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

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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.

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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

Adhibashi	Indigenous people groups, of which there are many types in Bangladesh
Bari	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.
Bengali	The majority ethnic group in Bangladesh, most of whom follow Muslim religious traditions
Bormon	An indigenous ethnic group in Bangladesh. The *Bormon* people in Madhupur generally speak Bengali and follow Hindu religious traditions.
Eid	Muslim celebrations held to mark particular religious occasions throughout the year. *Eid-al-Fitr* was held in June/July 2016, after a month of fasting.
Garo	An indigenous ethnic group in Bangladesh who speak their own language and have their own social traditions. Most of them converted to Christianity.
Gul	A brown, powdery addictive substance derived from tobacco leaves
Haolat	Funds borrowed (without interest) from family members or acquaintances, to be repaid within an agreed timeframe.
Leph	Cleaning mud walls or floors with a fresh coat of mud
Mahajon	Individual moneylender who lends funds with interest
Mandi	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.
Musalmani	A circumcision celebration for young Muslim boys
Pan & *shubari*	Betel leaf and areca nut, usually eaten together. The nut is addictive.
Puja	Hindu religious festivals to honour various demi-gods and goddesses. *Durga Puja* is the most significant festival for most Hindus in Madhupur.
Shalish	A village court where opposing sides present their case before a team of village elders or local politicians who make a final decision.
Shomiti	A private organisation which lends funds to members and non-members with interest. Members of the *shomiti* share in the profits of the organisation.
Van gari	A bicycle with a flat wooden deck for carrying paying passengers.

Chapter One: Introduction

"*When dad finds work, he has work. I'm earning too. But I cannot support my family with this level of income... Before, it was not so difficult, but after my brothers left, we became over-indebted. The expenses increased, and so did the loans.*" – Raihan, financial diary participant

1.1 INTRODUCTION

This thesis examines the phenomenon of over-indebtedness, a problem faced by many people around the world. The focus is Bangladesh, a country where access to microfinance has supposedly opened up many opportunities for development of the poor. However, the reality is that many people become over-indebted to a range of individuals and institutions, including non-government organisations (NGOs) providing microfinance. I am interested in why this has occurred. I open the thesis by providing insights into the lives of some of my case study participants at Kailakuri Health Care Project (KHCP).

After listening to the experiences of 24 focus group participants, seven of whom participated in financial diaries, I came to understand the mental stress of those who identify as over-indebted. For Priya, it was obvious in her voice. She is a senior paramedic who has treated countless illnesses and saved a number of lives throughout her 30 years of service. She is self-assured and confident, with a great sense of humour. However, when sharing about her debt experiences her voice went low and whispery. She spoke hesitantly and hung her head, the burden of debt evident in her manner. This came as quite a shock to me. I know that Priya is on a low-income and struggles to support a family of five, but I had not expected the reticence and shame.

Debt is an emotional subject, especially when borrowers are struggling to repay. Sultan avoids thinking about his debts as much as possible, and does not let on to others about the extent of his indebtedness. The wife of Hasan, another financial diary participant, burst into tears during our final interview, when the enormity of her debts dawned on her, and her inability to pay these. Throughout eight weeks of fieldwork I was grateful for the honesty and openness shown by my research participants and also felt burdened by their stories and circumstances.

1.2 PERSONAL BACKGROUND AND RESEARCH INTEREST

In this chapter I explain my personal background and research interest, set out my research aims and objectives, describe why I see over-indebtedness as a development issue, provide a brief introduction to the major debates surrounding microfinance as a development initiative and provide a road map of the seven chapters of my thesis.

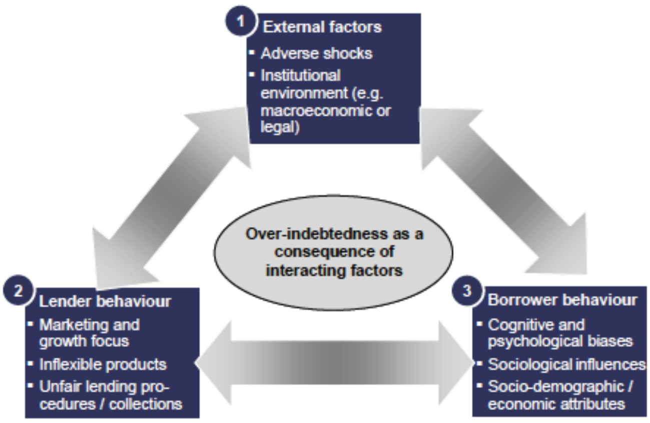
I first visited KHCP in January 2013, on a three-month trip to Bangladesh. I have since volunteered for four years as an English Communications and Fundraising Consultant. On my first visit I knew very little about the debt struggles of KHCP staff and others in the local community. I had read an autobiography by Muhammad Yunus and Alan Joli (1998), entitled "Banker to the Poor", which describes Yunus's experiences in setting up the Grameen Bank (Grameen) in Bangladesh and lending small sums of money to women at interest without requiring collateral. The book gave a glowing portrayal of the benefits of credit in liberating the poor "from the bondage of the money-lender" and enabling poor borrowers to "escape from poverty: (Ibid:8). Indeed the most enduring rationale for microcredit is that it allows a poor individual to run an income-generating activity that raises their household income, facilitating an escape from poverty (Bateman, 2010:29). I suspect that many people have similar perceptions regarding the potential of microfinance to lift people out of poverty in the developing world. After all, it has been relentlessly promoted through organisations like the Grameen Foundation. Yunus received the Nobel Peace Prize for his contributions to microfinance in 2007. Another microfinance lender, Building Resources Across Communities (BRAC) is also a household name in Bangladesh. It was founded by Sir Fazle Hasan Abed and is now the largest NGO in the world, with over 111,000 employees (BRAC, n.d.).

Returning to my research setting, many KHCP staff owe money to Grameen and a proliferation of other NGOs as well as moneylenders, friends, shopkeepers, banks and credit unions. For some research participants, their total debt is equivalent to one or two year's salary, quite aside from the rising interest burden. Dr Edric Baker, founder and medical director of KHCP, was deeply concerned about debt problems amongst his staff, and asked me to look into this soon after I started work at the project. I often heard staff talking about when their next loan installment was due, asking to borrow funds off a colleague to make the repayment or approaching the project management team for salary advances, overtime shifts, casual work for family members, withdrawal of their provident funds or other support to help them pay off debts. It seemed that the ready availability of credit had led many KHCP staff households to become over-indebted and yet I did not appreciate why they were taking on so much debt.

1.3 RESEARCH AIM AND OBJECTIVES

This research is an attempt to understand why the salaried microborrowers in my case study have become over-indebted. It focuses on aspects of borrower and lender behaviour, while acknowledging that over-indebtedness can be caused by external factors outside of their control, such as crop failure due to adverse environmental conditions, death of livestock or inability to work due to illness. The rationale for my focus on lender and borrower behaviour was influenced by the main drivers of household indebtedness as identified in the microfinance literature. These drivers are defined as (1) external factors, which means factors outside the control of both parties (see Gonzalez 2008, Schicks 2010, Alam 2012), as well as (2) lender-behaviour, and (3) borrower-behaviour. They are set out in Figure 1 below.

Figure 1. Drivers of Over-indebtedness



Source: (Schicks, 2010:15)

My research aim is to explore how the financial behaviour of salaried microborrowers and the lending practices of microfinance lenders have influenced household over-indebtedness, through a case study of KHCP in Bangladesh.

I have three main research objectives, as set out below:

1. *Gain a contextualised understanding of household over-indebtedness;*
2. *Examine how the lending terms and conditions of microfinance lenders have influenced the borrowing choices and repayment strategies of salaried microborrowers, and how the combination of these factors affected household over-indebtedness;*
3. *Explore how the income, expenditure and financial behaviour of salaried-microborrowers has influenced household over-indebtedness*

The microfinance literature provides a number of definitions of over-indebtedness but I want to understand how applicable these are to the Bangladeshi setting by enquiring into local concepts. The lending terms and conditions of microfinance lenders differ from country-to-country so I am interested in the specific lending arrangements applicable in Bangladesh and how these have influenced the borrowing choices of salaried microborrowers as well as their strategies for repaying multiple loans. I will analyse the effect of each these factors on household over-indebtedness. Similarly, when I explore income, expenditure, savings and borrowing behaviour, I am interested in how these factors have influenced household over-indebtedness.

I see over-indebtedness amongst salaried microborrowers as a development issue for several reasons. Firstly, many of the microfinance lenders in Bangladesh are non-profit NGOs, who claim that access to credit is facilitating women's empowerment and poverty reduction. A quick glance at the Grameen or BRAC websites illustrates this (BRAC, n.d., Grameen, 2017). NGO lenders are positioned as alternatives to moneylenders who are commonly blamed for charging exorbitantly high interest rates and using high-pressure tactics to recover their money (Bateman, 2010:24).

Secondly, there is a tendency to emphasise the poor's lack of financial inclusion and frame access to credit as a human right. Banks are charged with being inaccessible to the rural poor, and informal savings-and-loans clubs as being unreliable for poor borrowers. However, development is not just about ensuring access to credit. Debt problems serve to illustrate the vulnerability of low-income households, who often have insecure incomes from a mixture of low-paid employment, casual, part-time or seasonal work and self-employment. In Bangladesh, they face high costs for quality health and education services and little government support for unemployed, disabled, widowed, chronically ill or elderly people. So it is important to recognise the wide range of reasons for taking on debt and the increased risks it can create for repayment.

Thirdly, KHCP has a responsibility to promote staff welfare and be aware of the effect of staff debt struggles on their concentration and behaviour at work. The aim of the project is "health for the poor, by the poor", and Dr Baker deliberately employed poor people or former patients to train up as paramedics, health assistants and support staff. Many of them have not passed Secondary School Certificate (SSC), own very small amounts of land and struggle to feed, shelter, clothe and educate their families with their limited income. Hence they commonly rely on loans to finance certain purchases but then struggle to make repayments.

1.4 INTRODUCTION TO MICROFINANCE

What exactly is microfinance and how has it developed over time? Roodman (2009:1) defines it as ‘the large-scale, business like provision of financial services to poor people’. Before microfinance became a popular term in the 1990s, people mostly talked of ‘microcredit’, the provision of small loans to low-income people without collateral (Alam and Molla, 2012:42). Loans are repaid in regular installments, which begin shortly after loan distribution (Mannan, 2009:220). Microcredit institutions expanded their services over time to include products such as micro-insurance, savings and remittance services, hence the broader term microfinance came into widespread use. I use the term ‘microfinance institution’ (MFI) to encompass NGOs and for-profit lending institutions, whereas the term NGO refers only to non-profit MFIs. However, ‘microfinance lender’ includes all organisations and individuals who lend to microborrowers.

For a long time microfinance seemed immune to criticism and advocates could make positive claims based purely on the numbers of borrowers and high loan repayment rates. As Nancy Birdsall, head of Accion has put it, “150 million people (borrowers) cannot be all wrong” (Roodman, 2012). In other words, the fact that millions of people are borrowing and repaying loans is sufficient proof of its success, without a deeper understanding *how* it affects them. While these indicators may suggest the widespread use of microfinance and the efficiency of microfinance lenders in collecting repayments, they do not reveal “the institutional processes through which women borrow, invest and maintain high loan repayment rates; neither do they reveal their impact on gender relations in their localities” (Fernando, 2006:25). More in-depth research is needed to understand the procedural implications of microfinance on its borrowers.

As Fernando (2006) explains, MFIs use peer group pressure as a substitute for collateral, but microfinance does not reach the poorest of the poor because of the self-selection of credit-worthy borrowers, according to their likely ability to repay. Her field work in Bangladesh showed that group leaders made detailed inventories of household wealth. Nowadays, most MFIs have switched to an individual lending model (especially in Bangladesh) but minimum and compulsory savings requirements have developed into another form of collateral.

Recently more academics have questioned whether microfinance has lived up to its hype and published articles or books explaining their misgivings, including Roodman (2009), Hulme (2007), Dichter (2007), Karim (2011), Fernando (2006), Bateman and Chang (2012), Sinclair (2012), Banerjee, Duflo, Glennerster and Kinnan (2013), Rahman (1998), Maitrot (2014), and Mader (2015). One academic prefers to conceptualise microcredit as microdebt, to encourage a more realistic attitude towards its positive and negative influences on the livelihoods of poor people (Hulme, 2007:19). The setbacks for the positive story of microfinance include Tom Heinemann's documentary The Micro Debt, which created a storm of controversy and eventually led to the Bangladeshi government's removal of Yunus as the director of Grameen Bank (Governance Across Borders, 2011). This documented Grameen's decision to transfer 100 million USD worth of donor funds to a new Grameen entity to avoid future taxation.

As Bateman and Chang (2012:22) emphasise, microfinance faces a crucial demand-side problem: the influx of easy credit to local businesses does not increase the demand for a product, but instead redistributes the existing demand amongst a greater number of market participants. This can negatively impact new and pre-existing microenterprises. In particular, they draw attention to income and job displacement effects within the community and high exit rates amongst those with failed businesses. This may force clients to sell household assets, recycle loans and reduce household expenditure, leading to over-indebtedness.

MFIs are a mix of for-profit and not-for-profit institutions, some explicitly aimed at poverty reduction, and others with a responsibility to maximise profits and returns to investors. But even within non-profit MFIs, there is an uneasy balance between delivering financial services and ensuring institutional sustainability. Many academics recognise the higher costs of lending to the poor, and this is reflected in higher interest rates (compared to commercial lending by banks). There is also controversy around whether lending specifically to women contributes to women's empowerment or is used as a pragmatic strategy to increase repayment rates, with the lenders disinterested in whether loan funds are controlled by the women or their male relatives (Karim, 2011). Given the increasing amount of evidence that casts doubt on the empowerment and poverty reduction impacts of microfinance, there has been a gradual but evident shift in the rationale for microfinance towards financial inclusion of the poor and consumption smoothing.

From this point on, my main focus in this thesis concerns the relationship between microfinance and over-indebtedness, so I leave other debates to one side (such as inaccessibility to the extreme poor, income and job displacement effects and increase in interest rates as MFIs have moved to a more commercial lending model). I revisit the gender issues associated with lending to women in Chapter Two, and the use of loans for consumptive purposes in Chapter Six.

Rather than dedicating a separate chapter to my literature review I have chosen to incorporate this into my context, methodology and findings chapters. Microfinance is a rather broad subject area but I have focused on specific aspects as they relate to my scope of enquiry. For example, over-indebtedness has attracted a variety of definitions in the microfinance literature. To enable a tight comparison between each of these definitions and the local meanings of over-indebtedness uncovered in my research it made sense to devote an entire chapter to this discussion. This avoids the need to constantly refer back to an earlier chapter. Similarly, Chapter Five analyses the lending terms and conditions of microfinance lenders in Bangladesh and compares these to examples from the literature. If I had introduced this literature in Chapter Two it would not have had much relevance and been difficult for the reader to keep in mind. Throughout the thesis I have identified where my results concur or differ from the literature.

1.5 STRUCTURE OF THE THESIS

This thesis consists of seven chapters. *Chapter One* describes my personal background and interest, the research aim and objectives and an introduction to the field of microfinance.

Chapter Two provides an overview of the Bangladeshi microfinance context including the current lending landscape. I introduce the KHCP case study on salaried microborrowers.

Chapter Three sets out my research methodology including research ethics, methods of data collection and analysis and a summary of various microfinance lenders.

Chapter Four examines various definitions of over-indebtedness from the microfinance literature and develops a contextualised understanding of over-indebtedness amongst salaried microborrowers in Bangladesh. This includes analysis of the symptoms of over-indebtedness, a continuum of indebtedness.

Chapter Five examines the lending terms and conditions of microfinance lenders who have lent to my research participants, how this has influenced borrowing and repayment choices, and how these factors have affected household over-indebtedness. I consider what the microfinance literature contributes to this discussion.

Chapter Six explores the income, expenditure, savings behaviour and loan expenditure of salaried microborrowers and how these have influenced household over-indebtedness amongst my research participants. I consider which categories of loan expenditure are more prominent, both in financial terms and the number of loans taken. I also introduce my financial diary participants and make demographic comparisons to other households in Madhupur.

Chapter Seven concludes by summarising the main themes identified by my research, especially in the findings chapters. I compare the academic definitions of over-indebtedness to the symptoms and continuum identified in my case study. I also consider how the causes of over-indebtedness are characterised in the literature and how my findings bear on this. Finally, I reflect on the contribution of microfinance to poverty reduction.

Chapter Two: Bangladesh Country Profile, Microfinance and KHCP Case Study

2.1 INTRODUCTION

Bangladesh provides a unique context in which to study the meaning of over-indebtedness and various influences on the over-indebtedness of salaried microborrowers. As a relatively new country, formed in 1971 after a short-lived, bitter conflict with West Pakistan, Bangladesh has been shaped significantly by the assertion of various linguistic, cultural and religious identities as well as economic and human development factors, which impact the livelihoods of Bangladeshi people. These shape the wider context in which microfinance and moneylending takes place. Its economic strengths include a number of industries such as garments, jute and agriculture. Labour migration also results in high remittances by overseas Bangladeshis.

After considering the history of microfinance in Bangladesh and the current lending landscape, in particular the impact of government regulation and sources of MFI funds, I explain the positional vulnerability of women which is specific to the South Asian lending context. I also describe the KHCP case study setting in more detail.

2.2 COUNTRY PROFILE: BANGLADESH

The People's Republic of Bangladesh is a country in South Asia, mostly surrounded by India but sharing a small border with Myanmar. The major river systems, the Jamuna, Padma and Meghna, merge and open into the Bay of Bengal in the south. Bangladesh has a semi-tropical monsoon climate with a hot-humid summer, a warm-humid rainy season and a cool, dry winter. It is a rich fertile flat land but most of Bangladesh is less than 12 metres above sea level, which makes it particularly susceptible to climate change and rising sea levels. It experiences heavy rainfall in the monsoon as well as flooding and devastating cyclones (Central Intelligence Agency (CIA), 2016).

Bangladesh has 158 million people. With a surface area of 147,570 square kilometres and 1,100 people per square km (United Nations Statistics Division (UNSD), 2016), it is very densely populated. However, it has an annual population growth of only 1.2% (UNSD, 2016). Although the official unemployment rate is only 5%, about 40% of the population is underemployed and many earn low wages (CIA, 2016). Bangladesh is officially a ‘lower middle-income’ country, with gross national income (GNI) per capita of USD $1,080 (World Bank, 2016). However, about 47 million people (31.5% of the population) fall below the national poverty line (World Bank, 2016). Roughly two-thirds of the population lives in rural areas and one-third in urban areas (UNSD, 2016). The economy has grown about 6% a year since 1996, with the garment industry accounting for 80% of total exports. Remittances by overseas Bangladeshis are an important source of income (CIA, 2016). Bangladesh produces a number of agricultural products and supports other industries such as jute, cotton, paper, leather, fertiliser, iron and steel, cement, petroleum, tobacco, pharmaceuticals, ceramics, tea, salt, sugar, oil, soaps, metal products, electricity and natural gas (CIA, 2016).

The official language, Bengali, is spoken by 99% of Bangladeshis (CIA, 2016). A number of tribal languages are spoken by ethnic minorities (Encyclopedia.com, 2007). Muslim personal law applies to Muslims, while Hindus and Christians have their own laws regarding inheritance and family law disputes. Muslims form 90% of the national population, Hindus 9%, Buddhists 0.6% and Christians less than 0.4% (Bangladesh Bureau of Statistics (BBS), 2014:xv).

2.3 HISTORY OF MICROFINANCE IN BANGLADESH

All academics researching microfinance in Bangladesh will know of Muhammad Yunus and his experiments in 1976, where he gave interest-free loans to 42 women who were in debt to local moneylenders and they all quickly repaid (Yunus & Joli, 1998). Yunus established Grameen in 1983. Alongside Grameen, BRAC began offering loans in 1974 (BRAC, n.d.) and Association for Social Advancement (ASA) had specialised in microfinance services by 1991 (ASA, n.d.). Since then, MFIs have proliferated. There were 676 licensed MFIs by June 2014 (Microfinance Regulatory Authority (MRA), 2014). Grameen, BRAC, ASA (Association for Social Advancement) and BURO Bangladesh (Basic Unit for Resources and Opportunities of Bangladesh) constitute two-thirds of microfinance lending (Chen & Rutherford, 2013).

Microfinance has developed a reputation for stimulating microenterprise, empowering women and lifting families out of poverty throughout the developing world (Roodman & Morduch, 2009). In his 1998 autobiography, Yunus claimed independent studies had shown that within a decade, half of Grameen borrowers were rising above the poverty line, and another quarter were coming close (Yunus and Joli, 1998:24). He also claimed independent studies “show our borrowers are better off than other families with regards to nutrition, child mortality, use of contraceptives, sanitation and availability of safe drinking water" (Ibid:24), and that there was a reduction in domestic violence amongst Grameen borrowers (Ibid:92). However, the authors provide no references to verify these claims. Yunus problematises poverty as the lack of financial services for the poor, with the solution being access to cheaper credit (which he classes as a human right). He discounts charity, taxes or government welfare as a suitable alternative (Yunus & Joli, 1998:213-14). Yunus felt that with access to credit, borrowers could purchase an asset which, associated with their labour, would yield them a product that could immediately be sold at a profit, enabling them to live on this as well as paying back the original loan (Ibid:113). He felt that every human being is a potential entrepreneur (Ibid:216).

Yunus' argument that access to credit is an effective poverty reduction strategy has gained a powerful following, The United Nations (UN) held the first Micro Credit Summit in 1997, which resolved to reach 100 million of the world's poorest families by 2005 (Fernando, 2006:1). The General Assembly of the UN went on to proclaim 2005 as the International Year of Microcredit, and declare that "microcredit programmes have proved to be an effective tool in freeing people from the bondage of poverty"[1] (Fernando, 2006:1).

Mader (2015:38) disputes the 'underhistoricized version' of modern microfinance, which starts with its 'invention' by Dr Muhammad Yunus (or several other pioneers). He describes its roots in the British colonial administration's introduction of cooperative credit in South Asia, ostensibly to offer an alternative to moneylenders. Enabling legislation was passed in India in 1904 (Ibid, 2015:45) and more than 100,000 cooperative credit societies set up by 1930. As Mader suggests, many of these cooperatives had structural weaknesses and were often run by landlords and moneylenders. Credit continued to be used as a social policy after independence in 1947, as Pakistan established the Comilla system of village cooperatives (Ibid, 2015:48). In addition, BRAC's lending activities from 1974 was effectively a more intensive and women-orientated application of the Comilla model (Ibid, 2015:49). Hulme and Moore suggest that Bangladesh was particularly suited to micro-lending because of its high population density, widespread roads and infrastructure, oversupply of university graduates with limited employment options, sufficient law and order, and particular sympathy from the international donor community because of its recent independence (2006). Mader adds that the presence of moneylenders contributed to the rationale for better credit (2015:52).

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[1] United Nations – General Assembly Resolution 52/194, 1997, http://www.gdrc.org/icm/iym2005/un-note.html, p1

[2] Bangladeshi Taka is the form of currency used in Bangladesh. One NZD = 58.6 Bangladeshi taka, and one USD = 80.7 Bangladeshi taka according to www.xe.com (22 June 2017).

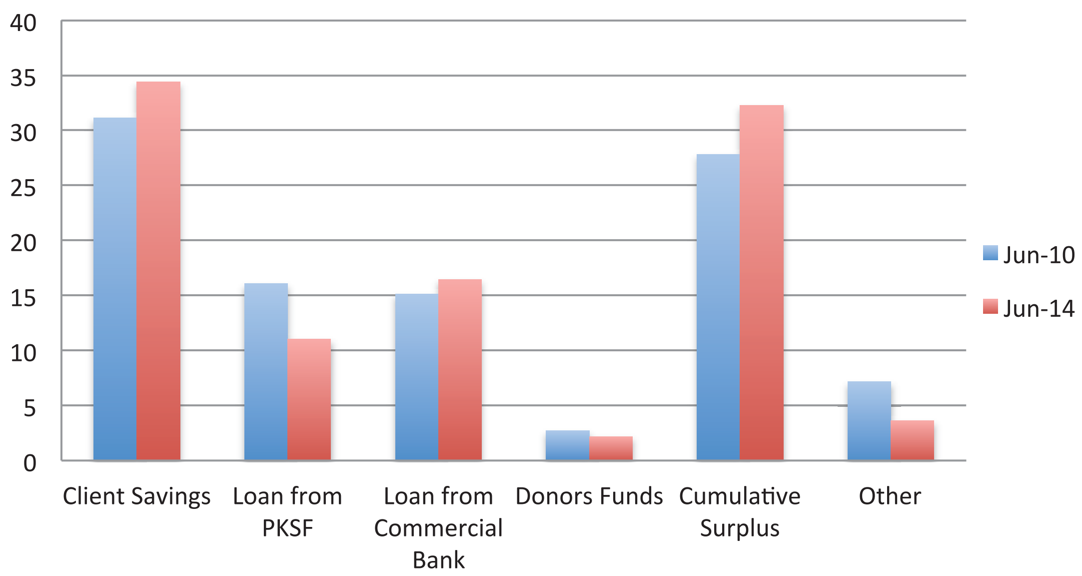
[3] The Link Group has three executive members, namely Peter Wilson as Coordinator, Glenn

2.4 CURRENT LENDING LANDSCAPE

Microfinance programmes are implemented by a variety of lenders including NGOs, Grameen Bank, state-owned and private commercial banks (MRA, 2014:1). They are often promoted as a pathway out of poverty. In June 2014, microfinance clients numbered 33.73 million, with an outstanding loan portfolio of 403 billion BDT (taka)[2] and savings of 237 billion taka (MRA, 2014:1). NGOs account for 20 million of these borrowers (MRA, 2014:1).

NGOs in Bangladesh are subject to the Microfinance Regulatory Authority Act (MRA, 2006). MRA imposes an interest rate cap of 25% on a declining basis (MRA, 2016), distinguishing Bangladesh from countries such as Mexico or Nigeria where MFIs have charged 100% interest (Sinclair, 2012). It forces MFIs to become more cost efficient, but also leads to standardised products such as preset loan amounts, rigid repayment schedules and bundled savings and insurance. The main sources of funds for NGOs in Bangladesh are shown in Figure 2 below. Palli Karma Sahayak Foundation (PKSF) is a microfinance wholesale funding agency which provides subsidised loans, whereas commercial banks lend at higher interest rates (MRA, 2014).

Figure 2: Source of Funds for NGO-MFIs in Bangladesh

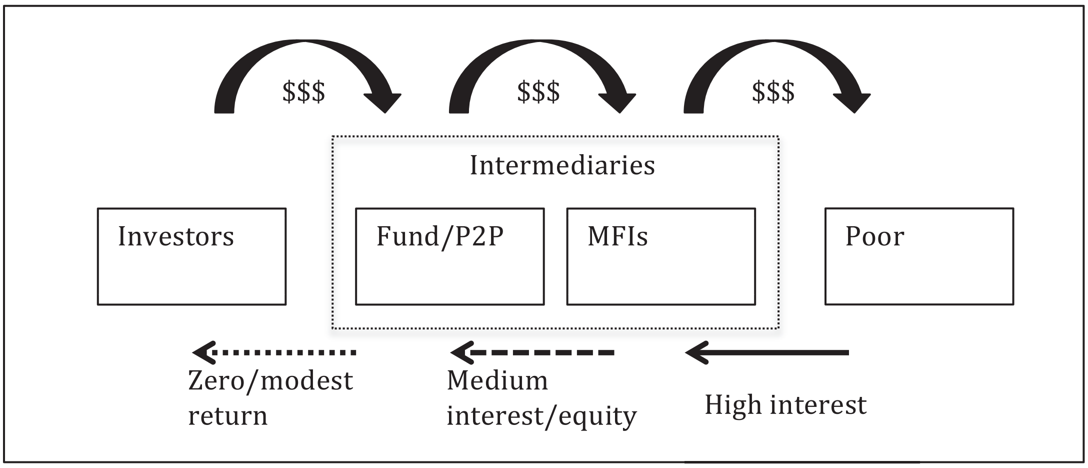


Source: Author, with statistics from MRA (2014).

[2] Bangladeshi Taka is the form of currency used in Bangladesh. One NZD = 58.6 Bangladeshi taka, and one USD = 80.7 Bangladeshi taka according to www.xe.com (22 June 2017).

Sinclair (2012:191) sets out a framework of the various actors involved in microfinance internationally and how they benefit from loan funds. I have adapted this in Figure 3 below and compare this with the microfinance scene in Bangladesh (Figure 4), which operates somewhat differently. In Sinclair's model, which represents a number of diverse MFI markets, investors loan money to microfinance funds or peer-to-peer lending services (P2Ps) like Kiva, who on-lend to MFIs, who lend to the poor. These P2Ps or MFIs are an intermediary between investors and the poor, as you can see in the diagram below.

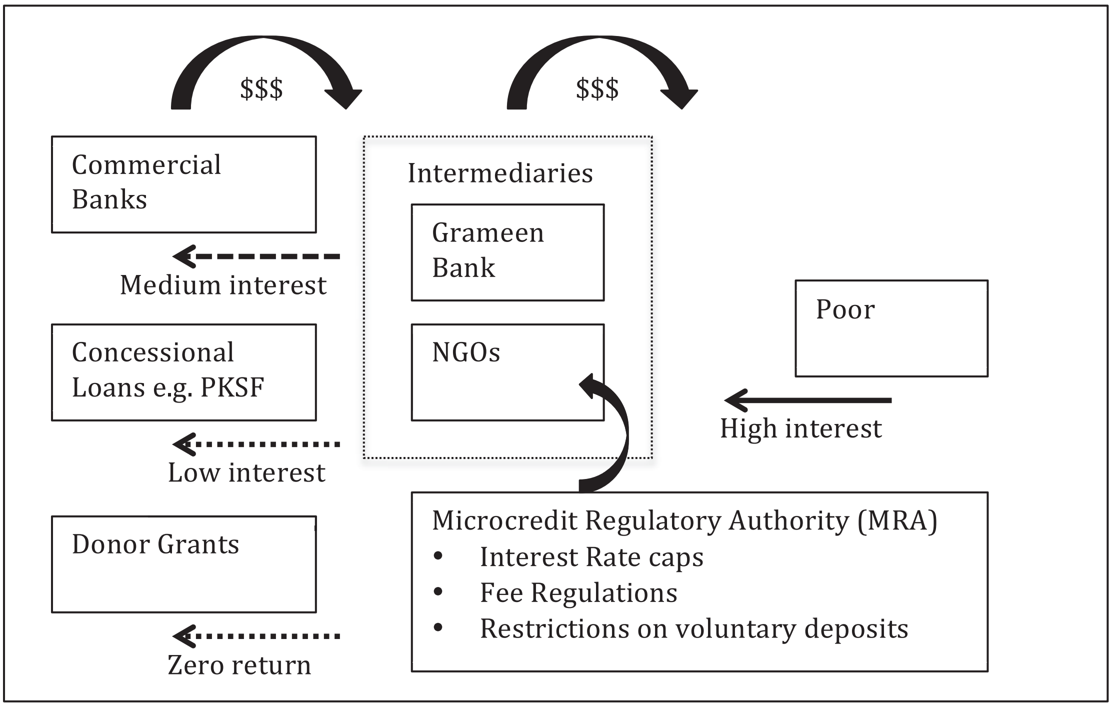
Figure 3: Funding Sources for Microfinance Internationally



Source: adapted from Sinclair, 2012

However, as Figures 2 and 4 show, MFIs in Bangladesh do not generally receive loans from Microfinance Funds or P2Ps, but rely on loans from commercial banks, PKSF and donor funds (to a limited extent), as well as their own resources (client savings and cumulative surplus) (MRA, 2014). As an independent bank, Grameen does not face the same restrictions on client savings as other MFIs, so they can leverage these savings by on-lending to other customers.

Figure 4: Funding Sources for Microfinance in Bangladesh



Source: Author (with information sourced from MRA, 2014)

In Bangladesh, it is a common strategy to lend specifically to women: they comprise 97% of Grameen borrowers and 92% of ASA borrowers (Grameen, 2017, ASA, n.d.). Ostensibly this is designed to empower women, or because women are more likely to take care of the family (Alam & Molla, 2012:45), but it is also pragmatic. Women are more likely to make timely repayments, as Yunus discovered in the late 1970s. But interestingly, the loan officers are mostly male. For example, 86% of ASA employees are men (ASA, n.d.). In Rahman's (1998) ethnographic study based in Tangail district, over 90% of Grameen field staff were male. This may be because male officers are seen as more skilled at extracting loan repayments from female borrowers. Rahman makes a strong case for the 'positional vulnerability' of women in Bangladeshi society, which makes them more likely to repay. This is explained in terms of "women's limited physical mobility" and "their culturally patterned behaviour (shy, passive and submissive)" (Rahman, 1998:96). As a male bank worker said, "women in the village are more easily traceable. They regularly attend more group meetings... are more reliable and are more disciplined… working with women is easier for us" (Ibid, 1998:96).

Rahman also talks of women's status in rural Bangladeshi society as being linked with concepts of honour and shame. Women are expected to conform to proper behaviour, and any mistakes on their part can affect the public reputation of the whole family. As one female borrower explained, "when a woman fails to make her installments on time, she experiences humiliation through verbal aggression from peers and bank workers in the loan centre… (which) gives males in the household and in the lineage a bad reputation" (Ibid, 1998:98). To avoid this humiliation, household members try to pay all installments on time. Rahman claims that the bank workers manipulate women's positional vulnerability to recruit and extend loans, and that men in the household rely on patriarchal gender relations to use women's loans (1998:101).

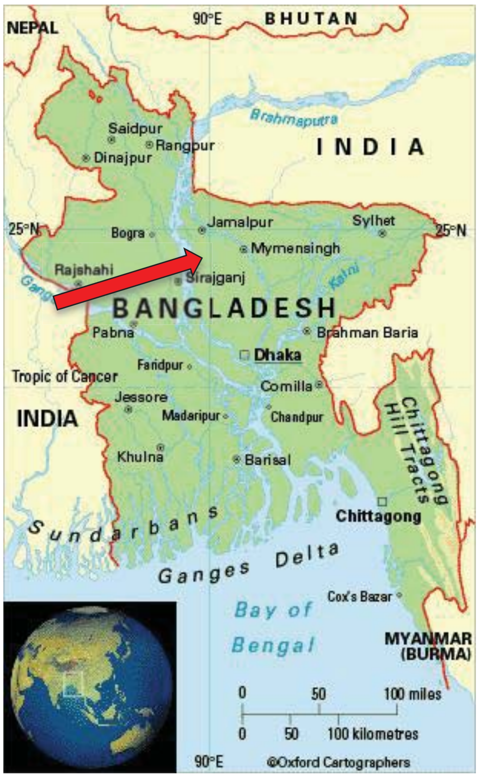
Karim (2011) picks up on this theme in a separate ethnographic study of four Bangladeshi NGOs: Grameen, BRAC, Proshika and ASA, who all boasted 98% repayment rates. But she notes that while women are the official borrowers, men typically use the loans. As Yunus and Joli (1998:91) explain, "Grameen Bank now lends to husbands, but only through their wives". Other researchers confirm that women often give control of the loan to their husbands or male relatives but have to pay installments through a variety of odd jobs (Goetz & Gupta, 1996:49, Rahman, 1998:142). In Alam and Mollas's survey of microenterprise borrowers in Bangladesh (who borrow to set up microenterprises) they found that only 11% of women borrowers used the credit themselves, and in 89% of cases male family members controlled loan use (2012:45). Karim's argument is that some of these loans are coercively recovered by the NGOs by using public shaming as a form of social control. 75% of women borrowers in Karim's study spoke of low-intensity verbal or physical abuse associated with loan recovery – from other borrowers, NGO field workers and spouses (2011:91). The managing director of ASA freely admitted that they lean on borrower's husbands and relatives if payments are missed (Pearl & Phillips, 2001). Hence gender relationships have a major impact on the practicalities of MFI operation in patriarchal societies such as Bangladesh.

2.5 CASE STUDY: KAILAKURI HEALTH CARE PROJECT

A New Zealander, Dr Edric Baker, set up Thanarbaid Health Care Project in 1983, in Thanarbaid village. It was registered as a project of Church of Bangladesh at that time. Dr Baker was a Christian who had previously worked as a medical doctor in Vietnam, Papua New Guinea and Zambia. He raised funds through his own networks to fund the medical work. However, Dr Baker believed that health care should be provided to all poor Muslim, Christian and Hindu patients from the local area. He took on staff from the three religious communities and held an inter-faith prayer each morning, with readings from the Muslim Koran, Hindu Gita and Christian Bible. The project moved to Kailakuri village (three kilometres away) in 1996 and changed its name to KHCP. Dr Baker remained as Project Director. From humble beginnings, KHCP has grown into a sizeable project with 93 staff, 1,500 inpatients and 47,000 outpatient visits in 2015. It has a budget of $305,385 USD, with most donations coming from New Zealand, the United States, Switzerland, Japan and Bangladesh (KHCP, 2015).

KHCP is located in Kailakuri village, Madhupur sub-district, Tangail District and Dhaka Division. As shown by the red arrow in Figure 5, Kailakuri is 150 kilometres northwest of Dhaka. The closest towns are Madhupur, 20km to the west, and Mymensingh, 45 km to the east. Since 2013, KHCP has been a project of the Mati NGO, a non-profit NGO registered with the Bangladesh NGO Bureau. Mati's head office is in Mymensingh and they handle all the visas and government permissions for KHCP.

Figure 5: Map of Bangladesh, showing Kailakuri's Location



Source: BSAUC, 2011

Regarding my personal involvement at KHCP, I visited for six weeks in February-March 2013 to train under the previous English Communications Consultant. I then volunteered from June 2013 – November 2014, then November 2015 – January 2016 after Dr Baker passed away, May –September 2016 while undertaking research fieldwork, and again from January 2017. During my times in New Zealand, I assisted KHCP staff with emails and fundraising support as well as keeping in touch with the KHCP-New Zealand Link Group (a registered charity in New Zealand) and other Kailakuri supporters.[3]

In early 2013, Dr Baker shared his concerns with me about high levels of indebtedness amongst KHCP staff. Debt burdens amongst staff were evident in their requests for salary advances, withdrawal of Provident Funds, applications for overtime or casual employment for family members. Because of the sheer number of requests, he found it difficult to resolve these fairly and worried that allowing access to their Provident Fund could leave workers vulnerable to future economic shocks. Dr Baker was also concerned that the stresses associated with managing debt were causing employees to lose focus at work and forcing them into other income-sourcing strategies which were not always successful. Dr Baker's concerns were reinforced by the project management team, who estimated over 80% of the project staff were in debt to multiple NGOs and moneylenders.

[3] The Link Group has three executive members, namely Peter Wilson as Coordinator, Glenn Baker as Treasurer (no relation to Dr Baker) and Hilda England (Dr Baker's sister) as Secretary.

2.6 CONCLUSION

The brief description of the history of microfinance in Bangladesh highlights the role of major players such as Grameen, BRAC, ASA and Buro, which make up the majority of the MFI market. It also shows the existence of micro-lending initiatives pre-dating Grameen, in the form of state supported rural lending co-operatives set up in opposition to moneylenders.

The source of funds for microfinance lenders in Bangladesh differs to some extent from other international models, as Bangladeshi MFIs rely on a mixture of concessional loans, commercial loans, donor grants as well as their own client savings and cumulative surplus. There are other factors that distinguish MFI lenders in Bangladesh, with the almost exclusive focus on lending to women and the use of women's positional vulnerability to ensure high repayment rates. I have described the KHCP case study setting and debt-related issues faced by staff.

The next chapter outlines the research objectives and methodology used in my case study, so that I can better understand influences on the debt problems of salaried microborrowers. The methods focus on examining lender and borrower behaviour within the Bangladeshi context.

Chapter Three: Methodology

3.1 INTRODUCTION

In this chapter I revisit my research aims and objectives, explain my approach to research ethics and describe my methods of data collection and analysis. The research is split into several phases including focus groups, household interviews and financial diaries and interviews with microfinance lenders, and I explain why I chose these methods. I also describe my use of a research assistant and how this research has enabled me to give back to the community.

3.2 RESEARCH AIM AND OBJECTIVES

As set out in the introduction chapter, my research aim is ‘to explore how the financial behaviour of salaried microborrowers and the lending practices of microfinance lenders have influenced household over-indebtedness’. To examine this I have conducted a case study amongst a number of KHCP households in Bangladesh over a two-month period. The three research objectives that flow from my research aim are as follows:

1. *Gain a contextualised understanding of household over-indebtedness;*
2. *Examine how the lending terms and conditions of microfinance lenders have influenced the borrowing choices and repayment strategies of salaried microborrowers, and how the combination of these factors affected household over-indebtedness;*
3. *Explore how the income, expenditure and financial behaviour of salaried microborrowers has influenced household over-indebtedness.*

3.3 RESEARCH ETHICS

I complied with the Massey University Code of Ethical Conduct for Research, Teaching and Evaluations Involving Human Participants (Massey University Human Ethics Committee (MUHEC), 2015a) while designing and carrying out my fieldwork. I also completed the Development Studies in-house ethics approval process, including an in-house ethics form submitted to my supervisors and a meeting with both supervisors to review this. This covered a number of issues including recruitment and access to participants, obtaining informed consent, privacy and confidentiality, potential harm to participants or the University, handling information, use of information, promising access to information, conflict of roles, use of a research assistant and cultural or gender concerns. Following this I completed a low-risk ethics application (MUHEC, 2015b) and screening questionnaire (MUHEC, 2015c) which were emailed to MUHEC. I received ethics approval from MUHEC before beginning my research.

I decided to involve KHCP staff as participants rather than local day-labourer households as I suspected KHCP staff would have greater access to multiple credit sources, and therefore a greater likelihood of debt building up to unsustainable levels. This was based on anecdotal evidence. I also felt that because they knew me, KHCP staff would be less likely than wider community members to build up unrealistic expectations about any financial benefits or debt relief arising from participation in the research, which I would not be able to deliver. I did make a small payment to financial diary participants at the end of the research process, to value their time contributions.[4] I announced my research plans at each of the staff training sessions and asked people to approach me afterwards if they were interested in participating. I distributed information sheets, which were read out to participants, and also obtained oral consent, to avoid discriminating against illiterate participants (Banks & Scheyvens, 2014:167).

3.4 METHODS OF DATA COLLECTION AND ANALYSIS

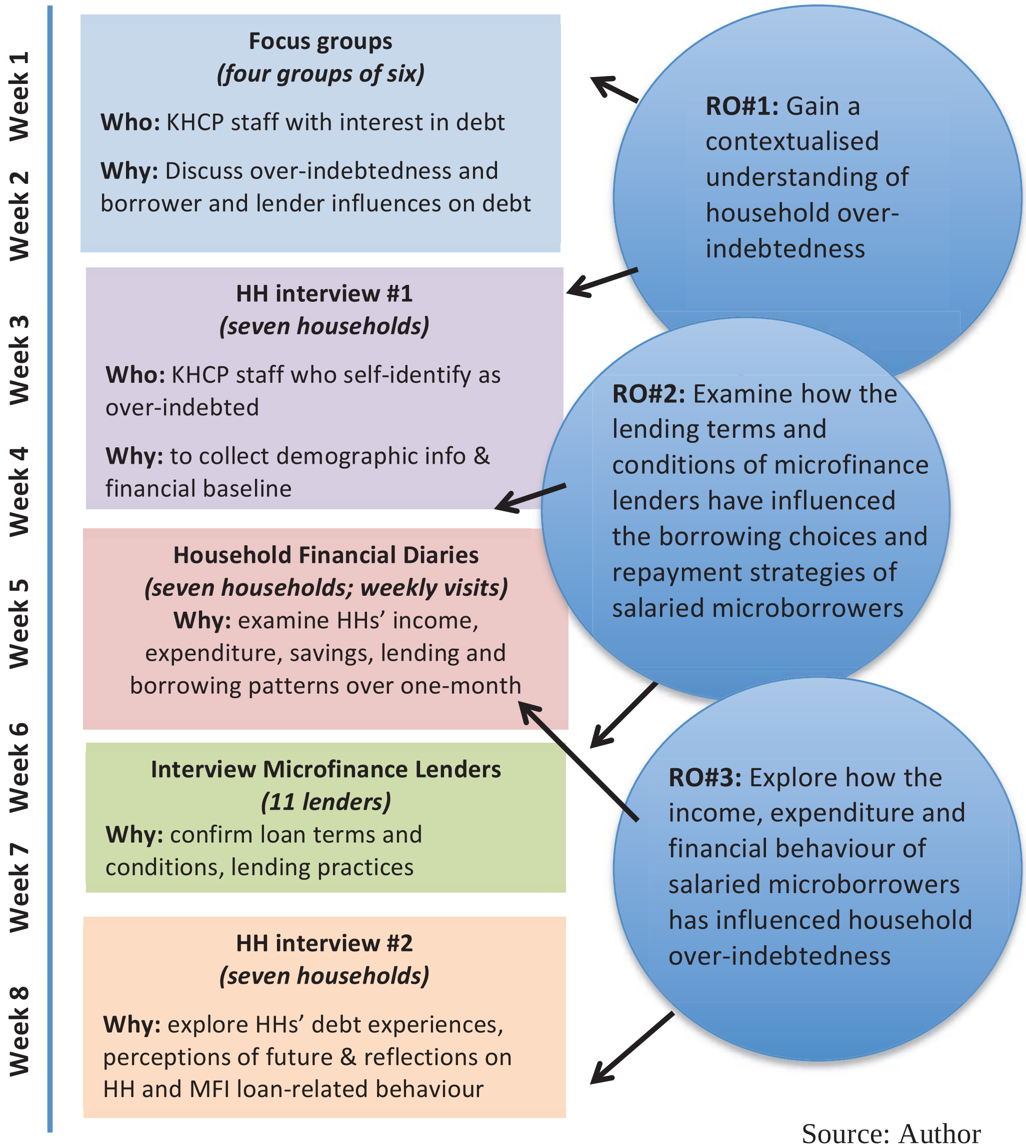
My research objectives were explored through collaboration with two sets of participant groups, namely KHCP staff and microfinance lenders. It involved several phases of data collection: beginning with focus groups and initial household interviews and followed by financial diaries, lender interviews and final household interviews. The questions asked in each phase of data collection are reproduced in Appendix One. Figure 6 sets out my timeline for data collection over an eight-week period in June and July 2016, summarises the rationale behind each stage of data collection and links this with my research objectives.

I feel that the household is the appropriate unit of analysis for analysing over-indebtedness. As Schicks (2010:4,6) argues, broader kin networks should not be the reason why a borrower manages to repay. I agree with this approach as each household has their own financial pressures, independent of extended families are living separately. Similarly the individual level is too narrow, as loans are withdrawn and repaid by more than one household member, and income and expenditure patterns are relevant at the household level.

[4] Collins et al (2009:261) gave a gift or modest cash sum to participants at the end of the research period but they did not tell respondents what the gifts were earlier on, so they would not feel they were being ‘paid’ for participating.

In the Bangladeshi context I have used the BBS definition of a household as "persons, either related or unrelated, living together and taking food from the same kitchen… a single person living and eating alone forms one-person household" (2013:11). The Madhupur sub-district in which KHCP is based has a population of 309,000 and an average household size of 3.87 members. Most extended families in rural areas live together in a '*bari*', composed of three or four houses around a courtyard. A *bari* often consists of a husband and wife, their unmarried children and their adult sons, together with their wives and children. Grandparents and brothers, cousins, nieces and nephews may also be present (Advameg, 2016). However, my research only includes members of the *bari* if they regularly eat together with the key informant.

Figure 6: Summary of Data Collection Activities and Links to Research Objectives



Source: Author

I employed a Bangladeshi research assistant, Ratan Bormon, who took the lead in facilitating focus group discussions, household and financial diaries and lender interviews, while I took notes and recordings and interrupted at times to clarify a point or ask additional questions. He also typed the focus group transcripts and financial diary summaries into Bengali and double-checked my English translation. Having a local research assistant was invaluable, as he had previously worked at the project and knew many of the staff (including where their homes were located, which was helpful for the financial diary visits). As O'Leary noted, research assistants are able to provide cultural advice and explanation regarding the subtleties of particular expressions (2014:53). He has a Masters in Economics from Bangladesh National University, and several years work experience in teaching and NGO fieldwork. Where there were cultural or religious aspects to the borrower's financial behaviour, Ratan was able to explain the significance of these or seek clarification from other staff members. Ratan is from the *Bormon* ethnic minority, is fluent in the Bengali language, and has a basic understanding of *Mandi* language spoken by people of *Garo* ethnicity. Bormon and Garo are both indigenous ethnic groups in Bangladesh. The *Bormon* people in Madhupur generally speak Bengali and follow Hindu religious traditions. Garo speak their own language (*Mandi)* and have their own social traditions. Most Garo in the Madhupur area have converted to Christianity.

(1) Focus Groups

Focus groups are a qualitative research method by which groups of people are brought together to discuss several questions relating to a particular subject and share their thoughts. I conducted four focus groups involving KHCP staff to explore issues of over-indebtedness. The focus groups contained a mixture of *Bengali* Muslim, *Bormon* Hindu and *Garo* Christian staff, six people per group. I decided to gender-segregate the groups, as I felt that in the Bangladeshi rural context, women would feel more comfortable speaking amongst themselves rather than in front of men, who could end up dominating the discussions. The project management agreed it would be suitable to have mixed ethnic groups as long as discussions around debt were not too personal, as KHCP staff have a long tradition of working together and dealing with minor differences of opinion. These meetings were held during working hours, over the lunch break.

I focused on a localised understanding of household over-indebtedness by asking focus group participants what it meant to be over-indebted and probing each participant to explain their perspective and then discuss their ideas as a group. The first focus group discussion also touched on perceived debt burdens, common reasons for experiencing difficulty in repaying loan installments and what actions lenders might take if borrowers missed payments. I was interested in how lenders respond to missed payments as it could touch on issues of coercion (or the lack of it). In looking at ‘the financial behaviour of salaried microborrowers’ I enquired about how borrowers tend to use loan funds, rather than the loan purpose, as I understood that loans may be subject to mixed uses or spent in ways that were not necessarily anticipated at the outset. I also enquired about the lending types in terms of their advantages and disadvantages, as perceived by borrowers. I asked the final three focus groups about how they felt lender policies and borrower behaviour affected borrowers’ risk of over-indebtedness.

The focus groups were very helpful as I was able to gain a much deeper understanding on the social significance of debt for Bangladeshis and how they understand whether a household is overindebted. This includes a number of ‘symptoms’ for particular households which enabled me to develop a continuum of over-indebtedness, as presented in chapter four. In particular, it helped me to realise the huge stigma attached to lender visits at the borrower’s home. The twenty loan spending categories identified by my focus group participants were a useful prompt during household interviews, when I asked each household to explain how they spent loan funds for their outstanding loans. These categories are presented in chapter six in relation to the borrowing behaviour of financial diary participants, and are divided into six major categories.

Exploring the advantages and disadvantages of different loan types allowed me to observe various financial and cultural considerations that affect borrowers’ decision making, and understand why borrowers often rely on loans from a variety of sources, rather than just NGOs. These findings are presented in chapter five, when I consider how the lending terms and conditions of microfinance lenders have influenced borrowing choices and over-indebtedness.

(2) Household Interviews

Interviews with salaried microborrowers were an appropriate method for gaining quantitative information about their household financial situations as well as subjective perceptions of debt burdens and the meaning of over-indebtedness as it related to their own circumstances. Some of the questions required yes or no answers and others were more open and inquisitive.

I identified seven focus group participants who were willing to participate in the household interviews and financial diaries and self-identified as being over-indebted. The interviews and financial diaries were designed to have a more in-depth look at how households manage credit and provide further insights into the meaning of over-indebtedness, framed by their personal experiences of debt. After the first interview my research assistant and I followed up with the same households each week to complete the financial diaries, and conducted a final interview after five weeks, to draw all of the information and analysis together. The first household interview allowed me to collect demographic information about the household, including all of the household members. Some of the questions were designed to build up a picture of their socio-economic background, which frames their livelihood choices and financial decision-making. It also enabled me to ask what kind of materials their house is made of, their land ownership and other income-generating assets, and whether they have a toilet, tube well and electricity connection, which are more reliable indicators of status at the village level. I could understand the range of household sizes, ratios of earning to non-earning members, educational qualifications, land ownership and other relevant details. The second part of this interview set up a financial baseline, including any savings held by the household, whether they had a provident fund, their current loans, whether they had lent funds to anyone else and if were acting as a 'moneyguard'. I also clarified why they considered themselves to be over-indebted.

During the second interview (after completing the financial diaries) I asked how the households had spent their loan funds and why, what the costs and profits were for any productive loans, if they planned to take further loans, how they hoped to repay their debts and at which point they would no longer consider themselves indebted, whether they regret their loan-taking behaviour, what major expenses they expected in the future and how they intended to meet these expenses.

The first household interview was quite constructive as it allowed me to make demographic comparisons across the financial diary households and compare these statistics to those of the wider Madhupur population, as set out in chapter six. It also prepared me well for the financial diaries, as I understood what savings and loans each household had and I could check their savings deposits or withdrawals each week, as well as repayments on their outstanding loans.

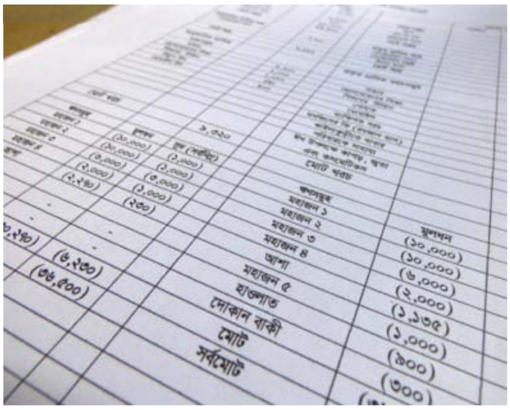
The second household interview allowed me to gain a deeper understanding of household behaviour by asking questions about categories of loan spending for their current loans. I have combined data from the seven households and depicted the results visually in a pie chart to reflect the breakdown of loan expenditure in chapter six. I have also compared these results with the focus group discussions as well as the broader microfinance literature.

(3) Financial Diaries

Households' financial behaviour was a major focus of my financial diaries, as this relates to my second and third research objectives**.** According to Collins, Murdoch, Rutherford and Ruthven, a household's financial behaviour can be described as "the money they borrowed and repaid, lent and recovered, and saved and withdrew, along with the costs of so doing" (2009:5). Inspired by Professor Hulme of the University of Manchester, they designed a set of financial diaries to observe the financial lives of the poor, initially in Bangladesh (from 1999-2000), then India (2000) and South Africa (2004).

The strength of financial diaries approach is that it enables households to keep track of their financial decisions over time, not in a literal sense, but through regular interviews to record this information (Ibid:188). In their study, Collins et al. acknowledge that the number of households was too small to represent whole populations, and that participating in the diaries may have changed the behaviour of some respondents, although this was difficult to assess (2009:209).

Illustration 1: Participant’s copy of financial diary, typed in Bengali



Source: Author

Because Collins et al. (2009:210) mainly focused on the financial behaviour of borrowers, they admittedly had “less to say directly about the lenders of those services”. I have provided a more balanced perspective by looking into the lending practices of MFIs. Because I conducted financial diaries with only seven households, the generalisations made in the following chapters are not statistically significant (Stewart-Withers, Banks, McGregor & Meo-Sewabu, 2014:77). However, they do illustrate the experiences of KHCP staff, for whom this research is particularly relevant, and are accompanied by focus groups representing 24 members of staff, out of a total pool of 90. In Collins et al.’s study, the Indian diaries included more detailed income and expenditure data, to better understand the financial lives of households within the context of their livelihoods (2009:187). I decided to do likewise and collect weekly updates on income and expenditure.

I interviewed four female staff and three male staff, although some included partners in their interviews. More than seven people volunteered, but I selected participants from a range of ethnic backgrounds, male as well as female, in order to provide greater variation. I have referred to them by pseudonyms throughout. The financial diaries took place over a one-month period and involved weekly visits to gather various financial information.

The data and other comments made by interviewees helped to establish a clear pattern of behaviour. Collins et al (2009) conducted interviews at 15-day intervals for a whole year, whereas I visit participating households every week over a one-month period. Like Collins et al, I treated the household as my unit of research, but rather than talking to all of the adult members, I primarily interacted with the key informant (KHCP staff member), who could choose to involve their spouse in interviews if they were comfortable with this. Some participants had their interview at home and involved their spouse, and others preferred to be interviewed alone, at the project. It was important to allow for these choices, as debt is a very sensitive issue, and could lead to disagreements amongst partners who were not comfortable with discussing these matters together. I am aware that there may be some financial transactions he or she was not aware of (or concealed by other members of the household) but I felt that hearing conflicting accounts of how money was handled could lead to tension between household members or create confusion during the data analysis stage.

By capturing the full set of cash flows, as per the South African diaries, I hoped to minimise the margin of error – the amount by which the household had over or underreported cash flows – and ensure data quality. In Collin et al.'s South African diaries, the margin of error decreased significantly over the first six interviews, as trust and understanding built up between the interviewer and interviewee (2009:208). I hoped that as I built up trust and rapport with research participants, they would feel comfortable answering questions honestly and clarifying details where these were unclear. In the end I was pleasantly surprised by their candour. However, I found that I could not completely eliminate error, as the income and financial inflows did not always correlate with expenditure and financial outflows. I suspect households were not able to recall all expenses even though we visited them each week and encouraged them to keep notes. The financial diaries enabled me to consider how each household's financial behaviour influenced their debt levels and make comparisons between various households.

(4) Interviews with Microfinance Lenders

Interviews with the microfinance lenders were a suitable method for my research as it enabled to me clarify their lending terms and conditions, which were not generally published on their websites or promotional material and remained unclear to many of their borrowers. I did not feel comfortable asking in-depth questions such as how they defined over-indebtedness or what precautions they took to avoid borrower over-indebtedness as I felt that field officers would be constrained from speaking freely on these issues because of loyalty to their organisations.

I wanted to gain a clearer understanding of the lending terms and conditions of microfinance lenders. Despite anecdotal evidence from borrowers, the diaries did not provide a complete picture regarding the influence of lending practices on household over-indebtedness. For this reason, I confirmed certain aspects by interviewing the lenders. This included five NGOs, two credit unions, a *shomiti*, a bank and a government department lender. A *shomiti* is a private organisation that lends to members and non-members, often at higher interest rates than NGOs.

I encountered three types of *mahajons* in my research but I did not meet with them directly. *Mahajon* is the South Asian term for individual moneylenders that lend with interest (Collins et al., 2009:206-7). Rather, I interviewed an intermediary who had assisted many KHCP staff to access *mahajon* loans, and asked the borrowers themselves. I came across to other lending types, namely *haolats* which are small, interest-free loans given by acquaintances of the borrower, and shopkeeper credit, whereby borrowers could buy goods on credit.

I found lender interviews very useful in enabling me to compare the basic terms and conditions of various lenders and I elaborate on these in chapter five. It also deepened my understanding of how lending practices influence household indebtedness in the Bangladeshi context. Lenders were happy to explain their policies and clarify any questions I had. However, they were more hesitant to answer if I strayed outside these questions to ask for their opinion on lender policies or issues of borrower indebtedness. Few of the lenders were comfortable with using an audio recorder or providing a copy of their loan application form. Grameen was the only NGO that refused an interview unless I had written permission from their national headquarters in Dhaka.

3.5 GIVING BACK TO THE COMMUNITY

Concerns about staff indebtedness prompted Dr Baker to set up a Staff Benefit Fund (SBF) in early 2015 and the KHCP Committee approved this in August 2015. Initial loans of up to 15,000 taka may be approved by the trustees, and subsequent loans of up to 35,000 taka. No member may take a loan greater than the value of his or her Provident Fund balance. The fund has an initial balance of 600,000 taka and became operational in April 2017. I have been able to offer general feedback to the management staff on relevant issues I encountered in my research, as well as provisions in the project’s amended Provident Fund policy which allows for staff to withdraw a certain portion of their Fund before they retire, under specific categories. I also committed to sharing the results of my research with KHCP management, as well as the participants, through an oral presentation (Banks & Scheyvens, 2014:178).

3.6 CONCLUSION

In summary, my research objectives explore a contextualised understanding of household over-indebtedness and how the lending terms and conditions of microfinance lenders have influenced the borrowing choices and repayment strategies of salaried microborrowers. It also looks at the income, expenditure and financial behaviour of salaried microborrowers, and how these aspects of lender and borrower behaviour have influenced household over-indebtedness. To accomplish these objectives, I have conducted focus groups, seven sets of household interviews and financial diaries and a number of interviews with microfinance lenders.

The findings of my research will become clearer in the next three chapters, of which chapter four is devoted to answering my first research question regarding the meaning of household over-indebtedness, chapter five concerns lending terms and conditions and chapter six looks at household income, expenditure and financial behavior of salaried microborrowers, including a description of each of the financial participants and their household situations. The final chapter takes a look at the main themes identified in my research and how these relate back to the wider literature on microfinance and its role in poverty reduction and empowerment.

Chapter Four: A Contextualised Understanding of Household Over-Indebtedness

4.1 INTRODUCTION

This chapter examines various definitions of over-indebtedness from the microfinance literature and relates to my first research objective, *"Gain a contextualised understanding of household over-indebtedness amongst salaried microborrowers"*, using a case study of KHCP staff. I explore various symptoms of over-indebtedness described by my focus group participants, compare these to the literature and develop a continuum of over-indebtedness.

Over-indebtedness has been identified as the largest risk facing the microfinance industry since 2012 (Centre for the Study of Financial Innovation (CSFI), 2014:7). But this problem was evident several years earlier, provoked by repayment crises in 2009, in Bosnia and Herzegovina, Morocco, Nicaragua and Pakistan (Schicks, 2010), as well as lesser-known default crises in Bangladesh, Bolivia and South Africa in the late 1990s and early 2000s (Schicks 2010; CSFI, 2014). The fall-out from a repayment crisis in Andhra Pradesh, India in 2010 was even worse, and the state stepped in to regulate microfinance activity (CSFI, 2014). Prevention of over-indebtedness has since been identified as one of the industry's seven 'Client Protection' principles (The Smart Campaign, 2011). But over-indebtedness can exist despite the absence of high default rates and it can be masked by loan recycling, sale of assets, reduction in borrowers' standards of living, and the loose statistic-gathering methods used by many MFIs.

Furthermore, as Schicks (2011:iv) emphasises, an over-indebted microfinance borrower is on their own, as there are few customer protection or social safety nets in many of the countries offering these services. Some MFIs have explicit development objectives, whereas others have become for-profit institutions, with the responsibility of producing financial returns for their shareholders. In this instance the organisation needs to balance their lofty social objectives against the sustainability of the organisation, and manage conflicting sets of interests. Therefore it is important for development practitioners, especially those involved in microfinance activities, to understand why borrowers may become over-indebted and form strategies for addressing this. Otherwise the poor will remain just as poor, or slip further into poverty.

4.2 WHAT IS OVERINDEBTEDNESS? A REVIEW OF THE LITERATURE

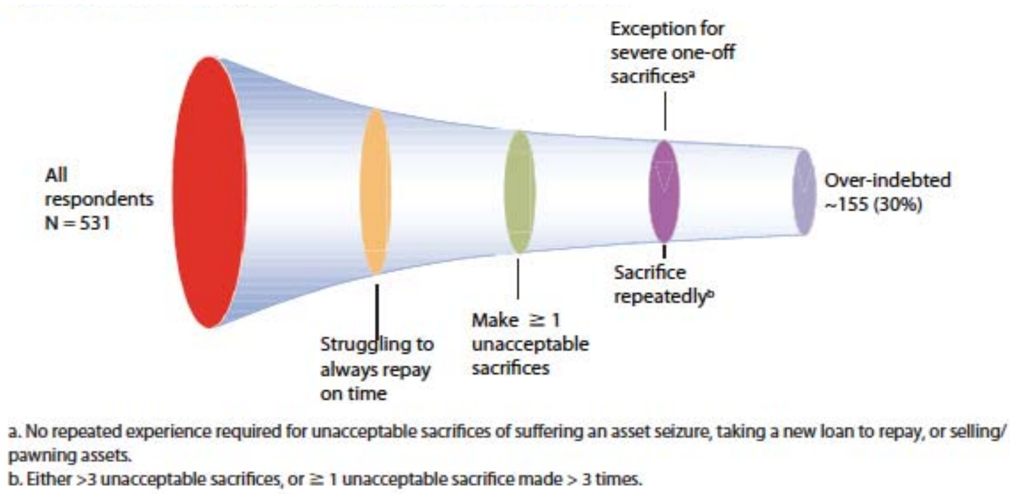
It is reasonably straightforward to assess whether a household is *indebted* to one or more microfinance lenders, but there is no widely agreed upon definition of *over-indebtedness* (Gonzalez 2008, Schicks 2010). Varying definitions of over-indebtedness also reflect the positionality of the writer: lenders may define this from a risk-mitigation perspective, rather than considering socio-economic impacts on the borrower. This section illustrates the current state of the literature on over-indebtedness. My analysis is shaped by the understanding that access to credit may be presented as an opportunity but it is also a source of risk for poor and vulnerable borrowers, and this risk is inherent in borrowing.

As mentioned in the introduction, many authors have contributed their views on what over-indebtedness is. These include Schicks (2010, 2011), Khandker, Faruque and Samad (2014), Maurer and Pytkowska (2010), Pytkowska and Spannuth (2011), Schicks and Rosenberg (2011), Hulme and Maitrot (2014), Gonzalez (2008), Alam (2012), Lahari-Dutt and Samanta (2013), Guerin (2012), Guerin, Roesch, Venkatasubramanian and Santosh (2011). I consider these authors' contributions and the relevance of their ideas to the Bangladeshi research context. Because there is a development angle to my research, a borrower-based perspective of over-indebtedness is more appropriate than one based on lenders' risk mitigation. However, it also entails a more expansive definition, including objective and subjective elements, in order to draw out the experiences of borrower households rather than just an industry-wide aggregate. Various academics mentioned in this chapter undertook their research in a range of geographical areas, including Ghana, Bolivia, Bangladesh, Bosnia and Herzegovina, Kosovo and India, and it is important to recognise that cultural factors could have a bearing on their findings.

Schicks' definition of over-indebtedness is as follows: "A microfinance customer is over-indebted if he [sic] is continuously struggling to meet repayment deadlines and repeatedly has to make unduly high sacrifices to meet his [sic] loan obligations" (2010:6). Schicks (2011:2) undertook research in Ghana as part of her PhD studies, analysing the borrower's perspective on over-indebtedness. According to Schicks, Ghana is a country with a relatively low microfinance presence, and the main MFIs follow a careful lending methodology – an example of a 'normal' market not suffering from an over-indebtedness crisis (Ibid, 2011:2-3). One benefit of investigating a normal market is that it encompasses borrowers with varying levels of indebtedness, rather than the more extreme cases, where an MFI market may be out of control.

Schicks describes this as a qualitative, sacrifice-based definition of over-indebtedness. Relating to the first part of her test, on whether borrowers are “continuously struggling to meet repayment deadlines”, Schicks (2011) categorised her Ghanaian research participants into four groups based on the level of difficulty experienced in making loan repayments: (1) not struggling, (2) struggling rarely, (3) struggling regularly, and (4) struggling (almost) always. The second part of her test concerns whether borrowers repeatedly have to make unduly high sacrifices to meet their loan obligations. She illustrated her definition using the diagram in Figure 7 below. Out of 531 respondents in Ghana, Schicks found 30% were over-indebted. As well as ‘struggling to always repay on time’, they had either made repeated sacrifices (i.e. over three times), or unacceptable one-off sacrifices such as seizure of assets, loan recycling and selling or pawning assets (Ibid, 2011:5).

Figure 7: The Over-Indebtedness of Microborrowers in Ghana



Source: (Schicks, 2011:9)

Borrowers who meet repayment deadlines but are struggling to do so and have to take their children out of school or miss meals would be over-indebted. However, not every sacrifice by the borrower was considered as a sign of over-indebtedness, as borrowers may deliberately choose to sacrifice some of their normal consumption to reach a certain goal. In her Ghanaian research, Schicks asked borrowers to identify any sacrifices made, including their acceptability and frequency on a scale of one to four. She developed a comprehensive list of sacrifices, which were: working more than usual, postponing important expenses, depleting savings, reducing food quality or quantity, using friends and family support, suffering psychological stress, reducing education, borrowing anew to repay, selling or pawning assets, feeling threatened or harassed, suffering from shame or insults, and seizure of assets (2011:4,10). However, Schicks noted that Ghanaians’ tolerance for making sacrifices to repay loan installments was really high, and they considered it better to endure these hardships rather than bear the consequences of default, such as having assets seized, shops closed, and creditworthiness lost (2011:8). This meant they often prioritised loan repayments over other cash needs, even missing meals or taking children out of school. No borrower considered being threatened or harrassed, suffering from shame and insults, or losing assets in a seizure as ‘acceptable’ sacrifices, although 5% of borrowers experienced this (Ibid, 2011:11). As long as borrowers are able to define ‘unduly high sacrifices’ in their own context, Schick’s definition is adaptable to different cultural settings. Making these sacrifices at least three times per loan period shows a clear pattern of behaviour and sets this apart from a one-off occurrence, except for unacceptable sacrifices.

As part of her analysis, Schicks rejects a number of alternative definitions of over-indebtedness. For example, Schicks considers legal definitions of over-indebtedness but rejects these as being too restrictive in the personal lending context. In a number of developed countries, bankrupt individuals are required to forego all income and assets above a pre-defined ‘minimum existence level’ (Ibid, 2010:6). Some may see bankruptcy as a simple proxy for over-indebtedness. However, while legal bankruptcy may be easy to measure on an aggregate level, it signifies a very limited understanding of over-indebtedness, which is difficult to compare between legal systems internationally, and over time (Schicks, 2010:5). In Bangladesh, microborrowers do not have access to bankruptcy or insolvency procedures. Secondly, rational economic explanations of borrowing assume that customers aim at stable consumption over the long-term, so incurring high levels of debt at a young age can be justified in light of their projected life-long income. Within the microfinance context however, borrowers with unreliable incomes and uncertainties about the future usually focus on short-term liquidity (Ibid, 2010:5), so an economic rationalisation is inadequate. Schicks (2010:12-13) does not elaborate on what she means by ‘sociological purposes’, but she does consider sociological factors in more depth when she reflects on why people over-borrow, listing the pressures of consumer society and materialism, inequality and social comparison and economic socialisation.

While Schicks (2010:7) encouraged research into simpler indicators such as debt-service ratios, arrears, or the number of credit arrangements as potential proxies for over-indebtedness, she declined to use these in her Ghanaian research (2011:3), illustrating this decision with an example that while some families might be able to spare 30% of their income for debt repayments, other families would really struggle to do so. Default only reflects the end stages of over-indebtedness, which is useful from a risk management perspective but not so effective in recognising the struggles of borrowers who are going to great lengths to repay a loan.

Khandker, Faruque and Samad (2014:12) define a household as over-indebted if their debt liability exceeds 40% of their debt-to-assets ratio. A debt-service ratio is the proportion of income spent on servicing debt (Collins et al., 2009:8-9). A certain level may be bearable but this ratio can become unmanageable if debt repayments cut into funds needed for basic consumption. Khandker et al. (2014) categorise households as follows:

(1) An indebtedness ratio of less than 20% - as 'un-indebted',
(2) An indebtedness ratio between 20-40% - as 'moderately indebted'
(3) An indebtedness ratio between 40-60% - as 'over-indebted', and
(4) An indebtedness ratio over 60% - as 'severely indebted'

Khandker et al. do not explain why households with debts equivalent to less than 20% of their asset value are considered 'un-indebted', and why the other thresholds are set at indebtedness ratios of 40% or 60%. However, this methodology does enable them to make quick comparisons across large data fields. The authors accept that their data collection methods excluded in-depth analysis of how some borrowers were able to avoid the debt trap and others could not (Ibid, 2014:31), which would be of interest when trying to understand or reduce over-indebtedness amongst borrower households. An accurate debt ratio can be difficult for to assess when MFIs lack information about borrowers' other loans, and this is recognised by the authors. As Khandker et al. (2014:8) acknowledge, microfinance lenders tend to underestimate their impact on borrowers' debt load; mistakenly assuming their loans will replace existing informal loans. Alongside debt ratios, various factors such as *when* repayments are due, and *whom* the debt is owed to will affect the level of burden felt by the borrower, and flexibility in debt repayment is also highly valued by borrowers with fluctuating income and expenses.

The study by Khandker et al. (2014:16), using a 20-year panel data set from Bangladesh, also found that multiple MFI membership was non-existent in 1991 and 36% in 2010 and over-indebtedness was higher for multiple program members, especially amongst the severely over-indebted. This suggests a connection between multiple debts and over-indebtedness.

Maurer and Pytkowska provide yet another definition for their research in Bosnia and Herzegovina. If 100% of the client's household net income (gross income less monthly household expenses) is used on debt servicing, the borrower is overindebted (2010:3). I was curious as to why Maurer and Pytkowska decided on such thresholds. They acknowledge these were finalised after consultations with microfinance lenders (2010:3), but do not elaborate. I also wonder how 'monthly household expenses' were calculated for each household, as this could be a time-consuming process. Maurer and Pytkowska (2010:5-6) observed that even those who used less than 75% of net household income on debt servicing (i.e. not over-indebted) often struggled to repay loans on time, and there were others who, despite being over-indebted, managed to repay on time. Hence it is not possible to generalise that over-indebted clients will pay late, and not over-indebted clients will pay on time. This highlights the complexity of various borrower situations. Maurer and Pytkowska (2010) also found that multiple borrowing went hand-in-hand with over-indebtedness. In their study, 4% of those with one credit contract were over-indebted, compared to 53% of those with five credit contracts, and their evidence showed a clear pattern of increasing risk amongst borrowers who took out multiple loans.

When conducting research in Kosovo, Pytkowska and Spannuth (2011:3) modified Maurer and Pytkowska's definition to include two measures: (i) an objective debt service ratio, and (ii) subjective perception of debt burden. They also listed clients as 'critical' if 75% of household income was spent on debt servicing, as opposed to the lower threshold of 'high risk' used in the earlier study. Only 11% of respondents were considered over-indebted (i.e. critical or insolvent) in Pytkowska and Spannuth's research (2011:4-5), despite 49% of respondents feeling that loan repayment had become a major burden. It is difficult to reconcile these conclusions, as many of the 'at risk' and 'not over-indebted' clients cited increasing debt burdens relating to higher living costs, lower income and unexpected expenses (Ibid, 2011:5). Those who felt debt-burdened were also more likely to make delayed repayments.

Hulme and Maitrot (2014:8) label over-indebtedness as a debt burden that cannot be serviced from household income, which bears similarities to Maurer and Pytkowska's definition. Although they do not elaborate on this, they do list several consequences of over-indebtedness, such as sending children to work, reducing food intake and selling productive assets.

While Guerin (2012) does not provide a definition for over-indebtedness, she does emphasise that having multiple debts is not a definitive sign of over-indebtedness, as borrowers may become over-indebted with only one loan. Cross-debt can also have positive consequences. It may enable borrowers to bypass loan ceilings to build up their investment to a realistic level, strengthen social ties, or balance the advantages of each loan source, with differences in accessibility, duration, price and means of repayment (Ibid, 2012:16). Depending on the reliability of the borrower's income, they may be able to manage multiple debts without defaulting or suffering difficult consequences. Others may not cope so well with multiple repayments, or fall into problems after a health shock or loss of income for example. Hence a more refined definition is required to establish over-indebtedness, while recognising that the existence of numerous overlapping loans could act as a red flag.

Another issue is the reporting systems of MFIs, as debt rescheduling can obscure major repayment difficulties (Ibid, 2012:2). Guerin refers specifically to parts of Bangladesh. For example, defaulting Grameen borrowers can have their loans restructured through top-up loans (Roodman, 2012:135) or longer repayment periods. This can result in a looser reporting system for default (if restructuring is not reported by MFIs), which obscures repayment difficulties.

Lahari-Dutt and Samanta (2013:45) measure the extent of indebtedness in monetary terms. However, the total amount of debt is not a meaningful concept for many poor borrowers, because the social consequences of the loan are seen to be more important (Schicks, 2010:4). Monetary assessments also make it difficult to generalise about experiences of over-indebtedness across a number of low-income households, as they would vary in their number of household members, as well as income, asset and expenditure levels, and the extent of sacrifice required by each household in order to meet debt repayments. Overall debt levels certainly form a part of the bigger picture, but they gain more meaning if they are assessed in comparison to income or asset levels, such as the debt-to-asset ratio used by Khandker et al. (2014).

Schicks and Rosenberg (2011:1) define borrowers as over-indebted if they have serious problems repaying their loans, which the authors acknowledge to be a rather imprecise measure. While their intention may have been to create a broader discussion, they mention the word serious 31 times, without defining what they meant by this. As such, it is not really a workable definition to use when categorising borrowers as either over-indebted or not over-indebted.

For Alam (2012:2), over-indebtedness means “the impossibility to repay all debts fully and on time”. He expands on this to describe borrowers unable to repay their installments or total loans after exhausting their net surplus income in a month or a year, or being compelled to sell their productive asset, which pushes their household below subsistence level (Ibid, 2012:5). This definition incorporates a debt-to-income ratio over time, as it recognises that households who are unable to use their disposable income to repay loans within a year are over-indebted.

Rather than taking a snapshot of current indebtedness, most researchers require debt problems to be structural and persistent over a certain time period before defining a borrower as over-indebted (Schicks, 2010:4). But a permanent, life-long estimate of borrowers’ income is not appropriate in the microfinance context, as there are too many uncertainties regarding future income prospects and financial obligations to extended family members (Schicks, 2010:5).

Also following a time-based approach, the typology by Guerin et al. (2011:4) distinguishes between three levels of over-indebtedness. Borrowers may initially fall into the first category but become increasingly overindebted over time.

(1) Transitional over-indebtedness: clients are highly indebted in relation to annual income and spend significant amounts on debt repayment, but are not overwhelmed by debt;

(2) Pauperization: outstanding debts are higher and yearly incomes lower, so monthly debt repayments equal household income. Many households have sold their assets and cannot improve income levels; escaping debt is impossible for the near future.

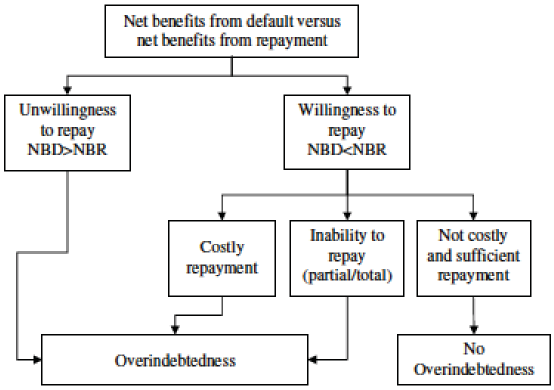
(3) Extreme dependence: characterised by extremely high debts and very low income, a debt burden that is impossible to repay, and dependence on their close circle for daily survival. Clients become socially isolated, experience frequent conflicts with kin and loss of self-dignity.

I found Guerin et al.’s (2011:4) typology quite an intensive definition to apply in practice, as the threshold for transitional over-indebtedness was unclear: “clients are highly indebted … but are not overwhelmed by debt”. Pauperization, the second level of over-indebtedness identified by Guerin et al., seems a rather unlikely scenario for salaried microborrowers as their monthly debt payments would not equal household income, and certainly not ‘extreme dependence’ on others for daily survival. This definition may be more applicable to borrowers with unstable incomes.

As recognised by Guerin et al. (2011), over-indebtedness as a concept may have little meaning to the poor. They often have complex perspectives on debt, including its social meaning, and may be more motivated to maintain self-dignity and access to credit rather than eliminating all of their debts as soon as possible. Hence a purely financial analysis is insufficient. Guerin et al. were the only academics I came across to really emphasise this point.

Gonzalez (2008:ii) defines over-indebtedness as “the outcome of a loan contract that does not correspond to the original expectations of the borrower, or lender, or both”. Gonzalez used Bolivian data from 1997-2001 to conduct his dissertation research, during an over-indebtedness phase of the Bolivian financial sector. Figure 8 illustrates Gonzalez’s perspective on how to assess whether a household is over-indebted. If a borrower is willing and able to repay their loans without undertaking ‘costly actions’ then they are not over-indebted. However, if they are (i) unable to repay, (ii) unwilling to repay (because the net benefits of default outweigh the net benefits of repayment), (iii) able to repay, but only after extraordinary capacity is generated through costly actions, then they are considered over-indebted.

Figure 8: Gonzalez's Definition for Over-indebtedness



Source: (Gonzalez, 2008: 26)

Gonzalez' (2008:ii) term 'costly actions' is defined as efforts or outcomes beyond what the borrower had planned at the time of the contract. Gonzalez (2008:8-9) describes examples such as working extra hours, reducing consumption, selling assets or reducing 'human capital' investments like education, to repay their loans, beyond their original expectations, even though it may reduce their future income-earning capacity. The test of 'costly activities' is not too different from the 'unduly high sacrifices' test preferred by Schicks but does imply a slightly lower threshold. Schicks and Rosenberg criticise Gonzalez for having an over-expansive definition, which includes working extra hours or drawing on savings, as he only required this to occur once in a four years (for Schicks such sacrifices had to occur repeatedly, at least three times in the loan period). Gonzalez' definition resulted in a finding that 85% of his respondents were over-indebted (2011:25-26). It was unclear who would decide which actions constituted as 'costly' and how borrower households or researchers could consistently interpret this.

Gonzalez' definition of over-indebtedness also differs from Schicks in that it allows for deliberate opportunistic behaviour by the borrowers (including strategic default). Gonzalez asserts that there are circumstances under which the borrower has the ability, but not the willingness to repay, and they may decide to strategically default after weighing up the net benefits of defaulting (such as loss of reputation, collateral, or future access to credit) and the net benefits of repaying, i.e. keeping the loan principal and interest amount due (2008:8).

Schicks does not consider borrowers as over-indebted if they deliberately take on unsustainable amounts of debt, relying on a bailout or the option to switch to a new lender in a competitive market (2010:6). This is a tricky issue, as microborrowers who 'strategically default' may conclude that the costs of repayment would exceed the consequences of non-payment, which could include asset seizure, reputational risks and restriction of future access to credit.

Gonzalez maintains that default is not a necessary condition for over-indebtedness (it is only one example of it), and full repayment of a loan is not sufficient to demonstrate the absence of over-indebtedness (2008:25). This is evident amongst the examples shared above, and a view shared by many academics. Identifying the warning signs for over-indebtedness requires a much more in-depth analysis. Hence default and arrears are not suitable proxies for over-indebtedness in the microfinance context, especially in Bangladesh where loan recycling is common. I have summarised various academics' definitions of over-indebtedness in Table 1 below.

Table 1: Annotated Summary of Academics' Definitions of Over-indebtedness

Author/s	*Definition*
Schicks (2010)	Borrower continuously struggles to meet repayment deadlines and repeatedly makes unduly high sacrifices (or a one-off unacceptable sacrifice) to meet loan obligations (pg. 6)
Khandker, Faruque and Samad (2014)	Borrower's debts exceed 40% of their debt-to-assets ratio (pg. 12)
Maurer and Pytkowska (2010)	Borrower spends all household net income (gross income less monthly household expenses) on debt repayments (pg. 3)
Pytkowska and Spannuth (2011)	Borrower spends all household net income on debt repayments and feels that loan repayment has become a major burden (pg. 3)
Schicks and Rosenberg (2011)	Borrower has serious problems repaying their loans (pg. 1)
Hulme and Maitrot (2014)	Borrower is unable to repay their debts from household income (pg. 8)
Gonzalez (2008)	Borrower (i) unwilling to repay debts (as net benefits of default outweigh net benefits of repayment), or (ii) willing but unable to repay, or (ii) able to repay, but only by taking 'costly actions' (pg. ii)
Alam (2012)	Borrower finds it impossible to repay all debts fully and on time (using disposable income) or is forced to sell productive asset (pg2)
Lahari-Dutt and Samanta (2013)	The more debt a borrower has, the more indebted they are (pg. 45)
Guerin (2012)	Multiple indebtedness not necessarily an indication of over-indebtedness, as cross-debt can be beneficial (pg. 16)
Guerin, Roesch, Venkatasubramanian and Santosh (2011)	Borrower (i) has a high income-debt ratio, or (ii) monthly debt repayments are equal to household income, or (iii) debt burden is impossible to repay and they depend on others for survival (pg. 4)

Source: Author

4.3 OVER-INDEBTEDNESS - SALARIED MICROBORROWERS

As the previous discussion highlighted, there are multiple definitions on over-indebtedness currently in use and no widespread agreement on how to measure and identify its existence across scale (i.e. individual or household), or across time (for a certain duration or fixed in time). Thus, instead of applying definitions of over-indebtedness directly from the microfinance literature, I asked research participants to explain how they identified over-indebted households in their communities and used this to generate a localised conceptualisation of over-indebtedness. This conceptualisation of over-indebtedness, based on the data generated in focus groups and from the household participants has two aspects: observational indicators and a continuum of debt. In the following sections I elaborate on these two aspects and consider how they compare and contrast to the definitions discussed in the previous section.

Seven common symptoms of over-indebtedness were identified by focus group participants within the local context. These were frequent lender visits, sale of assets, lack of food and clothes, deceitful behaviour, loan recycling, debt-related stress and involvement in *shalish* or formal court cases. These symptoms help to frame a continuum of over-indebtedness.

(1) Frequent Lender Visits (because of inability to make timely repayments)

A common symptom of over-indebtedness for research participants was expressed as frequent lender visits, although the underlying reason is the borrower's inability to make timely payments on their loans. However, this does not just have financial implications. If lenders continually frequent their house demanding payment of loan installments, it becomes obvious to neighbours that the borrower is struggling to repay their loans, and it is a highly stressful experience because of the stigma attached to this. Usually NGO officers collect loan repayments at sub-centres, and only visit members' homes if they are behind on loan installments. *Mahajons* do not visit as often, but can apply pressure from time-to-time, especially if borrowers are not keeping up with interest repayments.

When I compared the symptom of lender visits to definitions from the microfinance literature I found some overlap, even though it was expressed in a different way. For example, I had to reinterpret the first part of Schick's (2010:6) test on the 'continuous struggle to meet repayment deadlines', to make it applicable to the Bangladeshi context. KHCP households invariably resort to further borrowing if they do not have the cash to pay loan installments, as it is unthinkable to miss repayment deadlines in the case of NGO loans. This is because local NGOs vigorously enforce their 98% repayment rates. According to focus group participants an NGO loan officer will go back repeatedly on the same day, taking other staff with them for support. They also apply a lot of verbal pressure. As one focus group participant commented,

> *"They will keep coming back on the same day. The first time the loan officer, and then the manager".*

Hazera quoted the NGO loan officers,

> *"You were happy when you got the loan, why can't you repay it now?"*
>
> (She uses informal tense, as used by the superior party in a conversation).

And Beauti, "*They stay at the (borrower's) house until night time*".

Lenders also pressure borrowers to get a *haolat* (an interest free loan from a friend) or funds from elsewhere. This pervasive pattern of loan recycling can mask borrowers' difficulties in meeting repayment deadlines, or it can be taken as an indicator that the borrower is struggling to repay – as they do not have sufficient disposable income. Hence NGOs encourage loan recycling through their practices, as they do not accept delayed repayment. This need to reborrow funds to repay an earlier loan could be seen as an 'unacceptable sacrifice' as per the second part of Schick's test on over-indebtedness, as this would incur further stress and costs.

The lack of disposable income to repay loans (resulting in lender visits) also has parallels with Maurer and Pytkowska's (2010) definition of over-indebtedness, that 100% of disposable income is used on debt servicing. Under this test six of the financial diary households would be considered over-indebted, and one 'high risk' as over 75% of disposable income was used to repay debt. The only reason Beauti's household had disposable income was they had sold a pig they fattened over the past year, which brought in extra income. Under Pytkowska and Spannuth's (2011) modified definition, all households would have identified as debt-burdened. Similarly, Hulme and Maitrot's (2014) definition of over-indebtedness is a debt burden that cannot be serviced from household income. Alam (2012) defined this as borrowers finding it impossible to repay all debts fully and on time and Gonzalez (2008) defined inability to repay loans as one of three circumstances under which borrowers can be considered over-indebted. So the lack of income to repay loans is widely considered as a indication of over-indebtedness.

(2) Sale of Assets to Repay Debts

Secondly, sale of assets to pay off debts was an obvious symptom of over-indebtedness for focus group participants, and many referred to lender visits and asset sales in combination. This could include pieces of land, trees (which can be cut down for firewood or furniture), livestock or other household items. But participants conceded that assets could be sold for various

reasons, such as raising funds for health treatment or sending a family member overseas for work, and not just because of loans. So it is important to know the reason in each case.
When comparing this symptom of over-indebtedness to the microfinance literature, sale of assets to repay debts fits into Schick's (2010) definition of severe one-off sacrifices, which also includes seizure of assets or loan recycling. However, when I tested the idea of 'unduly high sacrifices' focus group participants were unable to articulate what 'unduly high' meant to them, and found it difficult to distinguish between which sacrifices were considered acceptable, and which ones 'unacceptable' to repay the loan. In Schick's definition, three or more 'unduly high sacrifices' made during the loan term would signify over-indebtedness. Much like Schick's Ghanaian research participants, it became obvious that focus group participants were prepared to suffer almost any hardship rather than default on their loan, as they could not entertain the prospect of losing future access to credit, or suffering the stigma of constant lender visits.

Under Gonzalez' definition of over-indebtedness, all financial diary households demonstrated extraordinary debt repayment capacity generated through 'costly actions' (going beyond the sale of assets) which included working extra hours, reducing consumption, reducing education expenses or loan recycling during the course of their loan, if these actions went 'beyond what the borrower had planned at the time of the contract...' (2008:ii). I did not ask each borrower which 'costly actions' they had experienced to repay loans, but I suspect many borrowers would have anticipated having to undertake these actions, in which case they would not be unexpected.

Under Khandker et al.'s (2014) test for over-indebtedness, sale of assets would reduce the household's overall debt as well as the value of their assets, which could have little effect on the household's debt-to-assets ratio. Hence it is difficult to see the usefulness of Khandker et al.'s test except in more extreme situations where the household has sold most of its valuable assets and still has a large amount of outstanding debt. I could not apply Khandker et al.'s debt to asset ratio, as I did not collect information on the value of each financial diary household's assets.

(3) Lack of Food and Clothes within the Household

Another symptom of over-indebtedness for focus group participants was a lack of food and clothes and household members eating fewer than three times a day. While this could also describe the situation of extremely poor households who are ineligible for loans, participants clearly linked food insecurity to mounting debt levels, as one participant explained:

> *"Those who have too much debt, sometimes they do not have sufficient food. Then they miss meals, they do not have enough clothes… Seeing their clothes,*

you can understand that because of their debts and poverty they cannot afford these things."

The examples given of lack of food and clothes imply a reduction in the household's standard of living, as households choose (or are pressured by lenders) to prioritise debt repayments over their quality of life. Under Schick's (2010) definition, this reduction in standard of living could be seen as an 'unduly high sacrifice', and as a 'costly action' by Gonzalez (2008). It suggests that all of the household's disposable income is used on debt servicing; otherwise they would not be in such a predicament. When a purely financial analysis such as a debt-to-income is made, it is easy to miss the harsh implications of over-indebtedness for particular households. This becomes more apparent through the borrower's subjective perceptions of debt burden.

(4) Deceitful Behaviour by Borrowers

Focus group participants also spoke of deceitful behaviour by borrowers as a symptom of who is over-indebted, as they become increasingly desperate to escape the constant pressure of lenders. As one participant said

> *"Those who have too many loans, they always tell lies. For example, they owe you money, you ask for the money, he says, 'I will give it in the afternoon', but you won't find him in the afternoon."*

But someone else quipped,

> *"Because he has to survive. He has to get out from that situation."*

Some over-indebted borrowers may express such behaviour, but not everyone. I did not find this symptom referred to in the literature on over-indebtedness.

(5) Loan Recycling (using new loans to repay old ones)

A fifth symptom of over-indebtedness is loan recycling, which leads to higher debt levels over time because of the ongoing costs of paying off the new loans (including interest). As I explained earlier, loan recycling is a common strategy for borrowers to avoid the stigma of lender visits to their home and as well as maintaining their future access to credit. In the microfinance literature, Schicks (2010) accepted loan recycling as a 'one-off severe sacrifice' indicating over-indebtedness, and Gonzalez (2008) listed this as example of 'costly actions' taken to repay a loan, which also meant the borrower was over-indebted. In this case all the financial diary households would be considered over-indebted, as they all took out new loans to repay earlier ones. There are also parallels to definitions based on lack of disposable income (Maurer & Pytkowska, 2010, Hulme & Maitrot, 2014), as a borrower's decision to take a new loan to repay an old one implies they have insufficient disposable income to pay installments.

(6) Debt-related Stress within the Household

A sixth symptom of overindebted households is debt-related stress. For example, borrowers struggle to be sociable, they will try to unburden their debt problems on others or drink alcohol and get emotional about their situation. Focus group participants talked of family members becoming increasingly disconnected from others as they struggled to relate or to join in community celebrations. As one focus group participant shared,

> *"In our Garo community, a visitor comes to a house, we all drink alcohol together. We discuss everything, good or bad. Then those who have loans share about this. 'I have a loan. I'm not able to repay it, what should I do?' There's a disagreement between husband and wife. 'What should I do?' They ask for advice. Those who have loans, they drink alcohol to forget about their worries. They cry sometimes. Then we can understand (they have too many loans)."*

In extreme situations this pressure can lead to suicide. After several focus group participants mentioned this, I asked if they were sharing from experiences within their own community. Sultan responded,

> *"A few days ago in Pirgacha, a person called Omrito took poison, one mahajon had told him to 'give the money today'. He said it in front of everyone at the tea stall. Then he couldn't stand the embarrassment, and took poison."*

The stress of excessive debts inevitably causes arguments between family members, especially husband and wife. As Hazera shared,

> *"My husband told me to take out a loan, I took out the loan and gave the funds to him. After this what did my husband do? 'I can't work, you got the loan out, and so you repay it'."*

They mentioned that some borrowers develop addictions to alcohol or drugs as a release from their worries. But while arguments and stress are useful illustrations of what it feels like to be over-indebted, these are harder to measure and to isolate as being debt-related.

I did not find debt-related stress or social dislocation identified as part of a definition on over-indebtedness in the microfinance literature, although Guerin et al. (2011:26) did emphasise that the social meaning of debt is just as important as a financial analysis of income and debt. Participants in their study said, "it is worst when people know you are struggling with debt. They start to avoid you and don't send you invitations any more because they are afraid to be solicited". Because of the huge stigma of debt in cultures such as Bangladesh, which was expressed in various ways by focus group participants, I feel that the social consequences of debt should be taken more seriously when framing an appropriate definition of over-indebtedness. For example, frequent lender visits were seen as an incredibly humiliating experience for borrowers so rather than fall into arrears on their loans many would take on further sacrifices such as loan recycling, sale of assets or reduction of their standard of living.

(7) Borrowers subject to Shalish or Court Cases

Finally, the seventh symptom of over-indebtedness is borrowers being subject to *shalish* or court cases. If borrowers are unable to repay a loan, NGOs can take cases against borrowers, and *mahajons* can call for a *shalish*. As one participant mentioned,

> *"BRAC take cases against borrowers. In my village, some people took a loan and later ran away. Still, the NGO said they had to repay the funds. The NGO went back and forth for a long time but the borrower did not repay so they took a court case"*.

Another participant drew on a local colloquialism when commenting that

> *"you can't kill and eat the NGO's money."*

A *mahajon* may call for a *shalish* if the borrower does not repay on time, and ask the village elders to decide on the most appropriate steps, whether this meant applying pressure to sell assets, or giving more time to repay. In other circumstances, *mahajons* write off the outstanding loan by taking ownership of the borrower's collateral, whether this is a land asset, jewelry or other possessions. One person commented that rather than face a court case,

> *"many people in this position may flee the area. They leave the village and their home and go somewhere else… they flee at night"*.

I did not find the symptom of court cases or *shalish* referred to in the microfinance literature as part of any definitions of over-indebtedness, although it could fall into the 'severe one-off sacrifices' or 'costly actions' tests of Schicks (2010) and Gonzalez (2008), respectively.

When I compared the symptoms of over-indebtedness identified by my focus group participants to definitions from the microfinance literature, I noticed that my participants did not discuss multiple indebtedness or the monetary extent of debt**,** despite references to both of these indicators in the microfinance literature. The current loans of financial diaries households range from two to ten but this has little bearing on their extent of indebtedness, as some loans are large and others are small. Hazera's household has only two loans but is more indebted than Hasan's household with six loans. Similarly, Hasan's household which is the least indebted in monetary terms seems to be struggling more with repayments than most, as they have a lower income than other households and higher monthly expenditure. However, there could be a correlation between multiple indebtedness and serious over-indebtedness, as households are more likely to practice loan recycling if they cannot pay off a number of existing debts.
In Table 2 below I consider each of the seven symptoms of over-indebtedness and their similarity or departure from indicators or definitions found in the microfinance literature.

Table 2: Comparison of Over-indebtedness Symptoms to the Academic Literature

Symptoms identified by focus groups	*Similarities to literature*	*Differences to literature*
1. Frequent lender visits (because of borrower's inability to make timely repayments)	Inability to make timely repayments because of lack of disposable income is a theme for Schicks (2010), Maurer and Pytkowska (2010), Pytkowska and Spannuth (2011), Hulme & Maitrot (2014), Alam (2012) and Gonzalez (2008). Schicks (2010:10) mentions 'feeling threatened or harassed'	The literature makes little mention of lender visits to the borrower's home or the stigma attached to this for people in South Asian societies. This is an important consideration as it increases the burden felt by indebted households, influences their choice of lender and loan repayment strategies.
2. Sale of assets to repay loans	Sale of assets is a 'severe sacrifice' (Schicks, 2010) and a 'costly action' (Gonzalez, 2008). Alam (2012) refers to sale of a productive asset.	Many academics do not recognise sale of assets as a separate indicator of over-indebtedness (independent of debt-to-income ratios).
3. Lack of food or clothes	Schicks (2010) lists 'reducing food quality or quantity' as a sacrifice. Gonzalez (2008) lists 'reducing consumption' as a potentially costly action.	Neither this symptom nor a more generic interpretation (i.e. reduction in standard of living) is referred to specifically by many microfinance academics.
4. Deceitful behaviour	N/A	I did not find any mention of this symptom in the literature.
5. Loan recycling	Schicks (2010) lists this as an unacceptable one-off sacrifice and Gonzalez (2008) as a costly action.	Many academics refer to lack of income rather than the tendency of borrowers to take on new debt to repay loans.
6. Debt-related stress	Schicks (2010) lists 'psychological stress' and 'suffering from shame and insults' as borrower sacrifices. Guerin et al. (2011) consider the social consequence of debt to be significant.	The symptom of debt-related stress is underrepresented in the literature, which focusses primarily on financial analyses, but it was emphasised strongly by focus group participants as indication of over-indebtedness.
7. Involvement in *shalish* or formal court case	Could be considered an 'unduly high sacrifice' under Schicks' (2010) definition or a costly action: Gonzalez (2008). Has similarities to 'seizure of assets' as a borrower sacrifice mentioned by Schicks (2010).	I did not find any specific mention of this in the literature, but it seems particularly relevant in the Bangladeshi context as several focus group participants shared examples from their own communities.

Source: Author

4.4 CONTINUUM OF OVER-INDEBTEDNESS

As described above, microfinance academics have defined over-indebtedness in various ways, including simple definitions and more sophisticated typologies by academics such as Schicks (2010), Gonzalez (2008) and Guerin et al. (2011). Drawing on focus group discussions and household financial diaries, I found it more appropriate to use a "continuum of indebtedness" rather than a singular definition of whether households are over-indebted or not, as illustrated in Figure 9 below. This continuum is a representation of the various stages of indebtedness, from 'no debt' through to extremely over-indebted. This is necessarily a time-based continuum, as it is crucial to follow the household for a period of time (or ask questions about their previous experiences with debt) to understand whether they are struggling to repay loans, facing lender visits, reducing their standard of living or selling off assets to repay debt. I have not included debt-related stress or deceitful behaviour in this continuum, as they are quite subjective symptoms and hard to isolate as debt related. However, the debt to income ratio is reflected whether loan repayments are made from disposable income, and 'lack of food and clothes or eating less than three times a day' shows a 'significant reduction in standard of living'.

Figure 9 Continuum of Indebtedness

NO DEBT (but may be at risk of over-indebtedness if insufficient savings for future big-ticket expenses)

↓

INDEBTED: some debt, but able to make timely repayments of capital and interest on all loans, using disposable income

↓

OVER-INDEBTED: struggle to make timely repayments on one or more loans (without recourse to further borrowing)

↓

SERIOUSLY OVER-INDEBTED: constant visits from lenders, AND significantly reduce standard of living or sell assets to fund repayment

↓

EXTREMELY OVER-INDEBTED: forced to sell off land assets or defend village/formal court case to resolve outstanding debt

Source: Author

The first level on the continuum of Indebtedness is the state of "no-debt". Households in the no-debt category currently have no-debt but could still be at risk of future over-indebtedness if they are unable to put aside sufficient savings to pay for major expenses in the future. All of the financial diary households have debt, so they do not fall into this category. Several participants feel they can pay off this debt within two or three years. However, even if they become debt-free, all households anticipate major expenses in the future, such as children's high school and university costs, wedding celebrations, building, repairing or improving homes, cultivation costs and buying land. Despite a reluctance to take out further loans because of the financial burden, they are not confident that they would be able to remain debt-free. As Hazera mentioned,

> "*I still have to educate my three sons, get two of them married off, and build homes for them. I don't have any savings, so I will need to take loans again.*"

Hazera does hope to buy a cow to bring in extra income, sell her trees in future and use household labour to construct the homes, but she feels this will be insufficient. Beauti said she will fatten up a few pigs a year before her son's marriage, to feed to the wedding guests, but acknowledged that *"I may have to take out loans again when my son gets married."*

The second level on the continuum is the state of indebtedness, where households have some debt but are able to make timely repayments of capital and interest on all their loans using disposable income. They are not over-indebted as they are not forced into costly strategies such as loan recycling, sale of assets or reduction of their standard of living. None of the financial diary households fall into this category, as they do not have sufficient disposable income to make loan repayments. I asked participants "if you were able to lower your debt levels, at which point would you no longer consider yourself over-indebted?", and their answers suggested that the ability to repay their loans from disposable income would make all the difference. Hazera mentioned,

> *"If I was able to pay off my mahajon loans, I could get by on what I earn. Then I would only have to deposit 220 taka savings a week… which is manageable"*.

Sultan said that if he could pay off the two most difficult loans, he would buy rice and then repay the other loan installments from the rest of his salary. Hasan feels that if he could repay his *mahajon* loans he could easily afford the weekly NGO loan installment, but his income is insufficient to manage all repayments simultaneously. Lipi would also feel more confident about managing her debt if she could pay off her 30,000 taka NGO loan, whereas Priya said that she could handle one NGO loan without trouble.

All of the households I interviewed fall into the third level (over-indebted) as they struggle to make timely repayments of capital and interest on all loans without recourse to further borrowing. The households have diverse strategies to manage this. Hazera resorted to *haolats* to keep up with *mahajon* loan repayments and Sultan relied heavily on shopkeeper credit. At times, households avoided making repayments on *mahajon*, Credit, *shomiti* or bank loans altogether. Sultan, Raihan, Beauti, Hasan, Lipi and Priya missed a total of 17 loan repayments during the financial diaries month. Sultan missed one NGO loan repayment but paid his government department lender. Other than this, Sultan, Raihan, Beauti, Hasan, Lipi and Priya kept up with all of their NGO loan repayments, on a weekly or monthly basis. As I elaborate in chapter five, this is influenced by the huge pressure NGOs apply on timely repayment.

Many households with *mahajon* loans could not even set a repayment target within the next year, as they prioritised other loans and household expenses. Hazera had to renegotiate payments on her biggest *mahajon* loan from 2,500 taka down to 2,000 taka a month, which means it will take much longer to repay. Hazera, Raihan and Priya focused on paying the interest for other *mahajon* loans but they were unable to make a dent in the capital.

Five households took new loans during the financial diaries month. Sultan, Beauti and Hasan took new *mahajon* loans, Raihan took a new Credit loan and Lipi withdrew an NGO loan to manage repayments. None of Lipi's four *mahajon* loans were due for lump-sum repayment but she had struggled to keep up with several NGO loan repayments from her disposable income.

The fourth level on the continuum, 'seriously over-indebted', includes households that face constant visits from lenders and either have to sell off valuable assets (other than land) to fund loan repayment or significantly reduce their standard of living. Valuable assets could include trees, livestock or other household items. None of my households fall into this category, but their experiences do provide some insights. Hazera anticipates selling off trees to help fund her son's marriage. Raihan sold off two cows and some trees during the financial diaries period, but this was to fund the deposit on a land purchase rather than pay off existing debts. In contrast, Beauti sold a pig (and bought a younger one), partly as an income-generation strategy, but it also to help her make 17,000 taka in loan repayments, which she could not have afforded otherwise. I did not see any evidence that research participants face constant lender visits, as they generally borrow funds if they are struggling to keep up with NGO loan repayments. Neither did I see any evidence of a significant reduction in standard of living.

Sale of land assets is listed in the fifth level of the indebtedness continuum, 'extremely over-indebted' as this is usually the most valuable asset for a poor household, and they are unlikely to sell it unless they are really desperate. Selling land could make it problematic for borrowers to remain in the village at all, unless they have sympathetic family members or they can afford to pay rent elsewhere. In addition, defending a *shalish* or formal court case can result in a household in being ordered to sell off remaining assets, and borrowers may decide to flee rather than face this prospect.

4.5 CONCLUSION

This chapter analysed a wide range of definitions of over-indebtedness from the microfinance literature. Most authors focused on the financial indicators of over-indebtedness such as failure to meet repayment deadlines, debts to income ratios and a lack of disposable income to repay debt, but only a few authors emphasised the subjective debt burden of borrowers. The seven symptoms of over-indebtedness identified by focus group participants provides more in-depth insights into the predicament of salaried microborrowers in Bangladesh as well as illustrating the common responses of borrowers who have insufficient income to repay their loans.

The local understanding of household over-indebtedness amongst salaried microborrowers differs significantly from academic definitions because of its emphasis on the social consequences of debt rather than a purely financial analysis. For example, lender visits do not just illustrate the inability of households to make timely repayments, but also the stigma attached to this, as borrowers lose the respect of their neighbours. As I demonstrate in chapter five, this fear of social stigma can also influence the borrower's choice of loan type and their repayment strategy for multiple loans. Social consequences are evident in the way others label borrowers as 'deceitful' if they promise to repay by a certain date and then fail to do so, by the emphasis of focus group participants on debt-related stress, the arguments it creates between husband and wife, the social isolation over-indebted borrowers face within the community, and the tendency of some borrowers to flee rather than defend a *shalish* or court case.

Over-indebted borrowers use various strategies to manage their debts when it is not possible to make repayments from disposable income. A common strategy for my financial diary participants is to take out new loans to repay earlier ones, especially for lenders that require lump sum repayment. If they cannot pay an NGO or *mahajon* loan installment they will frequently take a *haolat* from a friend. I elaborate on these strategies in chapter five. Another approach is to sell assets such as livestock or trees to repay loans or reduce the household's standard of living by buying less food and clothes or eating less than three meals per day.

As well as lender visits, deceitful behaviour, debt-related stress and *shalish* or court cases, focus group participants also recognised asset sales, loan recycling and lack of food and clothes as symptoms of over-indebtedness. When I combined these insights with the experiences of financial diary participants, I was able to develop a continuum of over-indebtedness that includes various stages, from no-debt to indebted, over-indebted, seriously over-indebted and extremely over-indebted and incorporates a number of these symptoms.

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

5.1 INTRODUCTION

Whereas in the previous chapter I considered various definitions of over-indebtedness, this chapter looks to *"examine how the lending terms and conditions of microfinance lenders have influenced the borrowing choices and repayment strategies of salaried microborrowers, and how the combination of these factors affected household over-indebtedness."* Lending terms and conditions cover a wide variety of factors that affect their accessibility, as well as borrowers' preference for taking or avoiding particular types of loans and their strategies for repayment. The information in this chapter is drawn from focus group discussions, household interviews and financial diaries and interviews with various microfinance lenders.

I begin by introducing the main types of microfinance lenders in the Kailakuri setting. Then I analyse nine key lending terms and conditions of microfinance lenders, which apply at loan advancement or during repayment. I examine how the borrower's choice of loan type or repayment strategy influences their risk of household over-indebtedness.

5.2 TYPES OF MICROFINANCE LENDERS

Within a variety of microfinance contexts, lenders are not limited to MFIs and banks as informal lending often goes on outside the regulatory framework, and includes loans provided by moneylenders, relatives and friends (Mallick, 2012:1188). These loans may incur interest, but repayment terms are often flexible. Low-income people often lend money to their own friends and family as well as relying on others' loans (Collins, et al., 2009:34,41,48). Conducting financial diaries uncovers a number of 'financial instruments' used by participating households to manage their money, with various levels of formality (Ibid, 2009:205).

In my research I identified eight types of lenders, namely *mahajon*, NGOs, credit unions, *shomitis*, banks, government department lenders, friends and acquaintances of the borrower who provide *haolats* and shopkeepers who supply goods on credit. There were also a number of specific organisations and individuals with outstanding loans to the financial diary participants.

Mahajon are individual moneylenders who lend with interest. Household participants had 23 outstanding *mahajon* loans during the financial diaries period, which were owed to 21 different *mahajon*. Their loans can be divided into one of three types. Type One lends funds with 20% interest, with equal payments of interest and capital each month for the duration of the loan term. Type Two lends funds with 100% interest, and the borrower repays double the loan amount in a lump sum after one year. Type Three lends funds with 120% interest. The borrower pays 10% interest on the outstanding loan each month until the capital is repaid.

Many NGOs are registered as microfinance lenders and lend within the Madhupur area. Some of these NGOs, such as BRAC and Caritas, also carry out non-microfinance activities. The NGOs BURO, SUSS (Samannita Unnayan Seba Sangasthan), BRAC, ASA, Caritas and Grameen all had outstanding loans to at least one of the household participants during the financial diaries period, and NGO loans comprised 17 of the 100 current loans. They charge between 20-25% nominal interest.

Credit unions are local or national organisations that collect shares and savings from their members and lend funds with interest. Pirgacha Credit Union, organised by *Garo* leaders in the community, had outstanding loans to two of the financial diary participants. World Vision has set up a local Credit Union, called ‘Bikal Adhibashi Mohila Bhumuki (BAMB), and lends to *Garo* members only. It has one outstanding loan. The Credits charge between 18-24% interest.

Shomitis are private organisations that lend to members and non-members. Members receive profit on the savings they have deposited in the *shomiti* (once it has been lent and recovered). Shainamari *shomiti,* organised by *Bormon* community members, has one outstanding loan to a research participant. It lends with 105% interest on an annual, declining rate basis. Another participant is building up savings with Thanarbaid *shomiti,* in anticipation of later borrowing.

Krishi Bank has one outstanding loan to a household participant, and all participants hold personal bank accounts with National Bank, as their salaries are deposited into these accounts. However, the closest branch is in Madhupur township, which is one hour’s drive away. Staff members can either go to the bank in person or nominate one person to collect several cheques.

Some Government Departments have the capacity to offer loans, often at a lower interest rate than NGOs and *mahajons*. One such government department programme, Jubounoyon, has an outstanding loan to one of my research participants. To gain access to this loan Sultan had to attend a week-long training on various income-generating activities. He was required to spend the funds on a productive loan use, cultivating pineapples and papayas in his case.

Friends or acquaintances of the borrower may supply small interest-free loans, called *haolats* in Bengali. These may be used to repay loan installments or make small purchases. Lenders generally expect prompt repayment. The word *haolat* literally means ‘to borrow’, and it used in other contexts as well, for example if someone wants to borrow a tool for a few days. According to my participants, *haolats* are generally taken for a short period of time, such as a week or two, but not for longer than one month. Borrowers relied on 30 *haolats* during the course of the financial diaries. While the focus group participants agreed that *haolat*s have to be repaid, many of them do not categorise *haolats* as ‘loans’, in the same way they do for *mahajon*, NGO and bank loans. As one person commented,

> “*A haolat is when I can borrow it for a short period of time. I took it now when I needed the money, and repaid it a few days later. This is not a loan.”*

However, someone else dissented,

> “*this is also a type of loan. Because I borrowed the money and I have to repay it. It has to be repaid, but without interest. If it did not have to be repaid, it would not be called a loan.”*

I recognise that research participants generally use *haolat*s to balance short-term cash flow and try to repay these promptly but they still form a significant portion of total debt and are therefore included in the analysis of microfinance lenders.

Many shopkeepers supply goods on credit. Credit is generally offered on an interest-free basis but shopkeepers expect prompt repayment. Shopkeeper credit was relied upon 24 times during the financial diaries month, by all of the participants except Raihan.

These microfinance lenders are summarised in Table 3 below.

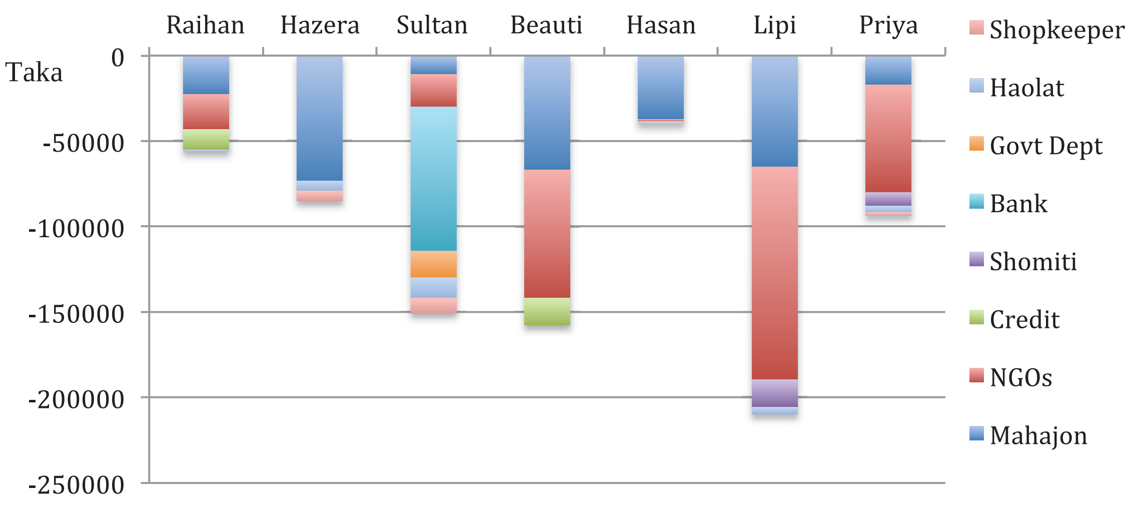
Table 3: Microfinance Lenders

Lender type	*Description*	*Frequency*
Mahajon	Moneylenders who lend for profit	23
NGOs	Non-profit organisations registered with Bangladeshi NGO Bureau and subject to MRA rules and regulations.	17
Credit unions	Private organisations that collect savings and shares from members to enable further lending. Subject to MRA rules.	3
Shomitis	Private organisations that offer loans to members and non-members, often at higher interest rates than NGOs.	1
Banks	Includes government and privately-owned banks. The landless are not able to access lending services.	1
Government Departments	Some government departments offer loans at low interest rates to certain categories of borrowers, with conditions.	1
Haolats	*Haolats* are interest-free loans between friends, neighbours or family members that bear the implied obligation to reciprocate at some time in the future	30
Shopkeeper credit	Many shopkeepers allow customers to buy goods on credit on the basis they will repay this as soon as possible.	24
	Total Number of Loans	100

Source: Author

While Table 3 shows the *number* of outstanding loans of each different type, Figure 10 shows that *mahajon* loans (in navy blue) and NGO loans (in red) form the greatest *proportion* of debt held by each household. Credit Union and *shomiti* loans (shown in green and purple) also form substantial amounts, but a bank loan is only significant for one household.

Figure 10: Debts across all Households (at end of Financial Diaries)



Source: Author

5.3 LENDING TERMS AND CONDITIONS & OVER-INDEBTEDNESS

In this section I compare the main lending terms and conditions of the microfinance lenders introduced above, namely (1) exclusionary criteria (2) bribes and exploitation (3) collateral (4) time investments and delays (5) lender incentives and (lack of) assessment of repayment capacity (6) restrictions on loan use (7) loan ceilings and floors (8) the effective cost of the loan, and (9) the installment arrangements and the extent of lender pressure on repayments.

A few of the terms were identified with reference to the microfinance literature. For example, the effective cost of the loan is discussed at length by Waterfield (2015) and is used to compare the financial costs of loans in various countries and contexts. Loan ceilings and floors are also discussed in the literature in terms of the restrictions on what amounts can be borrowed and how this affects borrower indebtedness. However, most of the lending terms and conditions were identified by focus group participants, after comparing the advantages and disadvantages of different loan types. Borrowers also distinguished between high and low interest loans, and whether they could access large amounts of credit. However, borrowers also had other concerns, including whether the lender offered loan forgiveness if the borrower died, how long it took to gain access to the loan, whether collateral was required, whether they needed to pay bribes or faced the risk of exploitation, whether they were excluded from borrowing because of their age, gender, ethnicity, lack of record land or non-attendance at training, what the installments arrangements were and how much pressure the lenders put on timely repayments.

(1) Exclusionary Criteria

Exclusionary criteria are lending terms and conditions that exclude certain categories of borrowers, such as the elderly or those outside a particular age group, men, those who do not own record land, people of certain ethnicities, or those who have not undertaken training. Many researchers have reservations about whether microcredit is truly reaching the poorest, rather than the less poor or moderately wealthy. The poor often produce lower profits and are seen as riskier investments due to their lack of assets (Bateman, 2010, Rahman, 1998). Datta's participatory study illustrates a variety of reasons microcredit cannot reach the poorest, including exclusionary criteria such as permanent residence and age restrictions (2004).

Within my research I found that banks are largely inaccessible to the rural poor in Madhupur because of the need to own record land, which means land which has a formal title. However, much of the land in rural Madhupur is classified as 'forest land'. People buy and sell it amongst themselves, but the government does not recognise their permanent ownership of the land.

According to my participants, they also need another bank client to recommend them before they can get access to a loan. If the borrower is unable to repay the loan, the bank will pressure of the person who recommended them to 'have a word' with the borrower.

Pirgacha Credit loans are only available to *adhibhasi* people, which means people of indigenous ethnicity including the *Garo* and *Bormon* minorities but excluding the majority *Bengali* Muslims. BAMB Credit lends only to *Garo* people. One disadvantage of NGO loans shared by research participants is the exclusion of men and the elderly as loan recipients. As one of them explained, NGOs do not lend to anyone over 50 years of age *"because they could pass away at any time and the NGO would have to forgive their outstanding loans"*. NGOs often require husbands to sign the loan form as they are legally recognised as a guardian of their wife, but men have no other role in the loan taking process. Only Sultan's household has a government department loan, despite the low interest rate, and this department is based in Madhupur, a one hour drive away. Households have to be in a specific age bracket (18-35 years) and attend a week-long training to be entitled to this loan. Access to *haolats* and shopkeeper credit depends on the strength of relationship with the lender and whether they have repaid previous loans.

From these examples it is clear that salaried micro-borrower households are not necessarily able to choose the lender type that would be most beneficial for them, as they are restricted by exclusionary criteria put in place by the lender. This can cause them to seek higher-interest loans from *shomitis* or *mahajons* because of the ease of access, even if they struggle to repay.

(2) Bribes and Exploitation

Lenders may demand bribes from borrowers or exploit them in other ways such as harassing them to take loans, not accounting properly for repayments or trying to get access to borrower's assets by behaving unethically and relying on the likelihood of borrower default. In some contexts, moneylenders may demand collateral or labour agreements, and force clients to sell assets (Narayan & Petesch, 2002:134).

The literature contains various examples of the exploitative targeting of borrowers. They may deliberately exploit the psychological biases of borrowers through door-to-door solicitations or limited time offers, increasing the temptation of access to easy money (Schicks, 2010:9). In Georgia, clients received pre-paid cards in the mail which could be used to activate new loans, and in Peru clients received cheques in the mail with automatic approval for a new loan (Meka & Sanford, 2016:7), as well as frequent offers for credit through text messages, calls, or even visits to their workplaces, ranging from a few times a month, to multiple times each week (Ibid, 2016:26). This can lead otherwise uninterested borrowers into taking unnecessary loans.

It is possible that the requirement to pay bribes to access certain types of loans (in Bangladesh at least) is understated in the microfinance literature. Even if focus group participants had access to record land, they were uninterested in getting a bank loan because of the assumption that they would need to pay a bribe. As one person mentioned,

> *"One of my neighbours had to pay a 3,000 taka bribe. Then they gave a 15,000 taka loan... But later, when he wants to get a 20,000 taka loan, he has to give a 5,000 taka bribe".*

Sultan is the only financial diary participant with a bank loan. He acknowledged that an agent who negotiated access to the loan took a significant cut, and he suspected this was shared with the bank officer who approved the loan. He was not confident enough to approach the bank without an agent when seeking a loan, as he believed they would have turned him away.

Focus group participants also gave examples of exploitative behaviour by NGO loan officers and *mahajons*. One example from a focus group was given of how a NGO loan officer might not record the payments of an illiterate borrower properly in their passbook, leading to disputes about how much had been repaid. Research participants also described the exploitative behaviour of some *mahajons* who would prey on households that had valuable assets. They would continue to lend to the household until their assets were depleted and they were no longer a reliable client, as they might default on payment. As one person shared,

> *"If anyone wants money, and has some land, the mahajon won't refuse. He will give as many loans as they want… When the borrower exceeds (his asset value), he will no longer lend. And then he will say, 'return my money or give me your assets'."*

Alternatively, if the borrower had land that they wanted to sell to someone other than the *mahajon*, he might threaten to increase the interest rate to incentivise them to sell to themselves instead. However, I did not see evidence of these practices in the current loans owed by financial diary participants. From the surrounding discussions, I got the impression that *mahajon* practices have also evolved over time, as they have had to compete with the availability of NGO loans, which do not require collateral, and people's growing awareness of how to protect themselves from exploitation. This wider point applies to NGO loans as well, as second or third generation borrowers have learnt from their parents' experiences, and seem less likely to tolerate abusive or coercive behaviour from loan officers.

(3) Collateral

The argument in the microfinance literature that microfinance institutions do not require collateral before providing loans is somewhat overstated, as most NGOs in my research context required 10-20% of the loan amount in minimum savings as well as enforcing weekly or monthly savings. At the very least, these minimum savings could not be withdrawn before the loan was repaid. These savings requirements also factor into the effective cost of the loan.

In the research context Caritas, BRAC and SUSS NGOs require minimum savings of 10% of the loan amount before distributing loan funds, whereas others charge a more nominal sum. In Pirgacha Credit, members have to purchase shares worth 20% of the amount they wish to borrow. These savings or shares requirements add to the financial cost of the loan, as they cannot be withdrawn during the loan term. Similarly, BAMB Credit requires 10% in shares and savings. In addition, NGOs, credit unions and government department loans all have compulsory savings or shares requirements, which range from 20 to 200 taka a month.

The focus group participants listed savings and shares requirements as disadvantages of getting an NGO or Credit loan. It also contributes to the risk of over-indebtedness, as it adds to the financial cost of the loan. When borrowers are forced to deposit 10 or 20% of the total loan amount with the lender, it either takes additional time for them to save up this amount, or otherwise they borrow it off someone else and then repay it once they get the loan funds, leaving them with less cash in hand. NGO loan officers explained that borrowers' savings (beyond the minimum savings) could be withdrawn at any time, but I began to doubt this as none of the seven borrowers withdrew any of their savings during the financial diaries.

In the case of bank loans, borrowers have to agree to a mortgage over their land and they are quite aware of the bank's power to take the land in the event of non-repayment.
One research participant explained the procedure like this,

> *"after a long time, if the amount owing equals the land value, they will give the borrower notice that within so many days, your land will be seized if you cannot repay the money. After that, it will be sold at auction, and the bank will receive the proceeds".*

Another person suggested the bank would use court procedures to accomplish this.

Focus group participants explained that some *mahajon* demand collateral such as jewelry or land assets, which is forfeited if the loan is not repaid on time. They also described situations where the *mahajon* would collect a signature on blank paper, and write in an asset as collateral later on, if it appeared that the borrower was unlikely to repay on time. I asked what would happen if the borrower refused to sign the paper, and one participant said, *"they will not lend you money"*. The desperation for cash can lead people to cooperate, despite the risks it presents. However, these examples did not square with the experiences of financial diary participants with outstanding *mahajon* loans, as none of them had required collateral.

(4) Time Investment and Delays

One issue not highlighted in the microfinance literature is that access to certain types of loans requires a long waiting time on the part of the borrower. NGO loans in particular require significant time investments: first they become a member, then deposit savings for several months, fill out loan forms and justify their proposed use of loan funds. Bank loans are also associated with time delays of one or two months in accessing the funds, and Credit Union loans require minimum share purchases, which can take some time to save up. BAMB Credit requires new members to wait for six months before getting a loan. In contrast, *mahajon* loans are generally easy and quick to get. It does not require lengthy paperwork, minimum savings, or disclosure of the purpose of loan funds. These time delays clearly influenced borrowers' choice of *mahajon* loans, despite their high interest rates. Out of 100 outstanding loans owed by financial diary participants, 23 of these loans were taken from *mahajons.*

(5) Lender Incentives and Assessment of Repayment Capacity

Lenders are often rewarded for their volume of loan disbursements through extra financial incentives, even if this imposes additional burdens on clients. In particular, they may lend to borrowers who lack the ability to repay. As Schicks (2010:9) mentions, even quality incentives can have the perverse effect of encouraging re-lending to borrowers in arrears, delaying the risk of default (which would reflect badly on the lender). Quality incentives mean bonuses based on their loan recovery rates. Hulme and Maitrot (2014:4) emphasise that the staff of all large MFIs in Bangladesh have personal financial performance targets, which implies that the clients' welfare may come secondary. They believe that offering rigid loan-based products to the poor inevitably encourages them into extreme trade-offs which may damage their well-being (Ibid). The interests of MFIs and clients do not necessarily line up in these circumstances.

The industry's growth pressure and drive for financial returns can undermine its social mission of providing affordable credit to the poor. It can also lead to a high share of inexperienced loan officers who do not make wise lending decisions (Schicks, 2010, Maurer & Pytkowska, 2010). In a Bangladeshi study, 6 out of 19 field staff from ASA NGO admitted providing loans despite being aware that the borrower was concurrently repaying off existing loans, because they felt the need to compete against other MFIs (Yuge, 2011:7). Schicks and Rosenberg (2011:2) emphasise that in competitive or saturated markets, lenders may accept higher risk borrowers and become careless with their internal risk management, although it is difficult for them to know of client's pre-existing loan obligations in the absence of a credit bureau. Lenders may pressure borrowers to continue borrowing, rather than promoting 'protective services' such as savings, or taking a break when they do not require extra credit (Schicks, 2010:9).

Lenders differ in the importance they place on a borrower's repayment capacity, with some lenders choosing to restrict access if they believe that the borrower will not be able to repay on time. On the other hand, Gonzalez (2008:ii) recognises that over-indebtedness can arise from the opportunistic behaviour of lenders, or the limitations of lending technologies in forecasting 'ordinary repayment capacity'. In Bosnia and Herzegovina it emerged that 30% of problem clients had not been visited at the time of loan appraisal (Maurer & Pytkowska, 2010:8). Schicks (2014) felt that MFIs should take the risk of adverse shocks into account when calculating repayment capacity, rather than assuming that things will run smoothly. However, if lenders assume that the client can simply take out another loan from a competitor to pay them off, they may not be incentivised to act with caution. In Admad's research, NGO fieldworkers conceded that NGO credit can be exploitative, as lenders are under pressure to maintain high repayment rates. As one staff member said, "I have to show good repayment rate of dispersed credit to save my job. To get money back sometimes I abuse my members" (2003:69).

Within the microfinance literature, it's also evident that some borrowers do not accurately assess their ability to repay loans. For example, 21% of clients admitted being overly optimistic about their repayment capacity in Maurer & Pytkowska's field study in Bosnia and Herzegovina (2011:8). On the other hand, authors such as Collins et al. (2009) emphasise the importance of loans for 'consumption smoothing' amongst the poor. In other words, they borrow because they have insufficient cash in hand and gradually repay this through various income sources.

Focus group participants explained that NGO lenders often visit the borrower's home before providing a loan to see what level of assets they have and whether they own land (which could suggest permanent residence in the area). Lenders use this information to determine whether the household would reliable at making repayments, and therefore eligible for a loan. Lenders do consider the borrower's repayment capacity but this is complicated by their motivation to extend as many loans as possible, and the potential of borrowers to conceal the extent of their borrowing. NGO and Credit officers may receive bonuses depending on their loan disbursement rate and *mahajons* may assess a borrower's repayment capacity by looking at asset values rather than t disposable income, so they do not necessarily consider the borrower's long-term interests.

Within my research, a focus group participant who had previously worked in a credit organisation gave an example of how the incentivisation of loan officers could affect their decision-making, to the detriment of borrowers with limited repayment capacity,

> *"Their constitution did not allow them to lend to someone who already had loans from three NGOs. But they still considered it. Because NGO officers have a target to maintain. They need to make 20 or 30 new members a month. Because of this they allow for overlapping loans".*

(6) Restrictions on Loan Use

A number of lenders choose to restrict loan use to productive or income-generating loans rather than allowing loans for consumption purposes. Others offer loans for housing or education, with a different set of repayment obligations. Schick's Ghanaian research confirmed that non-productive loan use increases the risk of over-indebtedness but she conceded that these loans can be justified at times, for emergency health treatment for example (2014). Some MFIs claim that they only advance loans for productive use, but academic research has shown that loans may be used for consumption, to repay other loans, or to pay off the village moneylender, whether MFIs are aware of this or not. As Sinclair points out, even if a loan officer enquires into the client's motives for taking a loan, once a borrower has taken the money there is little the MFI can do if it was spent on something other than the income-generating activity (2012:2,20). Within the literature shopkeepers and moneylenders are valued for 'giving loans for consumption (Narayan, Chambers, Shah & Petesch, 2000:268).

Studies show that the majority of microcredit funds have been used to fund consumption spending that cannot be financed out of current income (Rahman, 1999:106, Collins et al., 2009:166). This is despite an emphasis within the literature on lending for productive purposes. The argument is that a productive investment creates a new income stream for the borrower which they can use to repay the capital and interest on their loan. However, if they spend loan funds on consumption then they have to manage repayments from their pre-existing income sources, and may become poorer or more heavily indebted over time. Admad's research reinforced the idea that repayment can be difficult in poor households when loan money is utilised for consumption (2003). Even when credit is given for a specific purpose, the borrower does not necessarily use their credit properly, and there is a lack of supervision by lenders. On the other land, investing loan funds for productive purposes is no guarantee of success and borrowers bear the full risk in the case of business failure. In agricultural investments, weather-related disasters or pests could destroy their crops; in small businesses the owner may face rising competition within limited markets (Khandker et al., 2014:9). As Dichter (2007:1) says, ‘most people, poor or otherwise, are not entrepreneurs’. Their participation in the informal market is mainly subsistence activity, and not particularly profitable (Ibid, 2007:23).

In my research, focus group participants confirmed that NGOs ask how they will spend their money and they have to write this on their loan forms. SUSS and the government department lender would only lend for productive uses, whereas other NGOs were more flexible. However, borrowers acknowledged they were often to blame for replying dishonestly.

> *“The problem is not theirs, it is ours. They ask, “How will you spend the money? We say we will buy a cow. Actually after getting the loans we didn’t buy a cow, and they didn’t see what we did. They do not visit afterwards”.*

However, many focus group participants had the impression that loan officers were disinterested in the loan purpose as long as they received prompt payment of loan installments.

I heard that various NGOs offer Housing or Higher Education loans, at lower interest rates and repayable over a longer period of time. However, I did not come across any examples in my research. One focus group participant summed up the confusion,

> *“NGOs say that loans are available for making a house and education but actually they’re not. Education loans, house making loans, natural disaster or physical illness loans are available in NGOs, but the reality is nobody has seen the implementation of these types of loans.”*

Another participant named Grameen and ASA as NGOs that say they offer higher education loans. Sultan put it more colourfully:

> *“Grameen always say that they give loans for education, but after running around, my sandals have worn out, and I have not had any success.”*

The premise of education loans is that the student does not have to repay until they have graduated and they can afford to make repayments from their salary. Pirgacha Credit claims to offer this loan and Beauti is interested in applying for up to 300,000 taka for her son’s university expenses.

(7) Loan Ceilings and Floors

A loan ceiling is the maximum amount that can be borrowed, and a loan floor is the minimum amount. As I discovered in the microfinance literature, MFIs often offer a fixed range of credit to borrowers (Alam & Molla, 2012), which may not suit their credit needs, and encourages borrowing from multiple institutions to make-up the balance. There will usually be a minimum loan balance which applies to all borrowers. In addition, the system of gradually increasing loan sizes over time may become automatic, which puts borrowers at risk if the lender has not reassessed their repayment capacity (Schicks and Rosenberg, 2011:3). If the loan size goes beyond the borrower's requirements for a productive investment, they may be tempted use the balance for consumption purposes, whether or not this is condoned by the lender.

In my research each loan type was associated with different loan ceilings and floors. These are summarised in Table 4. These affect the borrowers' decision-making on loan suitability and a small loan ceiling can lead to multiple borrowing to make up the difference. This is because borrowers seek access to a certain level of cash to accomplish their purpose, such as paying for a wedding, buying a piece of land or purchasing some livestock. A larger loan makes it easier for them to accomplish this. Within my research, Hazera borrowed 60,000 taka from one *mahajon* to pay for her son's house and another 12,000 taka from a separate *mahajon* to pay for other wedding costs. Sultan took four loans to finance a purchase of cultivation land, including a bank loan, two NGO loans and a *mahajon* loan as well as using his Provident Fund.

Table 4: Loan Ceilings and Floors

Lender type		Loan floors	Loan ceilings
Mahajons		Not fixed	No fixed loan ceilings
NGOs	**SUSS**	10,000 taka	10,000 taka for first loan; 20,000 taka second loan, 35,000 taka maximum
	BRAC	10,000 taka	Maximum 50,000 taka, except for special loans (100,000 taka or more)
	BURO	Not stated.	20,000- 30,000 taka. Up to 100,000 taka for special loans (higher deposits)
	ASA	1,000 taka	Up to 70,000 taka except special loans
	Caritas	6,000 taka	32,000 taka maximum
Credit unions	**Pirgacha Credit**	2,000 taka	First loan: 10,000 taka. Second loan: 20,000 taka. Special loans 50,000 – 300,000 taka (if repayment capacity)
	BAMB Credit	3,000 taka	Maximum ceiling of 20,000 taka.
Shainamari *Shomiti*		3,000 taka	30,000 taka
Krishi Bank		Not stated	Loan ceilings relate to amount of land mortgaged e.g. 12,000 taka for 0.3 acres, 50,000 taka for one acre
Government Department		25,000 taka minimum	Up to 50,000 taka for those who have attended one-week training. 50,000-75,000 second loan, if attend longer training. 100,000 taka maximum
Haolats		No fixed minimum	No fixed ceiling
Shop credit		No fixed minimum	No fixed ceiling

Source: Author

(8) Effective Cost of the Loan

The effective cost of the loan is the total financial cost to the borrower, which includes the nominal interest rate, minimum and compulsory savings, loan insurance and fees. The nominal interest rate is applicable to most types of loans except for *haolats* and shopkeeper credit, which are usually interest free. However, the savings requirements, insurance and fees are only applicable to NGOs, credit unions, government department and *shomiti* loans, and do not factor into the effective cost of *mahajon*, bank loans, *haolats* or shopkeeper credit.

Many borrowers do not know the interest rates applicable to their loans and they are not able to compare the effective cost of different loans. A recent publication examined the views of microfinance clients, and identified a gap in client understanding about loan terms and conditions, regardless of education level, within all four countries studied: 50% in Benin, 49% in Pakistan, 43% in Peru and 21% in Georgia reported that they understood loan terms only somewhat or not at all (Meka & Sanford, 2016:5). Information tended to be copious, technical and complicated and was not communicated in a clear and transparent way. Over 70% of respondents in all four countries could not name their loan's interest rate (Ibid, 2016:16), and clients were particularly confused about their insurance and compulsory savings policies. Schicks and Rosenberg (2011:3) accept that lenders sometimes fail to give clear and accurate information about loan terms and costs, presented in a way that enhances sound decision making. This suggests that borrowers may not realise the true financial cost of the loan when they make the decision to borrow, increasing the chance of repayment difficulties later on.

A common measure to compare the effective costs of different types of loans is the Annual Percentage Rate calculation developed by the MicroFinance Transparency (MFT) organisation (Waterfield, 2015). This takes into account the loan amount, repayments, interest rate, fees, tax, compulsory savings and insurance to calculate the total financial cost to the borrower. A helpful spreadsheet has been developed by MFT (2015). This tool has been used to compare the cost of loans in many countries, including Grameen in Bangladesh (MFT, 2011). This is important because many microfinance lenders are not transparent about the true cost of their loans. For example Grameen, BRAC, and ASA all maintain websites which refer to their microfinance activities. However, they do not publish their current interest rates, requirements for minimum or compulsory savings, cost of loan insurance or other fees.

None of my research participants could calculate the effective cost of their loans as they are not familiar with this measure. Many were unable to name the nominal interest rates charged on their loans, as they only know what their weekly or monthly repayments are. Others quoted

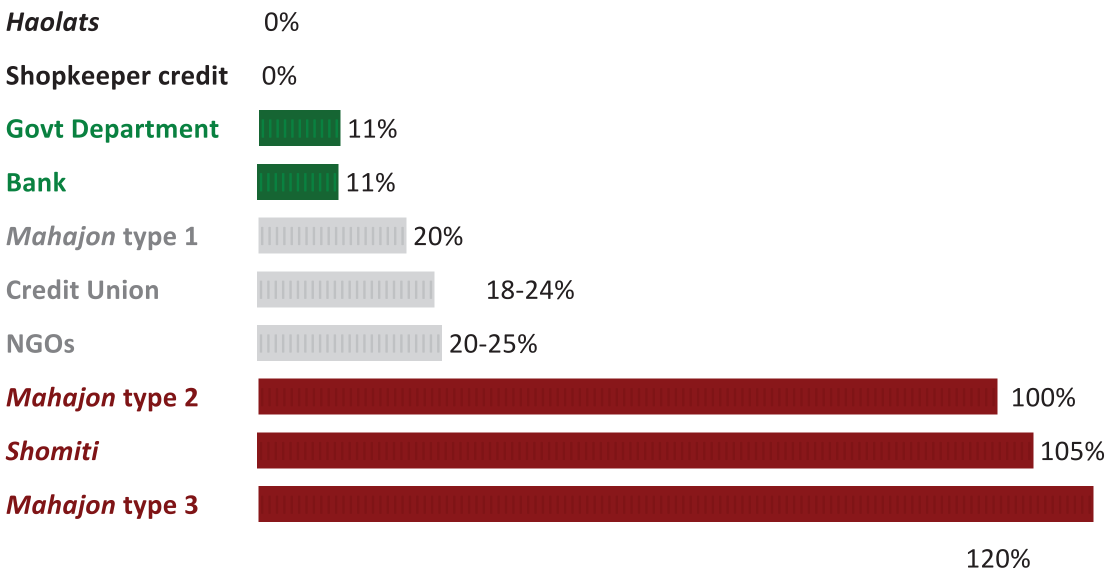
NGO interest rates as 12%, the nominal 'flat' interest rate, but they did not understand how interest is calculated on a declining rate basis. However, household participants are aware of various components that make up the total loan cost, including the loan term, grace period, number and frequency of installments, minimum and compulsory savings, insurance costs and other fees. Even if they cannot remember the precise details, much of this information is recorded in their passbooks. Borrowers are less familiar with the interest rate on savings, and there was confusion about whether their savings can be withdrawn during the loan term.

To establish the effective cost of loans offered by local microfinance lenders, I arranged to visit the offices of each NGO and Credit Union, bank and government department that had outstanding loans to the research participants and interviewed someone who acted as an agent for a *mahajon*. I drew up a template (see Appendix One) comprising of fourteen questions to ascertain these details. It was slightly complicated by the fact that many lenders offer several loan types, with different terms, installment arrangements and interest rates. For example, SUSS offers 5-month loans (with lump sum repayment) as well as 12-month loans which are repayable in weekly installments, and BURO offers weekly or monthly repayments. I discuss the effective cost of the loans after considering the nominal interest rates and other fees.

The nominal interest rate is the basic interest rate applied to the loan, excluding additional fees or savings requirements. It can be calculated on a flat rate basis or a declining rate basis. Within the microfinance literature, Alam and Molla's Bangladeshi survey found that for 48% of borrowers, microcredit was not productive enough to cover interest payments if market wage rates were paid for family labour (2012:50). This suggests that low-productivity is a concern within productive loans and higher interest rates are more likely to lead to household over-indebtedness because they increase the burden of repayment. However, because of the uncertainties around future income, the poor are often prepared to accept high interest rates, and may view interest as a fee for lending rather than a time-bound concept (Guerin 2012:14, Collins et al., 2009:22).

In my research the nominal interest rates of lenders range from zero to 120%. In Figure 11 I divide these into four categories, for ease of comparison. In black are the interest-free loans, followed by low-interest loans (in green), medium interest loans (in grey) and high interest loans (in red). These have all been converted to annual figures, calculated on a declining rate basis. Although many lenders offer one or two-year loan terms (such as NGOs, government departments, *mahajon* Type One, credit unions and *shomiti* loans), bank loans can be rolled-over each year, and *mahajon* Type Two loans can be paid off within a few months, so borrowers do not necessarily pay a full year of interest. Alternatively, borrowers can delay repayment on *mahajon* loans for more than a year, and pay up to 200% or 240% interest over the course of two years.

Figure 11: Nominal Interest Rates of Lenders



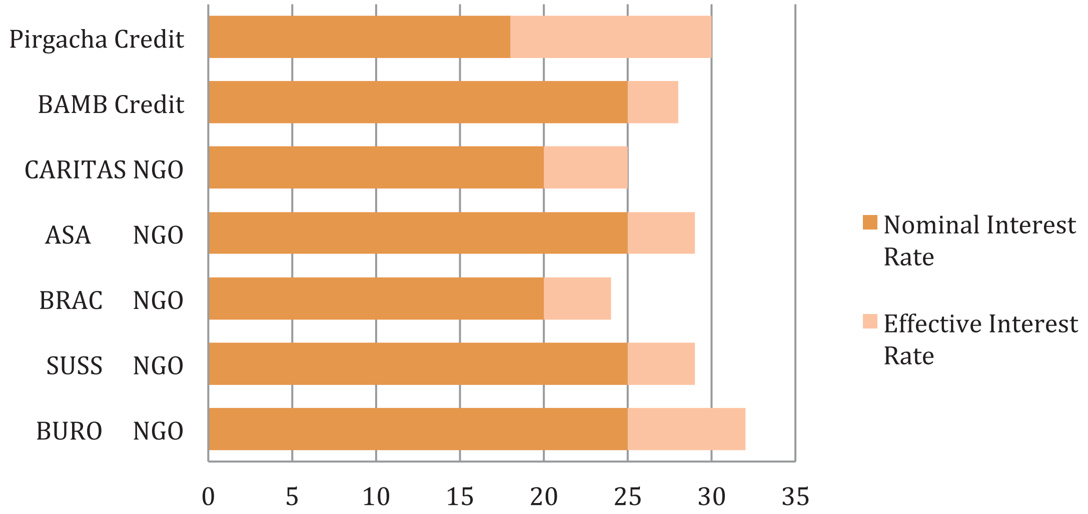
Source: Author

In the interest-free category are *haolat*s and shopkeeper credit. Access to interest-free credit is a major advantage, as recognised by focus group participants. The government department and bank loans are both offered at low interest (11%) and the government lender offer an interest-free grace period of four months before loan payments began. In the medium interest category are *mahajon* Type One, Credit Union and NGO loans. The *mahajon* Type One loan is offered at 20% interest. Credit Union loans range between 18-24%. Interest rates charged by NGOs range between 20-25%, with 25% the highest allowable rate (MRA, 2016).

In the high interest category are *shomiti*, *mahajon* Type Two and Type Three loans. *Mahajon* Type Two loans are offered at 100% interest. For *shomiti* loans, the nominal interest rate is 105%. *mahajon* Type Three loans are offered at 120% interest. Research participants explained that if borrowers are behind in their interest repayments, compound interest is applied to the loan, so the amount of the loan will keep escalating if regular payments are not made.

In Figure 11, I compare the nominal interest rates and effective cost of the loans offered by BURO, SUSS, BRAC, ASA and Caritas (on a 12-month term). The effective cost is several percentage points higher, as it takes account of various transaction costs such as fees and loan insurance, as well as the borrower's loss of access to their savings, which is kept as a form of collateral until loan repayment. While NGOs' nominal interest rates (on a declining rate basis) ranges between 20-25%, their effective interest rates vary from 24-32%. The effective costs of Credit loans and government department loans are higher than their nominal rates because of savings requirements and other fees. I have not compared government departments, banks, *mahajons* or *shomitis* because their nominal interest rates are equivalent to their effective rates.

Figure 12: Difference between NGOs and Credits' Effective and Nominal Interest Rates



Source: Author

I found that borrowers certainly prefer lower interest rates. During the focus groups there were numerous comments about the high interest rates of *mahajons*, and the charging of compound interest when the interest was not paid on time. As one participant commented,

> *"there is a tale that horses can't run as fast as the interest. The same applies for human beings"*.

For this reason, the lower interest rates of NGOs, credit unions and banks are seen as an advantage. However, I found no correlation between low interest and high borrowing rates or high interest and low borrowing rates. This suggests that other terms and conditions of the loan such as ease of accessibility, repayment arrangements and the level of repayment pressure are equally important to borrowers. Out of the 100 outstanding loans taken by financial diary participants, only one government department loan and one bank loan were taken, despite the low interest rates of 11%, and 16 *mahajon* Type Three loans were taken despite the 120% interest rate. Interest-free *haolats* shopkeeper credit were frequently used however. This is supported by Guerin et al. (2011:14), who emphasise that people look for low interest rates but also flexible services and they are more likely to avoid shameful debt than be concerned about high debt levels. Within my research study, NGO debts could be seen as degrading to borrowers' status if they are not repaid promptly, because of the stigma of lender visits.

The higher the nominal interest and effective cost of the loan, the greater likelihood of a borrower becoming over-indebted. This is because of the increasing financial burden of the debt. In the case of credit unions, NGOs and government department loans, borrowers need to deposit extra funds for loan insurance, minimum savings and or shares and other fees before they get access to the loan. Then as well as making repayments on the capital, borrowers pay additional funds to cover the interest and compulsory savings requirements. In this sense, *haolat*s and shopkeeper credit are less likely to lead to over-indebtedness, as the borrowers are only required to pay back the amount borrowed, and they usually do this at their next pay check.

The ability to deposit savings is seen as an advantage for some borrowers, as it can be deposited securely, and built up through small weekly deposits. However, focus group participants were not impressed with the interest rate applied to savings (ranging between 2% and 7%, calculated on the savings balance once a year), arguing that they had to pay much higher rates when they were taking loans, so the NGO should pay more to have access to the borrower's funds. One participant also lamented the amount of his savings was too small to make a noticeable difference. If he were able to save more, he would not need access to NGO loans.

A number of NGOs offer fixed-term deposits, which are known by different names but commonly referred to by borrowers as GPS, which stands for 'Grameen Pension Scheme'. As a focus group participant explained,

> *"This is profitable for the NGO. For example, they target that if I get them to sign up to GPS, they will stay with us for a long time. And for 10 years I will borrow money and repay it. Of course I will take loans. After I have repaid one loan, for whatever reason, I will see the need to take another loan. I will need to buy an asset. I will take another loan from the NGO, and they will give a bigger amount."*

NGO lenders claimed that enrolment in GPS is voluntary, and does not entail any borrowing obligations. However, borrowers were confused about this. As one participant explained,

> *"I signed up to GPS. If I join the GPS but don't take any loans, they won't continue my GPS. They won't accept contributions to my GPS"*.

Another person had a slightly different understanding,

> *"the advantage of GPS is that they give a bigger amount loan. If you don't have GPS, they won't want to provide a large loan."*

Yet another person explained that,

> *"GPS is optional. But they will apply a bit of pressure at first, when I become a member of the NGO. After taking information, they made me a member, lent me funds, and then explained a lot of things. Especially the positive things, so*

I will open a GPS account. So our village people, who don't understand a lot, they will open a GPS account".

Under one GPS arrangement, borrowers deposit 500 taka a month for 10 years, and then receive double their contributions. Once the GPS matures one participant explained that

"They put on service charge on savings. For example, I made a 500 taka GPS, 10 years later it will become 110,000. They will take 8,000 taka, and give me 112,000. And when you break the GPS, like Juli did a few days ago, when the term is finished, she had to keep going to the offices for three months. After three months, out of the 120,000, she received 112,000 taka. So they have deducted 8,000 taka."

All of the NGOs (as well as Pirgacha Credit) require borrowers to purchase compulsory insurance for their loans, which meant the outstanding loan balance would be forgiven if the borrower or their partner died. This ranges from 0.1% to 1% of the loan amount, and it is generally paid as a lump sum before getting the loan, or on the day of advancement. Despite the extra cost, most borrowers appreciate this facility because it allowed for loan forgiveness if the borrower or their spouse died. However, banks and *mahajons* do not offer insurance or loan forgiveness. As one focus group participant commented:

"even if you die, banks don't forgive the loan. If the borrowers die, their children will have to repay".

Banks require a mortgage over record land before advancing a loan. If the borrower dies their land will be inherited by their children. Hence their children become responsible for repaying the bank loan, otherwise they will lose this land.

The benefit of loan insurance is that it provides for forgiveness of the outstanding loan in certain situations so that in the case of NGO and Credit Union loans, the borrower's spouse or children will not be responsible for repaying the remaining capital and interest if the borrower dies. Loan forgiveness was an important factor for focus group participants in influencing them to seek NGO loans over bank or *mahajon* loans. As one research participant said,

"the bank loan is not so beneficial because of this, but NGOs will forgive the loan if the borrower dies".

NGOs charge nominal amounts for entrance and passbook fees. The fee ceilings are regulated by government, and do not exceed 40 taka. Pirgacha Credit Union also charges loan application fees between 50 - 500 taka, depending on the type of loan sought. The bank, *shomiti*, government department and *mahajon* lenders do not charge additional fees for borrowing.

(9) Installment Arrangements and Extent of Pressure on Timely Repayment

The installment arrangements of different loan types incorporates the duration of the loan term and the timing, amount and frequency of loan repayments. According to the microfinance literature, MFI loans across different countries and contexts often consist of a standard six-month or one-year term (Sinclair, 2012:20). These do not necessarily meet the needs of borrowers, who may prefer a longer-term contract if they want to pay off a bigger loan amount in smaller installments. Loan timing can be crucial especially for agricultural or livestock activities as part of the loan may remain idle if it is not distributed at the opportune time (Alam & Molla, 2012:47). MFIs often put restrictions on early repayment, so clients are forced to pay interest on all remaining installments even if they have the ability to repay the loan early.

When repayment schedules do not match a borrower's cash flow it can create serious repayment problems, especially when lenders enforce a 'zero tolerance' policy towards late payments (Schicks and Rosenberg, 2011:3). Standardised loan contracts often require weekly, fortnightly or monthly repayments (in equal installments), which begin after a grace period of one or two weeks. However, academics recognise that most businesses would struggle to make a profit straightaway, especially in the case of agricultural investments as well as start-up micro-enterprises. MFIs may be unwilling to adjust repayments to suit the borrower's needs.

The level of lender pressure on timely repayments also influences borrowers' preferred choice of lender and their strategy for repayment. Within the microfinance literature Schicks (2010:13) draws attention to the fact that MFIs often face accusations of inappropriate collection practices that increase the burden of indebtedness, such as humiliating clients or asset seizure. They may also hold meetings with the borrowers to enforce repayment. Gonzalez (2008:iii) suggests that coercive behaviour by lenders contributes to borrower over-indebtedness by creating incentives for borrowers to engage in 'extremely costly actions' and identifying borrowers with a high probability of success at generating 'extraordinary ability to repay'. Hulme and Maitrot give numerous examples of loan officers applying inappropriate pressure on clients with repayment problems (2014:8), including use of clients' husbands to apply pressure.

In my research findings, each loan type has a different set of repayment arrangements. Whether it is a bank, *mahajon*, NGO, Credit, *shomit*i, government department, *haolat* or shopkeeper loan, they can be categorised into one of four repayment arrangements, namely (1) combined payments of interest and capital in regular installments for duration of loan term; (2) lump sum payment of capital and interest at the end of the loan term; (2) payment of interest-only during the loan term, then lump sum capital repayment, and (4) flexible repayment, where borrowers can repay as much as they wish during the loan term, and repay the balance at the end of the loan term. These are represented in Table 5 below.

Table 5: Types of loan repayment arrangements

Capital repaid in a lump sum on date agreed to by lender and borrower	• ***Haolats:*** repaid at next pay date, unless otherwise agreed • **Shopkeeper credit:** repaid at next pay date, unless otherwise agreed by shopkeeper and borrower.
Combined installments of interest and capital each week/month for duration of loan term	• ***Mahajon* type 1**: repaid in equal monthly installments of capital and interest over a one or two year term • **NGOs:** repaid in equal installments of capital and interest each week or month over a one or two year term. • **Government department loan:** repaid in equal installments of capital and interest each month over two year term (after four month grace period)
Lump sum repayment of capital and interest at end of loan term	• ***Mahajon* type 2:** borrowers pay twice the initial loan balance in a lump sum after one year (100% interest) • **NGO (SUSS only)** 5-month agricultural loan where 20% interest and capital is paid at end of loan term.
Flexible repayment options e.g. monthly interest and/or capital installments or lump sum repayment	• ***Mahajon* type 3:** expect monthly interest payments on the outstanding loan balance, capital repaid at any time. Compound interest applied if interest unpaid that month. • **Krishi Bank:** expect regular interest payments. Loan renewed each year if unpaid, add compound interest if interest portion has not been paid throughout the year. • **Pirgacha Credit Union**: recommend monthly payments. The loan periods vary from 4-24 months. Compound interest added if it is not repaid during the loan term. • **BAMB Credit**: 12 monthly installments, or all at once • **Shainamari *shomiti***: three loan types, repayable in three months, six months or one year. Borrowers can pay part of the interest or capital each month, or pay by lump sum.

Source: Author

For NGO and *mahajon* Type One loans, the ability to pay loans off gradually in weekly or monthly installments makes it easier for households to keep up with repayments without resorting to further borrowing, although amongst my research participants there was a clear preference for monthly rather than weekly repayments, as these tied in better with their monthly salary cheque. When paying weekly installments one focus group participant commented that,

> *"it seems like only two days have passed before you have to pay the next installment."*

This also applies to the interest-portion of Type Three mahajon loans, which had to be paid once a month otherwise the borrower would incur compound interest on their loan balance.

All financial diary participants are all keeping up with NGO loan repayments (except for Sultan in the case of one Caritas loan), which also related to the high degree of pressure applied to timely installments. For this reason, NGO loans are more likely to be repaid consistently than *mahajon*, Credit or bank loans. *Mahajon* Type One loans (charged at 20% interest) make up only three of 23 *mahajon* loans, and they are also being repaid consistently.

When borrowers struggle with NGO loan repayments, they have to deal with constant visits from loan officers, as described in chapter four. As Hazera explained, they come to the house and apply pressure, saying *"we don't care where you get the installment funds from"*. Priya mentioned how embarrassing it is for them *"when they come to collect loan installments, they don't see our humanity"* and Sultan explains how this could cause reputation loss, as neighbours notice the lenders coming and going and *"don't look at this favourably"*.

Research participants described numerous instances of NGO loan officers coming to the borrower's home and waiting there until they received the loan installment, even into the evening, or returning with the manager and other male loan officers, which could be quite intimidating for village women. They explained scare tactics used by these officers such as

> *"we'll bring the police, or we'll seize your assets"*
> *"you were happy when you got the loan, now why can't you repay it?"*

Participants spoke about how this behaviour would wear the women down and cause arguments amongst their family members, leading them to take *haolats* from friends or family, sell assets or go without necessities to avoid the confrontation with loan officers.

Although *mahajons* do not harass borrowers as frequently as NGO lenders, the effect of such pressure when it does occur could have just as damaging effect on the borrower's reputation. As research participants described, *mahajons* could demand money by the roadside, at home, or at community festivals and in front of their neighbours. In one example shared in chapter four, a mahajon's demand for repayment at a local tea stall led one borrower to attempt suicide as he was so ashamed of his debts and how it changed the community's perception of him.

Another form of pressure used by some *mahajons*, NGOs and banks, is to start a court case against the borrower to enforce repayment. *Mahajons* can use the written agreement with the borrower as evidence of the debt, and any forms of collateral recorded against this. As described in chapter four, research participants commented that BRAC NGO has been known to take cases against borrowers. This could involve a formal court case (in the case of banks and

NGOs), or a meeting of village elders, which is more likely in the case of *mahajon* loans. The village elders can apply extra pressure in a *shalish* for borrowers to repay or sell assets.

It is clear that financial diary participants are struggling to repay their *mahajon* Type Three loans, which comprise 16 of the 23 *mahajon* loans. Borrowers are required to pay interest each month, but they can choose how much capital to repay. In most cases, borrowers are not keeping with up interest repayments. For example, Raihan has four outstanding *mahajon* loans, one of which is two years old. He hopes to pay off three of these loans within six months although he is unsure when he can repay the last one, taken out eight months ago. Raihan has not repaid any of the capital for these loans, totaling 19,000 taka, and he only paid interest on one of these loans during the financial diaries. If Raihan continues this repayment pattern, he will end up paying a huge sum of interest. Another four financial diary participants are struggling to repay the capital on their *mahajon* loans. Hazera has not repaid any of the capital on her 12,000 taka *mahajon* loan, borrowed three months previously. Beauti only paid the interest on one of five *mahajon* loans during the financial diaries. She has 58,500 to repay in capital alone, although she aims to repay most of these within a year. Hasan has five *mahajon* loans, and a total of 19,000 taka outstanding, but he repaid none of the capital or interest during the financial diaries month and Priya only paid the interest on one of two *mahajon* loans.

Only one research participant, Lipi, chose to take out *mahajon* Type Two loans (at 100% interest). She has four such loans, totaling 35,000 taka. These are all due in lump sum repayments. I was unable to assess her repayment ability as none of the loans fell due during the financial diaries period. However, I suspect that she may have difficulties repaying these without further loan taking, because she has to repay 10,000 taka each for three of these loans, which is equivalent to her monthly income. In this case, difficulties in repayment link back to two issues: the high interest rate on the loan, and the need to make lump-sum repayment.

Although lender pressure on repayment was considered a major disadvantage by focus group participants, the reality is that most NGO loans were being repaid on time and borrowers were behind on repayments for other loans such as Credit, government department or *mahajon* loans which had greater flexibility and less pressure on timely repayments. Delayed repayment affects the risk of household over-indebtedness as the interest continues to build up. As Beauti said,

> *"Credits don't apply pressure to pay installments. For example, if someone can't pay this month it is no problem, they can give next month. Even if you give little by little, in small amounts, it is not a problem."*

Beauti is not making regular repayments on her Credit loan (which only charges 18% interest). She withdrew this six years previously and it was meant to be repaid in one year. The initial loan was 6,000 taka, but it has risen to 22,000 because she got behind on repayments.

Research participants agreed that banks exert less pressure on repayments, and allow more time to repay. In one example, Sultan owes a large bank loan but the interest rate is only 11%. He has not repaid any of this since June 2014, instead focussing his efforts on higher interest NGO loans. Still, he was quite aware of the increasing interest burden and worried about how to juggle loan repayments so he could pay this off over time. As Sultan commented,

> *"the advantage of bank loans is there is less pressure to repay. The interest rate is low, and the time to repay longer. If they give one year to repay, it doesn't matter if it takes two years. They will come and say 'you can pay it all at once, when it suits you'. I was not able to pay within a year, so I am able to refinance. This makes it like a new loan again"*.

This could come to a head eventually, as one research participant said,

> *"as much time as they give, after 10 or 12 years, they will apply all pressure then"*.

When the amount of debt exceeds the value of the land asset given as collateral, banks are under pressure to recoup their funds in one way or another.

In Table 6 I have summarised the main advantages and disadvantages of different lenders.

Table 6: Borrower perceptions of Advantages and Disadvantages of Different Loan Types

Lender	*Advantages*	*Disadvantages*
Mahajon	• Quick, easy to access • Less pressure on timely repayments (vs. NGOs) • Small, regular installments easier to pay from income (for Type One loans only)	• Risk of exploitation (e.g. forced to sign blank paper, *mahajon* targets assets) • May demand collateral (land, jewelry) • High interest, compound interest • Difficult to repay lump sum from income (may have to sell assets) • Reputation loss from lender visits • Risk of *shalish*, court case if loan unpaid
NGO	• Automatic increase in loan ceilings for 2nd, 3rd loan • Low interest (vs. *mahajon)* • Loan forgiveness if borrower or spouse dies • Small, regular installments easier to pay from income (vs. lump sum payment)	• Only lend to women, under 50 years old • Risk of exploitation (if illiterate, lender may not record payment properly) • Time delays • Minimum, compulsory savings required • Huge pressure on timely repayment (very stressful, may have to sell assets) • Reputation loss from lender visits • Risk of *shalish*, court case if loan unpaid
Credit unions	• Higher loan ceilings (vs. NGOs) if capacity to repay • Low interest (vs. *mahajon)* • Less pressure on timely repayments (vs. NGOs)	• Only lend to *adhibashi* (not Muslims) • Time delays • Minimum savings and shares required • Compulsory savings and shares • Compound interest (if interest unpaid)
Shomitis	• Quick, easy to access • Less pressure on timely repayments (vs. NGOs)	• High interest rates
Banks	• Higher loan ceilings (vs. NGOs, depends on extent of land ownership) • Lower interest (vs. NGOs) • Less pressure on timely repayments (vs. NGOs)	• Need to mortgage record land • May demand bribe; • Need an account holder to recommend • Time delays • Compound interest (if interest unpaid) • No loan forgiveness – loan passed onto children if borrower passes away • Risk of court case if loan unpaid
Govt Dept.	• Lower interest (vs. NGOs) • Less pressure on timely repayments (vs. NGOs)	• Age restrictions (18-35 years) • Need to attend week-long training • Restricted to productive loan use
Haolat	• Quick to access (if good relationship with lender) • No interest	• Low ceiling on credit • Expect prompt repayment (e.g. next pay)
Shop credit	• Quick, easy to access • No interest	• Low ceiling on credit • Expect prompt repayment (e.g. next pay)

Source: Author

5.4 CONCLUSION

This chapter focused on the main lending terms and conditions of microfinance lenders. Borrowers have a choice between eight lender types, although some lenders are more accessible than others. *Mahajon* and NGO loans were clearly well utilised and made up 41 of 100 outstanding loans. However, participants also borrowed from credit unions, banks, *shomitis*, and government departments as well as relying on *haolat*s and shopkeeper credit. The fact they often choose high interest loans over low-interest ones illustrates the nuanced decision-making process of borrowers who are also interested in ease of access and flexible repayment arrangements. Exclusionary criteria helps explain the low number of bank and government department loans. Household also juggle different loan types. If they are struggling to repay an existing NGO or *mahajon* loan, they will often resort to *haolat*s to pay installments and then repay this from their salary. But in the case of lump-sum repayment, households are more likely to get a new NGO or *mahajon* loan to pay off the old one, because of the higher loan ceilings. Each NGO generally lends once per year, so borrowers have to wait until the next year before they get a new loan or enlist with a new NGO lender and build up savings with them. In contrast, *mahajon* loans are accessible any time of year, and at short notice.

When I consider the effect of these borrowing choices and repayment strategies on household over-indebtedness, it is obvious that NGO loans are generally repaid on time but borrowers tend to make delayed repayments of interest and capital to *shomitis*, credit unions, banks and *mahajons*, because of the lack of pressure on repayment. This lack of pressure is seen as an advantage by borrowers but it contributes to higher debt levels over time as the debts remain unpaid. This problem is particularly acute amongst *mahajon* borrowers because of the high interest rates. Another distinction can be made between small, regular loan installments for NGOs, Credits and Type One *mahajons*, which borrowers find easier to repay from their income, and lump-sum repayment of the capital which generally leads to re-borrowing.

In the next chapter I focus on the income, expenditure and financial behaviour of salaried microborrowers, especially their savings and decision making on loan spending. I am interested in how each of these factors influences the risk of household over-indebtedness.

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

6.1 INTRODUCTION

This chapter addresses my third research objective, namely to *"explore how the income, expenditure and financial behaviour of salaried-microborrowers has influenced household over-indebtedness."* This information is primarily drawn from household interviews and financial diaries with seven KHCP staff who identify as over-indebted. I begin by considering household income sources and patterns of household expenditure before looking more in-depth at financial behaviour, and examine how each of these influence household over-indebtedness.

6.2 THE FINANCIAL DIARY PARTICIPANTS

Three of the financial diary households are Muslim, three Hindu and one Christian. Amongst the staff, 45% are Muslim, 40% Christian and 15% Hindu. KHCP has a high weighting towards minorities, which reflects the make-up of surrounding villages. In contrast, the religious breakdown in Madhupur is 91% Muslim, 4% Hindu and 5% Christian (BBS, 2013: 20-21).

Hazera, a Muslim female, is the main income earner for a household of six. Hazera received a festival bonus from KHCP during the financial diaries because of Muslim *Eid* celebrations, significantly boosting her income.[5] Hazera supports her married daughter at times with food, money or clothes. Hazera's household have no livestock but own a few trees on their property. Hazera sends three of her children to *Quomi madrasahs*, an alternative to state schooling. *Quomi madrasahs* primarily teach students how to read the Quran, Hadith and Sunnah, and teach an ultra-orthodox interpretation of Sharia law (Karim, 2011:12). Hazera's daughter in law is *madrasah* educated, and is not permitted to work outside of the home. Hazera's oldest son (recently married) is 21 years old but still has three years of studies to complete. Her second son, aged 16, has eight more years, and her youngest son, aged 14, has another 12 years. Hazera is keen to prepare each of them for religious professions but she feels that they will not be able to earn a living in their profession until they complete this level of schooling.

[5] For Bangladeshi Muslims, the most important religious festival is *Eid-ul-Fitr*, celebrated after a month of fasting at Ramadan, which occurred from 6 June – 5 July in 2016.

Lipi, also a Muslim female, contributes almost all the income for her household of three. Her husband is a self-employed motorcycle taxi driver but earned very little during the financial diaries. Lipi's household owns 0.3 acres of cultivation land, which they have leased out for four years. Lipi's daughter is married but her son lives at home and attends Junior High School. Lipi would like to support him through Higher Secondary Certificate. They give financial support to Lipi's parents in law, mainly for health treatment and food. They have no livestock.

Hasan, a Muslim male, is the only income earner for a household of five, and he does not receive overtime. He received an extra 4,500 taka during the financial diaries month because of his *Eid* festival bonus. Hasan owns no cultivation land and his home is too small to accommodate his children, so they sleep with maternal grandparents in a nearby property. He cannot afford to build an extension at present. All three children attend Primary School. The household owns one goat and they provide financial support to Hasan's mother at times.

Beauti, a Christian female, is the highest income earner in her household of three. Her husband earns a reasonable income from his business and they gain additional funds from fattening and selling livestock. They have six chickens, one pig and three goats, and own 0.03 acres of cultivation land, which is planted out in trees. Their daughter lives at home and attends Junior High School. They are supporting their son through a computer diploma in Dhaka and spend at least 6,000 taka each month on education costs for both children, despite receiving support for their daughter's hostel costs. They have taken many loans for their son's university fees and accommodation over the past four years and anticipate that he may undertake further studies.

Priya, a Hindu female, is the sole income earner in her household of five. Her two sons are attending Junior High School and Secondary School. Priya expects that she will have to support her elder son through university in several years time (if he is interested to study), followed by her younger son two years later. Her daughter is married and studying at university but she still lives with Priya because her husband is posted within the military. He covers her education costs but Priya and her husband provide food and accommodation.

Raihan, a Hindu male, is one of two income earners in a household of eight. He does not earn overtime. His father is self-employed and sometimes works as a day labourer. They also earn money from selling milk. Raihan's household has 0.9 acres for rice cultivation, which belongs to his father. Raihan has not received his inheritance yet, and it is likely that this land will be divided amongst three brothers in future, along with the 0.4 acres of hut land. The household owns some trees, which can be cut down and sold off. Over 90% of Raihan's income (7,000 taka a month) goes to support his sister through Class 12 at a private college in the city. They would like to support her through a paramedic or nursing course in future.

Lastly Sultan, a Hindu male, is part of a household of six. His wife earns a part-time salary at a Credit Union. Sultan's household has 0.45 acres of cultivation land, which is planted out in pineapples and papaya trees. They have mortgaged 0.45 acres of cultivation land to someone else. This land purchase was financed with a number of loans. Sultan's two children are still young, with the oldest one attending Primary School. His elderly parents live with them, and they also support a niece and nephew's education expenses. The household owns five chickens.

Many KHCP staff have not completed high school, as they were married off or had to work from a young age. However, this is changing as some staff complete their schooling through Open College or even enroll at University. Most staff are from poor backgrounds, which was a deliberate employment strategy by Dr Baker. The education levels of financial diary participants range from Class 5 to Class 10. Three are illiterate, although two can read but not write.[6] The level of formal education received by borrowers could affect their financial literacy.

The average household size amongst financial diary participants is five, with a range of three to eight members. This includes dependent children and elderly parents. Two KHCP employees earn 8,000 taka per month, whereas five staff work regular overtime shifts, bringing in extra income of 2,000 to 5,000 taka. Four households have a second income earner.

There are few government welfare services in Bangladesh. One form of assistance is the Vulnerable Government Development (VGD) card, of which a certain number are allocated to each Union Chairman. These can be provided to poor, disabled or elderly people and entitles them to 300 taka per month. However, distribution is often marred by corruption and bribery. None of the household members of my research participants receive this support from the government. Hazera approached her local Union in the past to request a disability card for her eldest son, who has a debilitating hip condition. They accepted that he is disabled and offered to put him on the waiting list for a VGD card if she paid a 3,000 taka bribe. Hazera left disappointed, after expressing frustratedly, "*I would not have approached you if I had a spare 3,000 taka*". This shows the poor are vulnerable to exploitation by local government officials.

[6] The Bangladeshi government defines literacy as the percentage of the population over 7 years who can write a letter in any language. For comparison, the literacy rate in Madhupur is 41% (BBS, 2013:11,20).

Land ownership amongst financial diary participants ranges from 0.05 acres to 1.3 acres and it is vital in the village context as it enables rent-free living. NGOs commonly distinguish between hut land, where the home is built, and cultivation land which is suitable for growing rice, lentils, and larger quantities of vegetables or cash crops. Having cultivation land can reduce households' dependence on rice and vegetables from the bazaar, or bring in an extra income if invested in cash crops such as pineapples, papayas or bananas.[7] There are a number of land arrangements, such as purchasing a mortgage over someone's land which gives them the right to use the land until the owner repays the mortgage. Another option is leasing the land, where the leasee pays the input costs and does the physical work, as well as receiving two-thirds of the harvest. People prefer not to sell their land except in a family emergency.

Illustration 2: Photo of mud-brick home

Source: Author

The households' homes are made of dried mud-bricks (some have tin walls), with a mud verandah and a tin roof. This is typical for rural Madhupur, although richer households often build brick-cement houses. A separate mud or bamboo structure serves as a kitchen, and they cook using a mixture of firewood and dried leaves. All of the households have toilets and a tube well for drinking water. Six households have electricity but only three of these have their own meter, with two relying on side-lines from other houses. The remaining household has solar power.

Many rural households in Madhupur supplement their income by growing a kitchen garden or looking after livestock (such as cows, goats, chickens, ducks and pigs). They can gain an income by selling milk and eggs or through breeding. Those who cannot afford to buy animals from the market can look after them under a lease arrangement, where they look after the animal for an agreed period of time and share half of the profits with the owner (including any milk sales and offspring). Three of the financial diary households own or lease livestock but one of them have kitchen gardens, so they buy their vegetables from the bazaar..

[7] Even though farming is an important income source for many rural households in Madhupur, many do not own enough land to support their families. Cultivation land is generally divided into very small plots (Advameg, 2016), because of high population density and the traditional heritage system, as well as a historically unequal distribution of land.

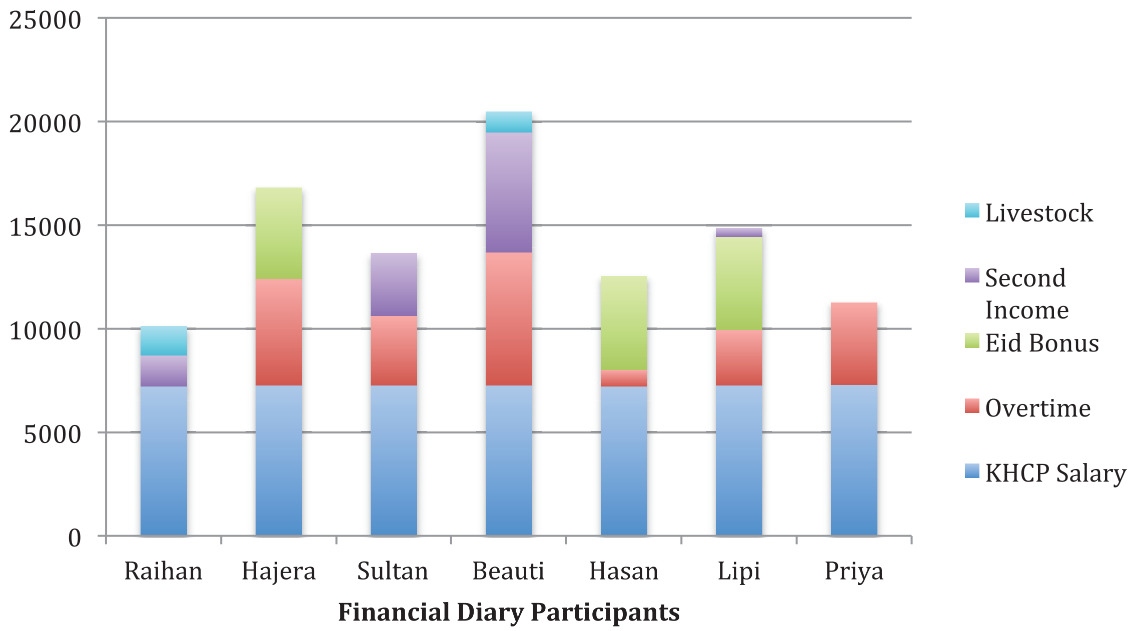
There are children studying in all financial diary households, ranging from Class 1 to tertiary level, with an average of two students per household. Several households support the education expenses of nieces or nephews as well as their own children. In Bangladesh attendance at government primary schools is almost free of cost (United Nations International Children's Emergency Fund, (UNICEF), n.d.). After passing Junior High School, students progress to Secondary School and sit exams in Class 10**.** Classes 11 and 12 can take up to three years to complete, and Higher Secondary School Certificate (HSC) is the minimum standard for most government jobs. Secondary school can be quite expensive as guardians pay for admission fees, monthly school fees, exam fees, textbooks, stationary and often private tutoring or coaching classes, to ensure good grades. Others send their children to city schools (as the quality of education is perceived to be higher), with the additional cost of hostel accommodation. Children of two financial diary participants are enrolled at university.

6.3 HOUSEHOLD INCOME

Some research into the financial behaviour of microborrowers focusses purely on financial transactions such as savings and loans. However, I felt that to get a more accurate picture of each household's savings and loan-taking behaviour I had to understand what income sources they have as well as their main expense categories. Only then can I understand why they took loans for particular purposes and how this behaviour has affected their household's debt levels.

During the financial diaries I collected information on the monthly earnings of each household, which is plotted in Figure 13. This figure shows that salaries from KHCP are by far the biggest income source for all households. This is supplemented by income from other household members in the case of Sultan, Beauti and Lipi, overtime shifts across six households, and *Eid* bonuses for the Muslim households (Hazera, Hasan and Lipi). Beauti's family received livestock income from selling a pig which took ten months to fatten. I divided the sale proceeds by ten, so it is more representative of her average monthly income. Raihan's household also sold milk from their cows, which brought in 1,400 taka income over several weeks. However, they decided to sell their cows and some trees during the financial diaries period, to raise 33,000 taka towards a deposit on a new piece of land. I have not included this extra income in Figure 13, as this liquidation of assets is not representative of their usual monthly earnings. However, it is factors into Raihan's household's spending and borrowing decisions for the month. None of the households receive remittance income or financial support from extended family members.

Figure 13: Snapshot of Monthly Income across all Households



Source: Author

Monthly incomes range from 11,260 taka for Priya and 20,480 for Beauti, with an average income of 14,234 taka across the seven households. Permanent KHCP staff are enrolled in a Provident Fund, with 10% employer and employee contributions. The KHCP salaries listed in Figure 13 include the employee's contributions to their Provident Fund. In most cases staff do not have access to this until they retire, so it forms part of their compulsory savings.

The minimum monthly salary for these KHCP staff is 8,010 taka excluding overtime (or 308 taka per day, for 26 days work). In comparison, local labourers earn between 200-450 taka per day (BBS, 2013:106-108). Rates are higher during the rice harvest, because of the increased demand for workers.[8] However, day labour income is much more uncertain, as it depends on the weather and availability of work. By a rough estimate, total monthly food costs for one adult would be about 1,500 taka per month, including rice and vegetables three times a day, meat once or twice a month, fish meals one or twice a week, and eggs and milk from time to time.

[8] Tangail District is a well-known agricultural area, with many farm holdings. These grow a wide variety of rice, wheat, vegetables, spices, cash crops, lentils, maize and other plants (BBS, 2013). Fruit such as bananas, pineapples, jackfruit, guava and coconut are grown. Livestock, forestry and fisheries are also important sources of income (BBS, 2013). Higher educated graduates from Madhupur may find well-paid jobs in the cities but uneducated villagers are more likely to work in the garment industry, beauty parlours, as domestic workers, rickshaw drivers, security guards or construction workers.

Monthly household income does not have much analytical value in itself, as it does not factor in the number of household members, which ranges from three to eight in my study. The lowest daily income per capita amongst my research participants is 50 taka for members of Raihan's household and the highest is 228 taka for members of Beauti's household, with the average income being 110 taka per day. Many research participants try to diversify their income sources. Hasan is keen to find his wife a job but does not know of any opportunities. Sultan wonders about educating his wife further so that she can apply for a teaching job. Lipi hopes her husband's motorcycle taxi business will be more successful in future, once he gains his official driver's license, and Priya wants to set up a shop on their land so her husband can run this. However, she needs a loan first, to fill up a hole in the land and relocate their shop building.

Insufficient income is a common justification for loan-taking amongst financial diary participants, as I explore in depth later in the chapter. As Priya said,

> *"We have five family members but only one income earner. Expenses are higher than income".*

Sultan stated that,

> *"with the salary I receive, its really difficult to get by. Money is due at the shop, I have various expenses from Kailakuri all the way through (to home). If I have too many expenses, loans increase".*

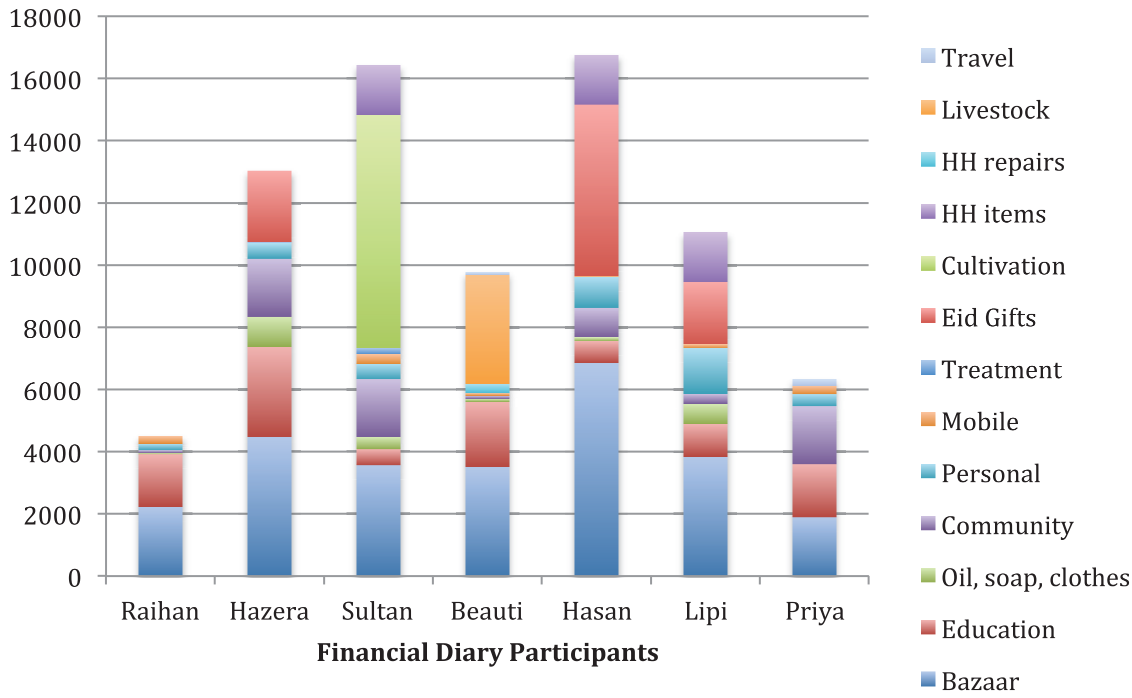
Raihan's explanation was that,

> *"when dad finds work, he has work. I'm earning too. But I cannot support my family with this level of income... Before, it was not so difficult, but after my brothers left, we became over-indebted. The expenses increased, and so did the loans."*

6.4 HOUSEHOLD EXPENDITURE

The expenditure patterns of the financial diary households give a partial indication of their spending priorities, the balance of which can be ascertained by examining use of loan funds. Amongst the seven households I identified thirteen categories of expenditure. These are shown in Figure 14 (except for loan repayments, which are dealt with separately). The biggest sums were spent at the bazaar, on education and community costs, on cultivation costs for Sultan's household and livestock for Beauti's household. Community costs include hosting relatives and contributing to various community events such as marriages, funerals and religious festivals. Relatives often visit at short notice and households are expected to provide hospitality including special food such as meat and sweet snacks. Personal costs (for the husband) were significant in Hasan and Lipi's households, and included spending on tea, snacks and cigarettes. Raihan's expenses were particularly low, as their household needed cash for a deposit on new land. Priya's household expenses may have been more typical of a standard month.

Figure 14: Snapshot of Monthly Expenses across all Households



Source: Author

Eid gifts for family members in the Muslim households formed a significant portion of monthly spending for Hazera, Hasan and Lipi's households. This shows the importance of considering religious festivals when analysing financial behaviour, as they affect households' spending and borrowing patterns. During Ramadan, most Muslim staff and their households do not eat or drink between sunrise and sunset. Ahead of *Eid*, they generally spend a lot of money on food, gifts and festivities. For Hindu and Christian households, the impact of spending on religious festivals is felt at different times of year. For Hindus in Madhupur, the biggest religious occasion is *Durga Puja*. Hindu staff participate in religious festivities and cultural celebrations, prepare special food and exchange gifts. For Christians, the major celebrations occur at Christmas and Easter time. Gifts are exchanged, people take part in church services, feasts and cultural celebrations. KHCP staff often use religious festivals as an opportunity to visit or host relatives. It can be an expensive time of year, as they face extra travel and hospitality costs.

These income and expenditure patterns would be more representative if I had collected data over the course of a full calendar year, as it would account for seasonal variations in income and expenditure. For example, there are ebbs and flows in agricultural costs. Households with rice land are in a more secure financial position when the harvest comes in as they do not need to buy rice for several months, but they may struggle at other times of year when day labour work is hard to obtain (for secondary income earners) and they have to buy rice from the *bazaar*. Only two research households, Hazera and Sultan, spent funds on health treatment during the financial diaries period, a total of 230 taka. This is unusual for the Madhupur population, as KHCP staff and their immediate families are entitled to free health care at the project and low-cost surgical transfers. KHCP also provides low-cost health treatment to poor people in the 22 surrounding village areas, and diabetes treatment for poor patients from four districts.[9]

6.5 FINANCIAL BEHAVIOUR OF BORROWERS

As I explained in earlier chapters, households' financial behaviour focusses on flows of money saved and withdrawn, borrowed and repaid, lent and recovered, and the costs of doing so (Collins et al, 2009). The microfinance literature addresses a broader category of microborrowers (including those dependent on self-employment and casual labour), and incorporates research from many parts of the world, where there will be cultural differences.

Firstly, in terms of saving-related behaviour, the literature recognises that many poor households lack a secure place to put their money and face constant financial demands – such as food and education costs, hospitality and requests for support from extended family, which make it difficult for them to save consistently (Collins et al., 2009). This may help to explain their greater dependence on loans. Guerin (2012) emphasises that it is often more rational for the poor to save in kind rather than cash, to avoid the temptation to spend or resist others' requests for cash. In-kind savings could include jewelry and livestock purchases.

I was interested in whether observations in the microfinance literature rang true of my case study participants. In terms of a secure place to put their money, KHCP households have several options, including deposits with NGOs, credit unions, and a bank account in which they receive their salaries. Most households have some NGO savings (as it is a prerequisite to receiving NGO loans), and two households have savings in a credit union or *shomiti*, also a requirement of getting a loan from these organisations. They are required to make compulsory savings during the course of NGO loan repayment. However, I did not observe financial diary

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[9] Privately run clinics and hospitals are often too expensive for the poor as well as being locally far away in urban areas. Government facilities can be dirty and over-crowded and even in government hospitals, patients are charged separately for everything from accommodation, x-rays and other tests, diagnosis, treatment expenses and medication (which is bought from outside). For this reason, the poor may not go to a doctor even if they are very ill, or leave before treatment is complete. They may also sell valuable assets or go into debt to pay expenses.

households making any voluntary deposits. This may have been because they gave higher priority to loan repayments. This makes sense, as loans incurred much higher interest rates (11% - 120%) than savings (0-7% interest), and households were struggling to repay their loans. All KHCP staff have Provident Funds, although some had withdrawn funds previously (with the employer's permission), either to pay off debt or make an investment. This is by far the most significant savings type, and not all low-income households would have this option. It became obvious that most savings of household participants is compelled by employers or lenders.
At one point Lipi said

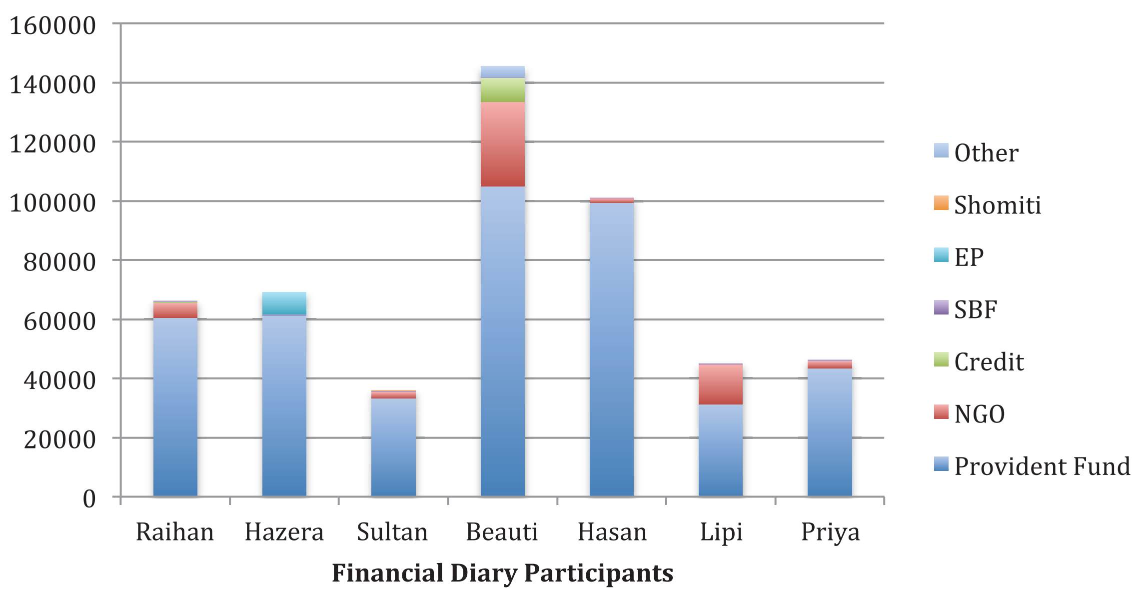
> *"I don't want to take any more loans. I will try to live off savings and two people's incomes. But if I am short of funds, I will need to take loans and no one lends interest free".*

However, I did not see any evidence of a savings culture amongst research participants.

I found none of the seven households left their savings with anyone else during the financial diaries period (aside from the formal institutions listed below), and only one of them kept savings on behalf of others. On the whole, they held little cash-in-hand and conceded they had immediate expenses to pay after receiving their salaries.

Figure 15 shows the level of savings across all households at the end of the financial diaries period. No one withdraw their savings and some savings remained constant, but there were small increases in accordance with their employer's contributions to their Provident Funds, and compulsory savings required by NGOs, credit unions, SBF and *shomitis*.

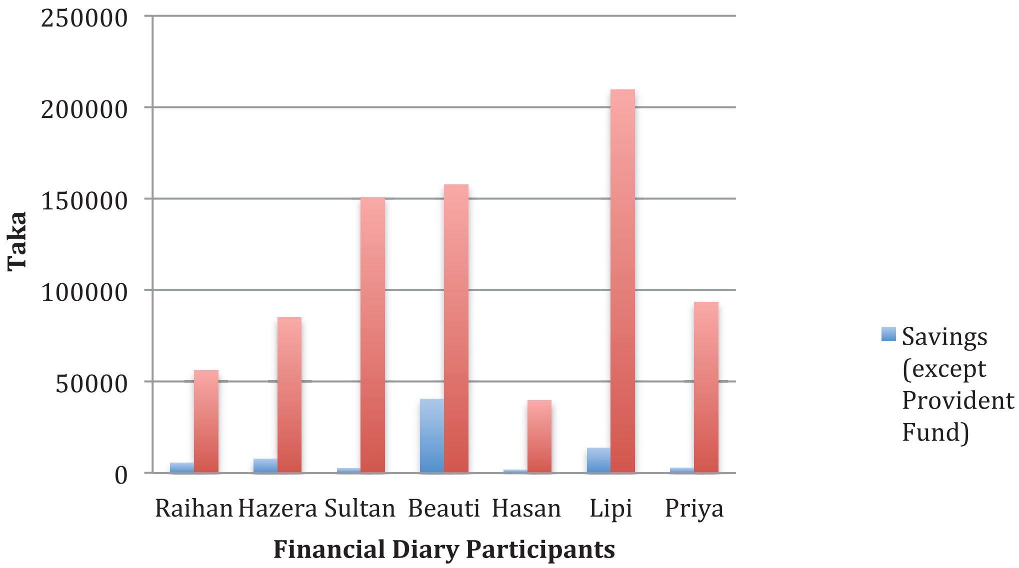
Figure 15: Total savings across all households (at end of financial diaries)



Source: Author

When I excluded the Provident Fund (which is generally not accessible until retirement) from households' savings levels, it is obvious in Figure 18 below that the debts of all households far exceeded their savings. This shows a lack of savings culture amongst research participants, which again they attributed to having insufficient income to cover their household expenses. These savings ranged between a third of a month's salary and five months salary.

Figure 16: Savings and Debts at end of Financial Diaries (except Provident Fund)



Source: Author

Secondly, when considering borrowing tendencies, the field of behavioural finance has exposed interesting trends, such as the borrower's inclination to simplify complex decisions, a preference for seemingly 'consistent' decisions, avoiding emotional discomfort, and the finding that emotions such as shame, stress or fear can override logical reasoning (Guerin, 2012:7). I do not have any expertise in behavioural finance, so I can only comment anecdotally on observations from my research fieldwork where it was clear that stress and shame are motivating factors, as shown in chapter four and five in terms of the stigma caused by lender visits. However, it makes sense that borrowing behaviour is not purely driven by logical reasoning. Studies have also identified several triggers of household over-indebtedness, including lack of self-control, impulsivity, procrastination, over-estimation of abilities and conformity to social norms (Guerin, 2012:8). Academics also talk of a 'present bias' amongst borrowers, where borrowers put more weight on their present needs, as future consequences may seem less real (Schicks & Rosenberg, 2011). This could result in households borrowing in haste and regretting their actions as they struggle to repay the loan.

When looking at why people borrow, Guerin et al. (2011) investigate the causes of over-indebtedness in another South Asian context: Tamil Nadu in South India. Their fieldwork illustrates the material struggles of villagers but also their growing social aspirations, influenced by greater exposure to TV advertising and a culture of consumerism. Households were willing to take on debt not just for economic investments, health and food security, but also ceremonies, gifts and private education expenses (Ibid, 2011:13). My research examines various uses of loan funds in the Bangladeshi context amongst salaried microborrowers, and whether this reflects similar aspirations. The phenomenon of habit persistence can cause borrowers to reduce consumption too slowly when their net income declines (Schicks & Rosenberg, 2011). However, this may be symptomatic of a gulf in expectations of what a borrower was prepared to give up for the loan and subsequent sacrifices which go beyond this expectation. This phenomenon may be less applicable to the households of salaried microborrowers, as their income remains relatively stable unless a second income earner loses their income flow.

Interestingly, none of the households lent money (even *haolat*s) to others during the course of the financial diaries month. I had expected more of this, as I had read in the microfinance literature that even poor households often lent to each other, and *haolat*s could involve reciprocal obligations to lend to the other person at some time in the future. Various comments were made by the participants such as, *"Why would I do that? I don't have enough money myself."* and *"No, that's too much hassle"*. Perhaps they saw themselves as more heavily in debt than a number of their friends or colleagues, and therefore felt unable to assist others.

6.6 FINANCIAL BEHAVIOUR & OVER-INDEBTEDNESS

Finally, I consider the influence of financial behaviour on household indebtedness within the literature and amongst my financial diary participants. I focus primarily on borrowing behaviour, because savings were generally compelled by employers or lending organisations, they did not lend funds to others, and repayment strategies were covered in chapter five.

During the focus group discussions, participants identified 19 loan expenditure categories, and I added a miscellaneous category to cover remaining expenses. These categories were used again at the household interview stage. They are listed in Figure 16 and ordered by the frequency with which they came up in the data. Only four of the categories (luxury items, addictive substances, going overseas for work, and defending a court case) did not emerge in the spending on current loans. However, it is likely these would emerge in a broader sample group. It is also possible that borrowers did not admit to spending loans on luxuries or addictive substances.

It is important to note that the ‘loan recycling’ category includes 30 haolats taken by financial diary participants, generally to pay installments on their NGO or *mahajon* loans. In addition, the ‘food or clothes’ category includes 24 instances of shopkeeper credit. The average *haolat* was only 1,080 taka, and the average shopkeeper credit was only 604 taka, whereas NGO and *mahajon* loans were often over 10,000 taka. So *haolat loans* and shopkeeper credit are numerically significant, but not so relevant to the proportion of total household debt.

Figure 17: Loan Categories & their Frequency

Source: Author

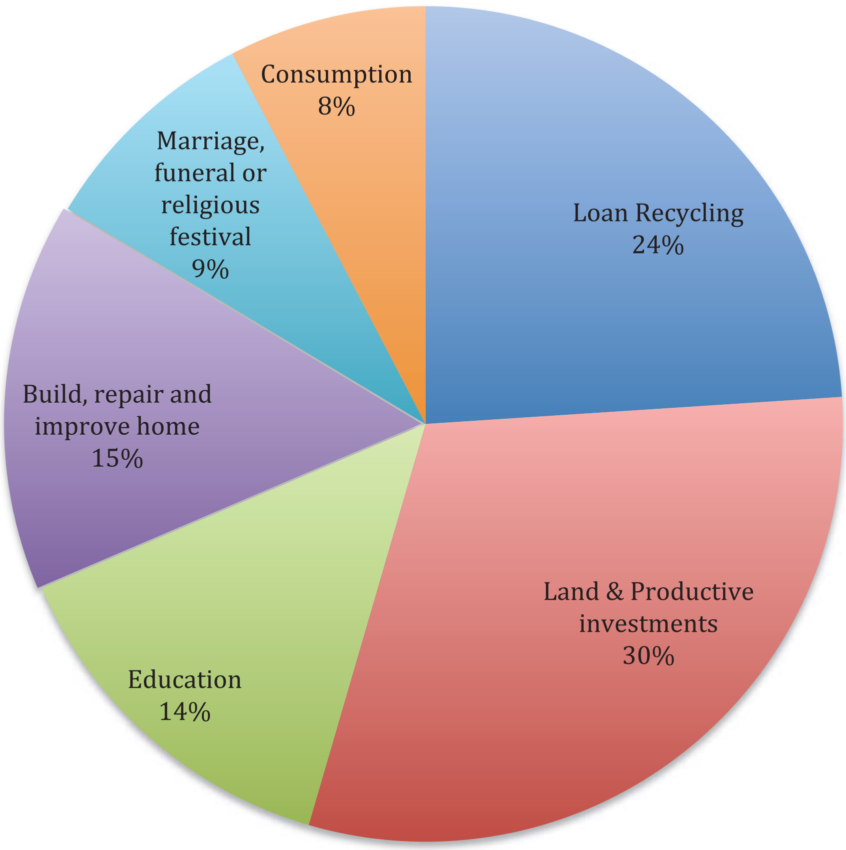
I would like to draw attention to the huge diversity in loan spending, not just for productive investments, but for a wide range of household expenses. In addition, 46 loans (including *haolats*) were used at least partially for loan recycling, which gives a hint of their extent of indebtedness, as households could not repay their loans from current income. Although there were 100 current loans amongst the seven households, some loans were subject to mixed uses. The average amount of outstanding loans was 132,00 taka (NZD $2,400), and ranged between 36,000 taka ($655) and 206,000 taka ($3,745). This is between four months and 18 months average salary for a KHCP staff member.

When looking at the reasons for household indebtedness among my research participants, it is useful to contrast Figure 16 with a pie graph which illustrates the proportion of loan funds spent on different categories, as shown in Figure 17. I have condensed these from the earlier list of 20 loan spending categories. The categories of loan expenditure include (1) land and other productive investments (cultivation, livestock, income-generating asset and business stock) (2) education, (3) building repairing and improving homes, (sanitation and electricity installation). (4) marriages, funerals and religious festivals, (5) loan recycling which collectively made up 92% of loan spending and (6) consumption, (food or clothes, household items, health treatment, transport and miscellaneous) and consumption which made up the remaining 8%.

Within the microfinance literature, there are a number studies about the reasons why households have become indebted. The Bangladesh Household Income and Expenditure Survey included a special section on microcredit for the first time in 2010 (2010:149). They found the most common reasons for taking a loan to be business (24%), other (22%), agriculture (21%), housing (12%), food expenditure (11%), health (4%), marriage (4%) and education (2%). In India ,Guerin et al. (2011:10) found the most frequent *loan purposes* to be economic investments and ceremonies. However, when analysing the *causes* of over-indebtedness, they listed ceremonies, housing and health, followed by failed economic investments and private education expenses as being significant. They also found that half of over-indebtedness cases were linked to loss of income loss from death, poor harvests or health or alcohol problems.

In Ahmed's (2003) research, borrowers used loans for consumptive and productive uses. The field workers of two NGOs commented that about 30% of their (unsalaried) borrowers were successful in enterprises such as petty trading, cottage industries, fishery, livestock and poultry but profitability was limited by market demand. In contrast, agriculture had very low rates of return, mainly because clients owned so little land. Of the remaining productive uses, they showed some improvement with the continued use of microcredit loans, but "clients have to run very fast to stay in the same place", as one Proshika NGO field worker put it (cited by Ahmed, 2003:72). In Collins et al.'s study (2009:166), they classified most loans into one of six broad categories of loan use (which differ slightly from mine), namely business stock, asset acquisition or maintenance, on-lending to others, paying down other debt, consumption and mixed uses.

Figure 18: Proportion of Loan Funds Spent on each Category



Source: Author

I start by analysing the biggest loan expense category, land and productive investments, then look at education, building repairing and improving homes, marriages, funerals and religious festivals, consumption and loan recycling. Within each category I try to understand why households were motivated to spend loan funds in this way and how this influenced their debt levels. Whatever the motivation for their loan spending, households that are struggling to make timely repayments on one or more of their loans without recourse to further borrowing can be considered over-indebted and even more so if they face constant lender visits, sell assets to fund repayment, significantly reduce their standard of living, sell off land or defend court cases.

(1) Land and Other Productive Investments

Within my case study several households were prepared to borrow funds at high interest rates to purchase a piece of cultivation land. These were not justified exclusively as a financial investment, but also as an inheritance to pass on to their children. As discussed earlier, land investments do not just include land purchases but also other types of land use arrangements including mortgage or lease land. Only five current loans (out of 100) were used for land investments, but this equated to 20% of total loan spending. As Lipi said,

> *"The only reason I took loans was for the 300,000 taka piece of land. From that, I became indebted. Before I did not own land with my house, now I have a bit of land. I have taken new loans to repay the ones I took when I bought the land."*

Raihan justified his land purchase by saying,

> *"The land borders my property. If someone else had bought it, we could have faced problems later."*

What he meant by this is that if his future neighbour behaved antisocially or came from another ethnic community then disagreements could arise over various issues. Buying the land himself avoided this risk.

Productive investments also include cultivation, income-generating assets, livestock and business stock. I asked the participating households to estimate the costs and profits associated with each of these loan uses, and found that the required input costs often exceeded the profits, without accounting for the household's labour time and the interest cost of the loans used to achieve this. Cultivation investments in particular seemed to have very low-profit margins. This is reinforced within the literature: as Alam and Molla (2012:50) emphasise, when interest rates are factored in, borrowers may find it difficult to make a profit if market wage rates are paid for their labour. Cultivation costs accounted for four current loans, and 5% of total loan spending. Hazera's household has 0.3 acres of lease land, and grow rice twice a year. In their first season, they spent at least 9,900 taka for fertiliser, irrigation and harvesting costs, but only received 7,000 taka worth of rice (at market value). During the wet season they broke even, but only just, and did not account for household labour costs. Hazera admits that it has not been a particularly successful experience, and a number of her neighbours have advised her to leave the land uncultivated and buy rice instead. But it is a huge source of pride for her to grow her own rice, and a source of status in the local community to be self-sufficient. When I pressed further, she explained that it could be just as costly to buy rice, as it they cannot afford to buy the rice in bulk at harvest time (when it is cheapest) without taking out a loan. It was also possible the market price of rice would rise again, making it more economical to grow her own.

Purchasing livestock is a common livelihood strategy for financial diary households and animals such as cows, goats, chickens, ducks and pigs were at times purchased with loan funds. But these did not necessarily bring in a large profit. Although fattening a pig brought Beauti's household 10,000 taka after 10 months, it cost them a significant amount in food costs. Raihan's household looked after two cows only to sell them again when they decided to buy land.

Beauti's household took two loans for business purposes, which accounted for 0.1% of total loan funds. This sign-making and digital printing business appears to be doing well, as Beauti's husband contributed over 5000 taka to household income during the financial diaries month. With various types of income-generating assets, households may invest in these in anticipation of making a reasonable profit but if circumstances change, it will no longer be profitable. Lipi's husband uses his motorcycle to carry paying passengers, but they have taken a number of loans to buy the motorcycle and pay for its registration, and are considering another loan to pay for the driver's license. Despite making a good profit to begin with, this has been hampered by a police crackdown on unregistered Hondas and drivers and the enforcement of rules regarding helmets and numbers of passengers. Secondly, electric *van garis* (bicycles with a flat deck) have replaced non-automated versions, enabling them to carry up to 10 paying passengers. There is a high risk in such entrepreneurial endevours. When loan funds are used to finance these, the household may lose money and be left with the burden of repayment at high interest rates.

(2) Education

Education expenses are a major source of debt for several financial diary households. Thirteen loans were used at least partially to pay for education expenses. It was the fourth highest category in terms of total loan spending (14%) as shown in Figure 17, and for Beauti's household, it consists over half of their total loan spending. Beauti commented that,

> *"If not for my son's education, I could have bought land or invested in the household, or I could have survived without loans. Many people are selling land, but I cannot afford to buy… I did not realise how much (his four-year computer diploma at a private university) would cost – I have to pay fees every semester… Now he wants to study a Bachelor of Science, and I am considering a 300,000 taka education loan from Pirgacha Credit".*

In response to one of my questions Raihan said,

> *"I have no desire to take loans. But I feel that I had no choice. If I had not paid to help educate (my sister), we would have had to arrange her marriage, which would also have been expensive... She is very smart, achieves high grades. She is highly motivated to continue her studies…"*

As Hazera shared,

> *"I enrolled my children in study, it takes money. They say "we need 2000". I only earn 6000 a month, so how will I pay this? I borrow money from others to pay, and repay them once I get my salary. Some months I can give, some months I can't… The children complain about this…"*

Borrowing for education expenses is a reflection of several factors. While primary level education is mostly free in government schools, secondary school entail a number of additional costs including monthly fees, annual admission fees and exam fees, ranging from 5,400 taka in Year 8 to 13,000 a year in Year 12 (author's personal knowledge). Secondly, some parents choose to invest in extra tutoring or coaching classes, or in some cases send children to hostels in the cities as they believe this would give them a better quality education. Several diary households with younger children expressed ambitions to send their children to college or university in the future, as they did not foresee decent career prospects otherwise.

There is also the expectation in Bangladesh that children will be a major source of social security when their parents retire or fall sick, as they are not entitled to a government pension and only have their Provident Fund to fall back on. In the wider community, it is common for children to drop out of school early, between Class 6 and 10. For boys, it often means an early start in labouring work to bring in income for the family, and for girls, an arranged marriage before they reach the legal age of 18. However, many KHCP staff, including financial diary participants, resist this tendency as they see education as a way to offer better opportunities for their children, despite not being well educated themselves, and they are hopeful education could offer them a better job prospects in government, NGO or business-related employment rather than labouring work, which is unreliable and low-paid. There is much competition for jobs in Bangladesh and higher qualifications can help their chances of securing a job.

(3) Building, Repairing and Improving Homes

Five current loans (11% of total loan spending) were used for building, repairing and improving homes. This category includes spending on sanitation and electricity installation. The loans financed a new house for Hazera's son who was about to get married, a kitchen for Sultan's household, and fixing verandahs in Hasan and Priya's households. A further 3% of loan funds went on sanitation (installing tube wells in Sultan and Lipi's homes) and 1% on installing an electricity metre for Hasan's household. These spending patterns illustrate several points.

Firstly, loan expenditure is connected with inadequate housing in some cases. This could relate to the quality of the housing, the size, the inability to access funds to improve housing, and community shame. The Bangladesh Household Income and Expenditure Survey (HIES) (BBS, 2010:18) shows that 21% of rural houses are made from mud/brick, 43% from corrugated iron (tin), and only 14% by brick and cement. Only 42% of rural household had access to electricity in 2010. Most of my financial diary households have mud-brick or tin-wall houses, which need ongoing improvements or extensions.

For example, Hasan commented that,

> *"the tin on the roof is all broken. I thought I could take funds from (my Provident Fund) to fix my house, but the manager would not allow it, so I have to take a loan… my home leaks when it rains."*.

Hasan also wants to build an extension to their house to accommodate their children. It is such a small house that it only has room for one bed, and their three children sleep with their grandparents down the road. This is a source of shame for them.

Secondly, households want to upgrade their homes to keep up with others.
As one person illustrated,

> *"Everyone's homes are well-built, and mine is not. I have a house made of straw, so I have to build a tin house, and I need a loan to do this"*.

I witnessed this phenomenon multiple times during my four years at Kailakuri. Households might tear down their mud-brick home and build a bigger one, or upgrade to brick and cement which is much more expensive. Wives try to persuade their husbands that a tin house would be much easier to look after, as they would not have to *leph* the walls (clean them with a fresh coat of mud) every few weeks. Whereas some households wait until they have saved up the funds for this, others accomplish it through borrowing. Mud-brick houses are the cheapest to build but require the most maintenance. Tin houses with a cement floor are becoming more popular as they require little maintenance, and brick-cement houses are the most robust, as they are less vulnerable to damage in storms, but also much more expensive to build.

Thirdly, house construction can be connected with marriage proposals, as in rural Muslim and Hindu households, the groom's family has to construct a new home for the couple to live in. As Hazera mentioned, the bride's family would not have agreed to her son's marriage if she had not build a tin shed home for them to live in. In *Garo* Christian families, the son in law is more likely to move in with the bride's parents or build on land nearby, inherited by his wife.

(4) Marriages, Funerals and Religious Festivities

A fifth source of debt is spending on marriages, funerals and religious festivals, which is often associated with certain cultural expectations. When marrying a daughter off, Muslim and Hindu families are often be required to pay a significant dowry. Then there are the costs of the wedding ceremony and providing a big feast for neighbours and friends.[10] Weddings are an expensive social occasion in Bangladesh. The giving and taking of dowry is extremely common in Madhupur, amongst Muslims as well as Hindus. From the family's point of view, if prospects for a rich match for their daughter are not good anyway, it may not be to their advantage to educate her. However, educated girls with a job require a lower dowry (Narayan, Patel, Schafft, Rademacher & Koch-Schulte, 1999:165).

Three of the current loans (and 9% of total loan funds) were spent on marriage celebrations. For Hazera's household, one loan was taken out to pay for the clothes, jewelry and transport costs associated with the marriage. For Priya's family it included the dowry to the son-in-law's household, as well as the first son-in-law's visit after the marriage.

As Priya said,

> *"I could not have married my daughter off without paying the dowry and wedding costs. She was already at marry-able age for some time, and it would have been harder to marry her off later… I could have sold land, but this would have been worse, as I could not afford to buy it back in future"*.

Hazera also mentioned that,

> *"When I married my daughter off, I took a loan and repaid this through my salary"*.

Beauti and Raihan feel they will have to take loans for their children's marriages in the future.

It is not just weddings that are expensive. Funerals can also be a major expense. The deceased's family is usually responsible for the funeral arrangements and hospitality but may receive financial or in-kind contributions from others. As one focus group participant put it:

"Amongst us Hindus.. when someone passes away, for example their mum or dad dies, the funeral is very expensive… Christians have funerals but everyone contributes…".

Christians, Hindus and Muslims each have their own set of traditions to fulfill at a funeral.

Thirdly, religious festivals such as Christmas, *Eid* or *Puja* often led to household loan-taking. KHCP staff receive a festival bonus for religious festivals, which help to cover the extra expenses that month. However, as one participant said, *"you have to fulfill your children's*

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[10] I can attest to this, as my Bangladeshi fiancé and I were married in March 2017, and we had to cater for over 800 guests across the two reception venues. As well as invited guests, we knew that a number of local Muslim, Christian and Hindu families from Hagurakuri and surrounding villages would attend.

expectations" by buying special food, new clothes and other things. In addition, I have witnessed other religious occasions such as a '*Musalmani*' celebration a for young Muslim boy. It was a huge event, with hundreds of people invited to the feast. *Musalmani* is a circumcision ceremony held for Muslim boys, and it is one of their rites of passage into adulthood.
Lipi shared with me that, *"I am Muslim. I took a loan out for my son's Musalmani celebration"*.

(5) Consumption

Consumption spending on food, clothes, household items and transport only equalled 5% of total spending. Of the remaining categories, 3% was spent on miscellaneous items, and less than 0.2% on health treatment. No loans were specifically taken out for consumption purposes, but households tended to use part of these loans for consumption if they had funds left over.

(6) Loan Recycling

Loan recycling is a strategy widely referred to in the microfinance literature and it was extremely common for financial diary participants. For 46 out of 100 loans, at least part of the loan funds were used to repay other loans, either because households could not afford to make repayments from their income, or they could not put aside sufficient savings for lump-sum repayment. This was also the highest expenditure (24%) in financial terms. All households used at least several loans in this way. While most households spend less than they earn, they struggle to make ends meet because more than 100% of their disposable income goes on debt repayment and they cannot sustain this without resorting to further loans (including *haolats*).

Financial diary participants acknowledged that insufficient income is a contributing factor to their over-indebtedness. A lack of disposable income limits households from being able to make timely repayments on debt and explains their resort to further borrowing. In Priya, Hasan and Hazera's households they are the sole income earner supporting a number of dependent family members. Sultan and Raihan are looking after elderly parents and several school age children, with little support from wider family. None of the households receive financial support from anyone outside the household. Rather, Lipi and Hasan send money to elderly parents, and Sultan is helping a niece and nephew with education costs. These household are not able to finance current expenditure, let alone put aside savings for big-ticket expenses such as weddings, house construction, land purchase or children's college education. So they resort to large or multiple loans to accomplish this. However, the consequence is high debt levels for at least several years afterwards. When I asked households about their plan to meet future education or marriage expenses, many of them told me they would have to borrow again.

Secondly, certain types of loans require repayment via lump sum rather than regular installments, and households are more likely to re-borrow to pay these off as they cannot afford to repay these out of monthly income. In contrast, the loans that required weekly or monthly repayment are more manageable as they only have to pay a small amount for each installment.

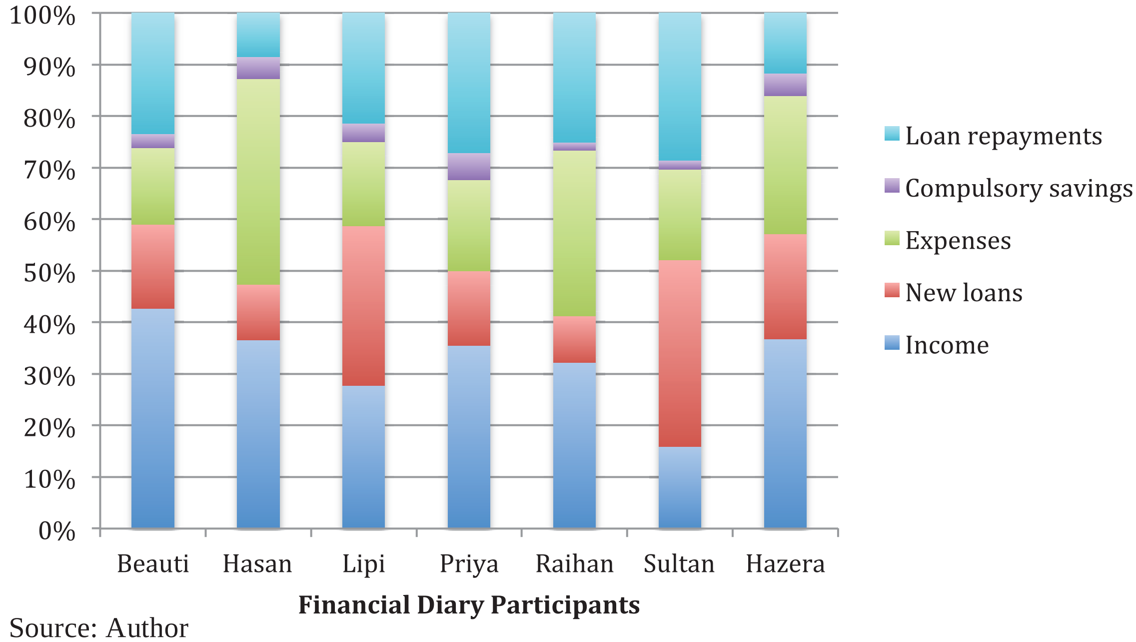
Thirdly, Hasan's household in particular struggles with financial management. They do not budget ahead for each month's expenses and have comparatively high food expenses. When I asked Hasan whether he regretted any of his loan spending, he said

> *"Yes, I am really struggling now. People say all sorts of bad things. Our expenses are increasing. We could have tried to spend less"*.

His wife burst out crying at this point, and went on to mention his habit of spending 8 taka on *gul* (an addictive brown powdery substance) each day, as well as buying tea, *pan* and *shubari*, known as betel nut in English. Hasan's household spent 84% of his monthly income (excluding *Eid* bonus) at the bazaar, including fish meals three times a week, which was much higher than any other household.. The husband and wife are both illiterate and only have a primary-level education. They seem to lack the discipline to stick to a budget. In contrast, other households seemed very frugal in their household costs and apart from Hazera they are also better educated.

Figure 19 highlights the financial inflows and outflows of financial diary participants. The income of financial diary households may cover their monthly expenses but it is inadequate for meeting debt repayment responsibilities. Hence they resort to new loans to accomplish this. Figure 19 illustrates the main financial inflows for each household (namely *income* and *new loans*) and the main outflows, namely *expenditure, loan repayments* and *compulsory savings*. The income and expenditure portions closely mirror each other for most households. There is also a close relationship between loan repayments and new loans being taken out. Compulsory savings remain pretty steady, at about the 2,000 taka mark, including NGO and Credit savings.

Figure 19: 100% Stacked Column showing Financial Inflows and Outflows



Source: Author

Given that expenses made up an average of 77% of monthly income amongst my research participants and loan repayments took an extra 64% of monthly income, it is unsurprising that households did not put aside any voluntary savings. They could not even afford to cover their expenses and repayment of loan installments. Instead, they took out new loans, equivalent to 44% of monthly income across the seven households, to make up the shortfall.

6.7 CONCLUSION

The most significant income source for all households is their KHCP salary, supplemented by second income earners, livestock and trees for some families. These statistics highlight the issue of insufficient income amongst financial diary households. Households also spend funds on community expenses and *Eid* gifts, which is influenced by cultural expectations.

This chapter also explored the financial behaviour of salaried microborrowers, and the main influences of this behaviour on household indebtedness. While the discussion on savings-related behaviour is interesting and informative, most of these savings were compelled by their employers and lending organisations, so their borrowing behaviour is more directly relevant. Finally, analysing the amount of loan funds spent on each category helped identify the main sources of household debt amongst my research participants, of which 92% related to land other productive loan uses (30%), building, repairing and improving homes (15%), children's education (14%), weddings, funerals and religious festivities (9%) and loan recycling (24%), Loan recycling is a reflection of earlier loan spending on various categories which could not be repaid through disposable income, leading households to compound their debt levels. Only 8% of loan spending related to consumption such as food and clothes, household items, transport and a trivial amount on health treatment, as KHCP staff members are entitled to free health care.

Simply identifying the sources of debt is not sufficient in terms of understanding why households have become over-indebted, as cultural expectations inform much of the borrowers' loan taking behaviour, whether this is providing an inheritance for their children, funding dowry, food costs and homes for newly-married children or providing hospitality to relatives and neighbours during various religious occasions. I did not find specific reference to cultural expectations in much of the microfinance literature (see Schicks, 2010, Guerin et. al. who place emphasis on sociological factors instead). Insufficient income is another concern, especially for households with inadequate housing or the inability to save for their children's education or marriages. Insufficient income is a clear driver for loan-taking in the literature (see Guerin et al, 2011, Lahari-Dutt & Samanta, 2013, Schicks, 2010), which includes consumption loans. Poor financial management was a contributing factor to over-indebtedness in only one household. Social aspirations are another catalyst for loan-taking, and this can include loan spending on upgrades to better quality housing or tertiary education for children, in the hopes of a higher-paying career. Schicks (2010) emphasises sociological factors such as materialism and social comparison that influence loan-taking behaviour but this does not strike me as an appropriate categorisation of education spending on children. Overall, cultural expectations and social aspirations (other than consumerism) did not receive much attention in the literature.

Chapter Seven: Conclusion and Reflections

7.1 INTRODUCTION

Now that I have explored the findings from each of my research objectives in the past three chapters, I provide a summary of these before setting out the contributions of my thesis and the implications of thesis findings for my wider case study group, namely over-indebted staff at KHCP. Finally, I reflect on the external pressures faced by poor microborrowers to assess whether or not access to microfinance is likely to provide them with a pathway out of poverty.

7.2 KEY RESEARCH FINDINGS

Research Objective One:

Gain a contextualised understanding of household over-indebtedness.

When I compared academic definitions of over-indebtedness with the local understandings of my research participants, I found that academics tend to focus primarily on a financial analysis, including the borrowers' struggle to meet repayment deadlines (Schicks, 2010), lack of disposable income to repay debts (Alam, 2012, Hulme & Maitrot, 2014, Maurer & Pytkowska, 2010) and high debt-to-income ratios (Guerin et al., 2011). Only several authors emphasised the debt burden of borrowers (Pytkowska & Spannuth, 2011) and costly actions or sacrifices taken to repay debt (Gonzalez, 2008, Schicks, 2010). Even fewer authors highlighted the significance of debt-related stress. Schicks (2010) is one exception: in her list of sacrifices associated with loan repayment she includes psychological stress, feeling threatened or harassed and suffering from shame or insults. However, my research participants emphasised symptoms with difficult social consequences such as frequent lender visits, borrower deceit, debt-related stress and shalish or court cases (alongside asset sales, loan recycling and reduction in living standards).

Research Objective Two

Examine how the lending terms and conditions of microfinance lenders have influenced the borrowing choices and repayment strategies of salaried microborrowers, and how the combination of these factors affected household over-indebtedness.

I considered nine key lending terms and conditions of various microfinance lenders, namely *mahajons*, NGOs, credit unions, *shomitis*, banks, government department lenders, *haolats* and shopkeeper credit. I found that the borrowing choices of salaried microborrowers are influenced by a range of factors other than interest rates such as ease of access, high loan ceilings, loan forgiveness, installment arrangements, level of pressure on timely repayments, and the need for collateral or bribes. Guerin et al. (2011) emphasise borrowers' preference for low interest, flexibility in repayment arrangements and avoidance of shameful debt whereas Alam and Molla (2012:51) call for more flexibility in credit delivery, gender preference, loan size, disbursement and repayment schedules and interest rate charges. Some financial diary households cannot access certain types of loans because of exclusionary criteria, for example age, gender or ethnic restrictions, land ownership, training requirements or restrictions on loan use. In addition, the extent of lender pressure on repayments affects the borrower's strategy for repaying multiple loans and leads to prioritisation of NGO loan repayment. Although borrowers characterise loan types in terms of their various advantages and disadvantages, their borrowing preferences can exacerbate the risk of household over-indebtedness when they choose loan types with a higher financial cost or avoid making repayments on higher-interest loans.

Research Objective Three

Explore how the income, expenditure and financial behaviour of salaried-microborrowers has influenced household over-indebtedness.

KHCP salaries are the main income source for the households of all financial diary participants, supplemented in some cases by secondary income earners and livestock income. The household sizes range between three and eight members and many provide financial support to people outside the household such as elderly parents, nieces and nephews. Most households spend within their income for basic household needs but rely on loans for intermittent expenditure such as land purchase, other productive investments, hostel accommodation, tertiary education, marriages, funerals, religious festivals and building, repairing or improving homes. Because they borrow large amounts or take multiple loans they often struggle to manage repayments from their salaries, leading to further loan taking to repay earlier loans. In only one of the households was poor financial management a contributing factor to over-indebtedness. There is no noticeable savings culture amongst the financial diary participants, other than savings compelled by their employers or lending organisations, and they did not lend to others. Many factors have influenced household over-indebtedness including insufficient income, inadequate housing, the low profit margins and risks associated with productive investments, social aspirations such as better housing and higher quality education for their children, and cultural expectations surrounding inheritance, religious festivals, weddings and the giving of dowry.

7.3 CONTRIBUTIONS OF THE THESIS

Contribution 1

The socio-cultural aspects of debt need to be better researched and understood by those designing microfinance programmes and other programmes to assist the indebted poor.

The clear preference of academics to focus on objective signs of over-indebtedness such as the borrower's ratio of income to debts (for example Maurer & Pytkowska, 2010) fails to recognise that it is not just the amount of debt that is relevant. Certain types of debt can be more socially stigmatising than others, and this influences the type of lender that borrowers approach for funds and the strategies by which they manage repayments. This is recognised by Guerin et al. (2011) but less so by other academics (see Khandker et al., Maurer & Pytkowska, 2010, Alam, 2012). For example, NGO lenders in Bangladesh tend to visit the borrower's home and demand immediate repayment if they fail to pay their weekly or monthly installment at the sub-centre. To avoid the stigma of this borrowers often take *haolats* from family or friends to make up the difference or prioritise loan repayment over other household needs. Those assisting the indebted poor need to understand that they do not make decisions purely based on financial factors. Households in Bangladesh are also community-orientated, as this study shows, and often try to hide their extent of over-indebtedness so they do not lose status in the community. To be considered over-indebted leads to fewer social invites because they are not able to reciprocate (Guerin et al, 2011), and leads to a sense of isolation for the borrower.

Contribution 2

Using a continuum to understand levels of indebtedness

Drawing on various over-indebted symptoms identified by focus group participants, I created a continuum of over-indebtedness in chapter four (Figure 9), which is reproduced below. Even those with no debt may have to borrow in future, as many households struggle to put aside sufficient savings for major expenses. There is a clear difference between borrowers who are 'indebted' but able to make timely repayments on all of their loans using disposable income, and those who are 'over-indebted' as they generally resort to further borrowing to pay their loan installments. Seriously over-indebted households face constant lender visits which leads to social stigma, and the sale of assets or a reduction in their standard of living. Those who are 'extremely over-indebted' are forced to take the drastic step of selling off land or facing a *shalish* or court case to resolve outstanding debt.

Figure 9 Continuum of Indebtedness

NO DEBT (but may be at risk of over-indebtedness if insufficient savings for future big-ticket expenses)

↓

INDEBTED: some debt, but able to make timely repayments of capital and interest on all loans, using disposable income

↓

OVER-INDEBTED: struggle to make timely repayments on one or more loans (without recourse to further borrowing)

↓

SERIOUSLY OVER-INDEBTED: constant visits from lenders, AND significantly reduce standard of living or sell assets to fund repayment

↓

EXTREMELY OVER-INDEBTED: forced to sell off land assets or defend village/formal court case to resolve outstanding debt

Source: Author

Contribution 3

There are clear reasons for the continued popularity of mahajon loans and their symbiosis with NGO lending in Bangladesh, despite leading to increased risks of over-indebtedness.

The enduring popularity of *mahajon* loans, despite charging much higher interest rates than NGOs and other loan types, seems illogical at first glance because borrowers clearly prefer lower interest rates. However, borrowers are influenced by other advantages including ease of accessibility, flexible repayment arrangements and less pressure on timely repayments (Guerin et al, 2011). *Mahajons* do not require borrowers to fill out loan application forms or deposit minimum and compulsory savings, unlike NGO loans. Loans can be taken at short notice to cover imminent expenses or enable the borrower to repay another loan. *Mahajon* Type Three loans have no fixed repayment period as long as borrowers pay the interest portion each month and *mahajon* Type Three loans are not due until a year later. They do not visit the borrower's house as frequently as NGO lenders, which reduces the risk of social stigma, and they may allow for delayed payment. The problem with frequent use of *mahajon* Type Two and Three loans is that they are more likely to lead to over-indebtedness because of high interest rates, lack of lender pressure and lump-sum repayment. My participants' struggles to repay *mahajon* loans illustrates this. Many of them had outstanding *mahajon* loans from several years earlier, and some could not even express a target to repay these within the year ahead.

Contribution 4

NGO loans may be repaid promptly in the Bangladeshi context but lender pressure on timely repayment creates social stigma and often leads to loan recycling, causing further indebtedness.

Borrowers complain about frequent lender visits as a significant disadvantage of NGO loans. This can influence them to approach alternative lenders such as *mahajons*. Yet it is the one loan type they are most likely to repay on time. Often this is at the expense of bank, *mahajon*, *shomiti* and credit loan repayment. Superficially it could be said that NGO loans are less likely to lead to over-indebtedness. However, the inability of borrowers to repay NGO loans from disposable income inevitably leads to further borrowing, whether this is through *haolats* or *mahajon* loans. NGO lenders actively encourage this behaviour and offer no option of delayed payment. Borrowers admitted that if they only had one NGO loan and no other outstanding loans, then it is likely they could keep up with repayments from their disposable income. However, NGOs do not generally enquire into a borrower's other loan commitments. While more caution about lending to borrowers with multiple outstanding debts may decrease the borrower's risk of over-indebtedness, this cuts against the lender's incentive to increase loan disbursements. Even if they did enquire, borrowers are unlikely to answer honestly because of their thirst for credit and the lack of a credit bureau from which to obtain this information.

Contribution 5

The flexible repayment options and lack of lender pressure on bank, mahajon, shomiti and credit loans often leads to delayed repayment, contributing to over-indebtedness.

The flexible repayment options of banks, *mahajon*, *shomitis* and credits means that borrowers are less likely to prioritise timely repayment. As a result they often fail to repay loans within the loan term or keep up with interest payments on *mahajon* loans. This adds compound interest to the cost of the loan on a monthly basis for *mahajon* Type Three loans and annually for bank and credit loans. Among the households in this study, several outstanding *mahajon*, credit and bank loans had been withdrawn several years earlier. Part of the problem is the lack of pressure by lenders and the greater immediacy of NGO installments or other expenses. Another issue is the expectation of *mahajon* Type Two lenders to receive capital payments in a lump sum, which is difficult to repay from the borrower's disposable income in any given month, leading to loan recycling. The tendency of borrowers to repay NGO loans on time and delay other repayments may be understandable, but it seems that they are 'treading water' to keep lenders off their back rather than making any substantial progress towards managing multiple debts. It leads me to question the extent to which over-indebted borrowers plan *how* to reduce all their debts.

Contribution 6

Insufficient income is one of the catalysts for loan taking and over-indebtedness, and inevitably leads to loan recycling when borrowers cannot repay loans from disposable income.

When households have inadequate housing to accommodate all of their family members or they need to make household repairs they frequently resort to loans to accomplish this. For households without their own supply of drinking water they may use loan funds to install a tube-well and those without electricity have to pay a substantial sum to install an electricity line. This tendency is evident in the loan spending of financial diary participants, and it can apply to household spending on basic needs as well as intermittent expenses. The inability of households to cover their monthly expenses and loan repayments from current income levels also prevents households from putting aside savings to meet future expenses. Insufficient income is a clear driver for loan taking in the literature (see Guerin et al, 2011, Lahari-Dutt & Samanta, 2013, Schicks, 2010), and it would apply to a greater extent amongst unsalaried borrowers with low and unstable incomes. Inadequate income and a lack of government support to provide basic services helps to explain why loans are used for such diverse purposes in Bangladesh.

Contribution 7

Many 'productive investments' made by my financial diary participants were not particularly productive because of low profit margins and risks incurred by the borrower.

As I explained earlier, land is often purchased as an inheritance for children so households are unlikely to capitalise on increases in land value during the borrower's lifetime. Even though land and other productive investments made up 30% of loan spending, I found that my research participants achieved rather low-profit margins with livestock and cultivation investments. Once I calculated the costs and profits of each enterprise (without accounting for household labour) it was obvious that some households were even losing money on their investments. This issue is also highlighted in the literature (Alam and Molla, 2012). A motorcycle taxi business suffered from a change in customer demand which meant it was no longer a viable income option. Only one business within my case study was making a reasonable profit. Borrowers could benefit from training opportunities so they are better prepared to invest in income-generating opportunities and manage the risks associated with this. Some NGO lenders claim to provide such training but focus group participants said it does not happen in reality, as they are too busy with loan disbursement and recovery responsibilities. I am not sure whether it is realistic to expect non-donor funded NGOs to carry out thorough training for borrowers.

Contribution 8

Social aspirations are a catalyst for loan taking and over-indebtedness, as households try to improve their standard of living and provide a better future for their children.

Loan spending due to social aspirations includes education expenses such as private tutoring, hostel fees or university enrolment, building a better quality house from brick and cement, or consumption spending on expensive household items. In this regard, borrowers are influenced by a desire to attain of the living standards of richer Bangladeshis in their own communities or elsewhere. The salaries received by KHCP staff makes it possible for them to access higher levels of credit than unsalaried microborrowers, and therefore spend beyond their current income. Some of this is influenced by materialism and social comparisons (see Schicks, 2010). However, I would not necessarily categorise education expenses (which made up 14% of loan expenditure) in this way, because without education it is very difficult to enter most careers in Bangladesh, and young people face fierce competition due to high unemployment levels. The government provides limited support, and parents are often reliant on their children to look after them in their old age. So education is seen as a very important investment in their children.

Contribution 9

Cultural expectations are a major catalyst for loan taking and over-indebtedness, and households can feel they have no choice but to fulfill community expectations of them.

Cultural expectations inform much of the borrowers' loan taking behaviour. For example they are expected to provide an inheritance for their children and this was the main justification for buying land in two financial diary households. Marriages are a huge expense in Bangladesh and if households are not willing to pay a dowry or build a house for the young couple then they may not find a suitable marriage partner. Several participants took loans to fund their children's marriages. The hospitality costs associated with funerals and religious festivals are not cheap either, and KHCP staff may be expected to contribute to a greater extent than their relatives because they are seen as better off. Cultural expectations were also evident in the 'community expenses' category of household expenditure by financial diary participants. As well as hosting relatives whenever they decided to visit (and for as long as they wanted to stay), they were expected to contribute a certain amount to religious festivals, relatives' marriages and funerals to maintain their esteem in the community, and these events would often come up at short notice. This is a thorny issue in terms of over-indebtedness as households do not necessarily feel they have the agency to challenge such expectations. I found that other academics refer to sociological pressures such as consumerism and materialism (see Schicks, 2010, Guerin et al.

2011) but they not specifically to cultural expectations as a catalyst for loan taking. The types of cultural expectations would also differ from country to country.

Contribution 10

Regardless of loan type, many borrowers simply have too many loans and they cannot manage all repayments simultaneously from their disposable income.

If borrowers and lenders were more circumspect about repayment capacity and borrowers took on fewer loans at once then it is likely that they would have less difficulty repaying. However, this would require borrowers to adjust their expectations of what they can achieve with access to credit, whether this is substituting for insufficient income, inadequate housing, pursing social aspirations, fulfilling cultural expectations or other initiatives. It could mean delaying expenses or building up savings for a period of time. The lack of a savings culture may be partly explained by the insufficient income and pre-existing repayment obligations of borrowers but it also prevents them from saving for major expenses in the future, making further loan taking inevitable. They have limited access to compulsory savings in NGOs and credit unions. As I discussed in chapter five, lenders are often rewarded for their volume of loan disbursements (Schicks, 2010, Hulme & Maitrot, 2014) and feel the need to compete against other NGOs (Yuge, 2011) so they may not be sufficiently motivated to consider repayment capacity.

7.4 CASE STUDY: OVER-INDEBTED STAFF AT KHCP

I found the seven financial diary households to be over-indebted, but what of the other 83 salaried staff at KHCP? As I mentioned earlier, the project management estimates that most of the KHCP are indebted. It would be helpful to establish which categories the 90 KHCP staff fall into in terms of the continuum of over-indebtedness and then efforts could be focused on those who are most severely in debt. One catalyst for over-indebtedness is insufficient household income. However, KHCP incomes have increased consistently for the past 34 years and yet there is no anecdotal indication that they are less indebted than 30 years previously. Of course inflation and rises in the cost of living are a significant factor, but so are the aspirations of KHCP staff.

Dr Baker's hope was that the SBF interest-free loan scheme would reduce dependence on NGO and *mahajon* loans for purposes such as home building, repairs, land purchase, education, marriage, funeral or religious requirements, medical treatment and income-generating investments. In addition, the Provident Fund policy allows for withdrawal of funds (from the employee’s contributions only) on one occasion after at least 10 years of membership, either to buy hut land or to build/extend their house, if necessary to accommodate immediate family. After the SBF fund became operational in May 2017, at least 80 staff have made applications for loans and 50 have been granted so far. A few staff applied to repay *mahajon* loans, for education, land assets, or income-generating investments but most were for house repairs.

However, I am concerned whether the five SBF trustees can provide sufficient guidance to help borrowers spend their loan funds wisely and reduce their level of indebtedness over time. This is because of time and resource constraints, lack of monitoring capacity and the question of whether staff trust the advice of SBF trustees to be in their best long-term interests. I support the project manager’s recommendation that monitoring and evaluation is carried out within the first year to determine how successful the programme is in its stated objectives ‘to protect poor staff from the dangers of high-interest loans, to help rescue staff fallen into financial crisis, and to promote improvement of all staff’s financial situation’. Debt workshops could be a useful way to discuss debt issues, income generating opportunities and related matters to help staff take ownership of their debt problems and make a plan to reduce these. Separate staff training is already held for paramedics, village health staff and support staff each week so it could be scheduled in at these times. I intend to hold one session to share the results of my research.

KHCP runs an educational stipend programme with sponsors from New Zealand and a few staff members benefit from this. If it is extended further it could assist more families to meet their children’s education costs. KHCP staff could also be encouraged to put aside regular savings in their bank accounts (by not withdrawing the full amount each month), to prepare for major expenses in the future. However, without knowing their individual situations and outstanding debt commitments it is difficult to say how many staff are in a position to do this.

I realise that it is very difficult to change borrowing behaviour influenced by cultural expectations such as the giving of dowry, despite the clear harm to households with unmarried daughters (who often go into debt or are forced to sell assets) and the fact the Bangladeshi government has made this illegal. NGOs and government need to take greater leadership on this issue and help provide solutions, as the parents of village girls cannot change these deeply embedded cultural practices in isolation.

7.5 FINAL REFLECTIONS

To find answers to the problem of over-indebtedness it is crucial to look outside the lender and borrower bubble, at the external pressures that have created the demand for so much credit. This can be related to poverty, cultural factors, social aspirations, poor financial skills and other factors as mentioned earlier, but the government and international NGO sector needs to take on greater responsibility as lenders and borrowers are not capable of resolving these problems on their own. If organisations and individuals are concerned about the plight of salaried borrowers like those in my case study and especially poorer and more vulnerable borrowers in Bangladesh who have fallen into over-indebtedness, they should realise that these households need much more than access to credit. In this regard Yunus and Joli (1998) were oversimplifying things by claiming that access to credit in itself would enable poor borrowers to escape poverty. It is unlikely that the NGOs who provide this credit will make much of a contribution. They are either unwilling or incapable of lowering interest rates, as they are concerned about their own financial sustainability. They are unlikely to reduce fees or savings requirements because they rely on these as collateral and to grow their asset base. It is unrealistic for them to ease up on repayment pressure, as they cannot keep providing loans if they face high default rates, and they are not likely to provide training as the resources required would detract from their bottom line.

This thesis explored the reasons why households of salaried borrowers have become over-indebted and how this is influenced by lender and borrower behaviour. However, there is a wider context to consider. Essentially, the structural causes of poverty need to be addressed rather than presuming that access to credit can resolve all disadvantages faced by the poor. I can only speculate that a better quality of government education in the villages, a health care system that is accessible to the rural poor, better employment prospects, a lack of corruption, a cultural change in the acceptability of dowry, access to low-interest loans for housing or tertiary education, access to reliable and low-cost savings institutions or banks (without the pressure to take loans) and training on financial management or income-generating investments could make a difference in terms of the reliance that salaried microborrowers have on loans. In a context where patriarchy, class inequality, corruption, ethnic discrimination and other factors continue to be oppressive forces, access to loans cannot, on its own, transform the lives of many of the poor and in the long term, as shown in this thesis, may actually add to their stress and burdens.

NGOs with access to donor funds are able to make various contributions in the field of health, education and livelihoods, as well as more supportive methods of providing credit. This can take some of the pressure off vulnerable households and reduce their risk of over-indebtedness.

For example, KHCP provides primary health care treatment and surgical referrals for thousands of poor patients each year. If the local poor community did not have access to this, many would have resorted to loans or sale of assets to pay for treatment. This is just one example of the ways in which donor interventions may indirectly reduce over-indebtedness. However, NGOs rely on international funding sources, which are very competitive. There are huge discrepancies in the income of rich and poor households in Bangladesh but these are masked by the 'average income level', according to which Bangladesh is now a lower-middle income country. As a result Bangladeshi NGOs have lost over 300 donor funded projects in the past few years and NGOs such as World Vision, Caritas and Church of Bangladesh which traditionally relied on donor-funded projects are now switching staff and resources to run microfinance projects, for reasons of sustainability.

The Bangladeshi government and international development actors need to be aware of the limitations of microfinance and take greater responsibility for reducing the levels of over-indebtedness amongst borrowers. They must promote more effective solutions to address poverty and inequality. In developed countries, many household borrow funds for tertiary education, housing and business loans, but unlike poor Bangladeshi households they usually have sufficient income or support to pay for secondary school education, food and clothes, house repairs, household items, toilets and drinking water, health treatment, transport or electricity installation. If their income sources are limited, what option do poor Bangladeshis have (aside from loans) to gain access to these basic necessities? And if they take loans, how can they repay these without getting into further debt? I do not have the answers but I hope that the issues highlighted in this thesis will provoke more discussion on the causes of over-indebtedness and more importantly, how to reduce its occurrence amongst poor and vulnerable households. Otherwise each generation of indebted households may fall deeper into poverty even as average incomes are rising and Bangladesh is becoming a middle-income country.

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APPENDIX ONE: QUESTIONS FOR RESEARCH PARTICIPANTS

FOCUS GROUPS

Collect basic data from each participant:

- Name
- Position in Organisation
- Ethnicity/Religion
- Signature

Questions asked of all focus groups:

1. What are the various uses to which loan funds are put?
2. What are the advantages and disadvantages of different loan types?
3. How would you define the threshold for over-indebtedness?

Additional questions for focus group one:

4. What sacrifices do borrowers make to repay their loans? Which ones would you consider to be unacceptable sacrifices?
5. What may cause someone to make late repayments? How are the lenders likely to react if a borrower misses an installment?

Additional questions for focus groups two, three and four:

6. What changes to lending terms and conditions would reduce the risk of over-indebtedness amongst borrowers?
7. In what ways can borrowers change their financial behaviour to reduce the risk of over-indebtedness?

HOUSEHOLD INTERVIEW ONE

Name:	Job position:
Religion:	Date:
Ethnicity	Location:

1. How many household members regularly eat from the same cooking pot? For each household or family member, record the following:

Name	M/F	Age	Relation	Marital status	No. of children in home	No. of children elsewhere	Occupation	Highest Qualificat ion

2. Literacy of key informant: Can you write a letter to someone in any language?
3. Is your household financially supporting anyone apart from cooking-pot members? Y/N
   Details:
4. Does your household receive financial support from anyone aside from cooking-pot members? Y/N Details:
5. How much land do you have?

	Owned	Leased	Agreement Land	Mortgaged
Hut land				
Cultivation land				

6. What type of home do you have?

Walls	Mud/ tin/ cement
Roof	Tin/ cement
Floor	Mud/ cement

7. Does your household have a latrine? Y/N
8. Does your household have a tube well? Y/N
9. Does your household have electricity or solar? Y/N
10. Does your household have a kitchen garden? Y/N
11. Does your household have any adult livestock? Y/N Details

12. What income sources does your household have?

Name	Income source	Income Type	Amount/month	Notes

13. Do you have any savings? If so, how much and with whom?

Type	Institution	Amount saved	Interest rate

14. What is the current balance in your Provident Fund?

15. Do you have any loans?

Type	Institution	Amount borrowed	Date	Amount repaid	Interest rate	Loan due date

16. Have you lent money to anyone else (that is still outstanding)?

Recipient	Amount lend	Date lent	Amount repaid	When repayable?

17. Are you acting as a moneyguard for anyone else? Y/N Details:

18. What is your estimated monthly budget?

19. Why do you consider your household to be over-indebted?

FINANCIAL DIARIES

Meet with key informant after 1st, 2nd, 3rd and 4th week (30 days total):

1. Has your household borrowed any funds this week (from whom)?
2. Has your household repaid any loan installments this week (to whom)?
3. Has your household lent any funds this week (to whom)?
4. Has your household recovered any loans this week (from whom)?
5. Has your household saved any funds this week (with whom?
6. Has your household withdrawn any savings this week (from where)?
7. What income has your household received this week?
8. What expenses (20 taka+) has your household incurred this week?

At end of 4 weeks, clarify state of (a) loans (b) savings and (c) money lent

9. Do you have any savings? If so, how much and with whom?

Type of Savings	Name of institution	Amount saved

10. Do you have any loans? Y/N

Type of loan	Institution	Amount borrowed	Date	Amount repaid	Loan due

11. Have you lent money to anyone else? Y/N

Recipient	Amount lent	Date	Amount repaid	When repayable?

12. Did you act as a moneyguard for anyone else over this period?

    Y/N If yes, for whom, and what amount?

HOUSEHOLD INTERVIEW TWO

Name:

Date:

1. How did you spend the loan funds for each outstanding loan?
2. Why was it important to spend the money on these investments? What were you hoping for? Or what may have happened if you had chosen not to invest?
3. For any income-generating loans – what were the costs and expected profits?
4. Do you think you will need more loans in the short-term? If so, for what reasons?
5. Assuming you were able to lower your debt levels, at which point would you consider yourself to no longer be over-indebted?
6. Do you think you will be able to pay off all of your debts? How do you plan to do this?
7. If you could go back in time, would you have done anything differently in relation to your loan-taking behaviour? What would you have changed, and why?
8. What major expenses do you anticipate in the longer-term?
9. Do you have any plan as to how you might meet these expenses?

MICROFINANCE LENDER INTERVIEWS

Organisation:

Date:

1. What is the loan term?
2. What is the grace period before repayments are due?
3. What is the frequency of installments?
4. What is the total number of installments?
5. What is the interest rate? (flat rate and/or declining rate)
6. What is the minimum savings balance (per 1000 taka borrowed)?
7. What is the insurance fee (per 1000 taka borrowed)?
8. What is the rate of compulsory savings (per week or month)?
9. Can compulsory savings be withdrawn during the loan term?
10. What is the annual interest rate for savings?
11. What is the entrance fee?
12. What is the passbook fee?
13. Do you charge any other fees?
14. Can you give an example of how a 10,000 taka loan would be repaid?
15. Do you have any restrictions on the loan purpose?
16. Do you have any provisions for early repayment or debt rescheduling?
17. What are the loan ceilings and floors (if any)
18. Do you offer a GPS (fixed term deposit) scheme?

Other notes:

MASSEY UNIVERSITY

The Institute of Development Studies, School of People, Environment and Planning, Massey University,
Private Bag 11 222, Palmerston North, New Zealand

Household Over-Indebtedness in Bangladesh

A case study of Kailakuri Health Care Project staff

INFORMATION SHEET

Researcher Introduction
My name is Nadine Vickers. I am studying towards a Masters in International Development at Massey University in New Zealand. I would like to conduct research into lender and borrower influences on household-over-indebtedness amongst Kailakuri Health Care Project staff.

Project Description and Invitation
I want to conduct several focus groups with Kailakuri staff to discuss issues of over-indebtedness. Each group will consist of six men or six women. Meetings will take place between 12 and 2pm, with a shared lunch before the discussion begins. Please let me know if you are interested in participating in these discussions. Those who participate may have no loans, a few loans, or consider themselves to be over-indebted. You do not need to share about your personal loan situation, but you will be asked to share your opinions about local issues of indebtedness.

For the second part of this research, I want to conduct discussions with six households who consider themselves over-indebted. During a 5-week period, I want to carry out two interviews, at the start and end of this process, and a set of month-long household financial diaries, including their income and expenditure within various categories, and their savings and borrowing behaviour. I am only conducting these discussions for my research purpose and I will not share their information with anyone else at any time. Discussions may take place before or after work, at a place of their convenience, and they can choose whether to include their husband or wife.

Alongside this, I want to interview several microcredit organisations about their lending practices. This will not include any questions about your personal loan situations. I also want to interview several management staff at Kailakuri about how they manage staff debt problems. Again, I would not share any of your personal debt situations with them. Please let me know if you are interested in participating in the household interviews, and also consider yourself to be overindebted.

Participant Identification and Recruitment
I will explain my research project at each of the three weekly staff meetings: village program, paramedic and non-paramedic. After this I will gather a list of those people who want to participate in the focus groups and or household interviews. From these lists, I

will choose between 12 – 24 participants for the focus groups, and six staff for the household interviews, including an equal number of men and women, and a mix of *Bormon*, Bengali and *Garo* staff. I have chosen this number as I want to hear a range of different perspectives, but I also have time constraints for my research. Participants may feel slightly uncomfortable discussing their personal loan situations during the interviews, but apart from this I do not foresee any other risks by participation.

Project Procedures
The focus groups may take 2 hours each. The two interviews may take 1½ hours each, and the financial diaries will be carried out for four weeks, and may take 30 minutes each time. The household interviews and diaries can take place while you are doing other household work such as cooking or preparing vegetables or any other work. I have two roles here – one is helping Kailakuri with project work, and the other is doing my research. I want to keep these roles completely separate, and I understand that it is important to keep your personal information confidential.

Data Management
I will use the data gathered for my research work only. I plan to take notes and make an audio recording of the discussions, if the participants agree to this. I will keep the information securely on my computer and dispose of this once I have completed my research thesis. Once I have finished the fieldwork stage, I can provide a copy of the financial diaries to each household if they request this. I will also gather the research participants and Kailakuri management together at that time to give a summary presentation of my findings. But I will not mention the names of any participants or share any of their personal information. Likewise, in the written thesis I will use pseudonyms and avoid the use of any identifying information.

Participant's Rights
You are under no obligation to accept this invitation.
If you decide to participate, you have the right to:

- Decline to answer any particular question;
- Withdraw from the study at any time;
- Ask any questions about the study at any time during participation;
- Provide information on the understanding that your name will not be used unless you give permission to the researcher;
- Be given access to a summary of the project findings when it is concluded.
- Ask for the recorder to be turned off at any time during the interview.

Project Contacts
If you have any questions about this project, you can approach me at Kailakuri Health Care Project, email me at nadine_vickers@hotmail.com or contact my supervisors:

Dr Vicky Walters: V.Walters@massey.ac.nz
Dr Regina Scheyvens: R.A.Scheyvens@massey.ac.nz

University Ethics Committee Statement
This project has been evaluated by peer review and judged to be low risk. Consequently it has not been reviewed by one of the University's Human Ethics Committees. The researcher named in this document is responsible for the ethical conduct of this research. If you have any concerns about the conduct of this research that you want to raise with someone other than the researcher, please contact Dr Brian Finch, Director (Research Ethics), email humanethics@massey.ac.nz