Conclusion.....	96

## **Chapter Seven: Conclusion and Reflections**

7.1 Introduction.....	98
7.2 Key Research Findings.....	98
7.3 Contributions of the Thesis.....	100
7.4 Case Study: Over-indebted Staff at KHCP.....	105
7.5 Final Reflections.....	107

<b>References.....</b>	<b>109</b>
------------------------	------------

## **Appendices**

Appendix A Schedule of Interview Questions.....	116
Appendix B Information Sheet.....	122

## LIST OF FIGURES, TABLES AND ILLUSTRATIONS

### Figures

Figure 1	Drivers of Over-indebtedness.....	3
Figure 2	Sources of Funds for NGO-MFIs in Bangladesh.....	11
Figure 3	Funding Sources of Microfinance Internationally.....	12
Figure 4	Funding Sources for Microfinance in Bangladesh.....	13
Figure 5	Map of Bangladesh showing Kailakuri's Location.....	15
Figure 6	Summary of Data Collection Activities & Link to Research Objectives....	19
Figure 7	The Over-indebtedness of Microborrowers in Ghana.....	29
Figure 8	Gonzalez' Definition on Over-indebtedness.....	35
Figure 9	Continuum of Over-indebtedness.....	44
Figure 10	Debts across all Households (at end of financial diaries).....	51
Figure 11	Nominal Interest Rates of Lenders.....	63
Figure 12	Difference between NGO & Credits' Effective and Nominal Interest Rates	64
Figure 13	Snapshot of Monthly Income across all Households.....	79
Figure 14	Snapshot of Monthly Expenses across all Households.....	81
Figure 15	Total Savings across all Households (at end of Financial Diaries).....	83
Figure 16	Savings and Debts (excluding Provident Fund).....	84
Figure 17	Loan Categories and their Frequency.....	86
Figure 18	Proportion of Loan Funds Spent on each Category.....	88
Figure 19	100% Stacked Column showing Financial Inflows and Outflows.....	96

### Tables

Table 1	Summary of Academics' Definitions of Over-indebtedness.....	36
Table 2	Comparison of Over-indebtedness Symptoms to the Literature.....	43
Table 3	Microfinance Lenders.....	51
Table 4	Loan Ceilings and Floors.....	60
Table 5	Types of Loan Repayment Arrangements.....	68
Table 6	Advantages and Disadvantages of Different Loan Types for Borrowers ....	72

### Illustrations

Illustration 1	Photo of Financial Diary, typed in Bengali.....	23
Illustration 1	Photo of Mud-Brick House.....	77

## LIST OF ACRONYMNS

ASA	Association for Social Advancement
BAMB	Bimal Adhibashi Mohila Bhumuki
BBS	Bangladesh Bureau of Statistics
BRAC	Building Resources Across Communities
BURO Bangladesh	Basic Unit for Resources and Opportunities for Bangladesh
CIA	Central Intelligence Agency
GPS	Grameen Pension Scheme
HIES	Household Income and Expenditure Survey
HSC	Higher Secondary School Certificate
KHCP	Kailakuri Health Care Project
MFI	Microfinance Institution
MRA	Microfinance Regulatory Authority
MUHEC	Massey University Human Ethics Committee
NGO	Non-Governmental Organisation
P2P	Peer-to-Peer Lending Services
PKSF	Palli Karma Sahayak Foundation
SBF	Staff Benefit Fund
SSC	Secondary School Certificate
SUSS	Samanita Unnayon Seba Sangsthan
UN	United Nations
UNSD	United Nations Statistics Division
VGD	Vulnerable Government Development

## GLOSSARY

<i>Adhibashi</i>	Indigenous people groups, of which there are many types in Bangladesh
<i>Bari</i>	Several houses around a courtyard. It often consists of a husband and wife, their unmarried children and adult sons, along with their wives and children.
<i>Bengali</i>	The majority ethnic group in Bangladesh, most of whom follow Muslim religious traditions
<i>Bormon</i>	An indigenous ethnic group in Bangladesh. The <i>Bormon</i> people in Madhupur generally speak Bengali and follow Hindu religious traditions.
<i>Eid</i>	Muslim celebrations held to mark particular religious occasions throughout the year. <i>Eid-al-Fitr</i> was held in June/July 2016, after a month of fasting.
<i>Garo</i>	An indigenous ethnic group in Bangladesh who speak their own language and have their own social traditions. Most of them converted to Christianity.
<i>Gul</i>	A brown, powdery addictive substance derived from tobacco leaves
<i>Haolat</i>	Funds borrowed (without interest) from family members or acquaintances, to be repaid within an agreed timeframe.
<i>Leph</i>	Cleaning mud walls or floors with a fresh coat of mud
<i>Mahajon</i>	Individual moneylender who lends funds with interest
<i>Mandi</i>	A language spoken by people of Garo ethnicity in Bangladesh. Mandi does not have a separate script, so it is written using either English or Bengali characters.
<i>Musalmani</i>	A circumcision celebration for young Muslim boys
<i>Pan &amp; shubari</i>	Betel leaf and areca nut, usually eaten together. The nut is addictive.
<i>Puja</i>	Hindu religious festivals to honour various demi-gods and goddesses. <i>Durga Puja</i> is the most significant festival for most Hindus in Madhupur.
<i>Shalish</i>	A village court where opposing sides present their case before a team of village elders or local politicians who make a final decision.
<i>Shomiti</i>	A private organisation which lends funds to members and non-members with interest. Members of the <i>shomiti</i> share in the profits of the organisation.
<i>Van gari</i>	A bicycle with a flat wooden deck for carrying paying passengers.