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LOAN REPAYMENT PRESSURE IN THE PRACTICE OF MICROFINANCE IN BANGLADESH: AN EMPIRICAL STUDY ON GRAMEEN BANK, BRAC AND ASA

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ABSTRACT

This paper shades light on the 'loan repayment pressure,' which is allegedly exerted by the Micro-Finance Institutions (MFIs) on their borrowers in Bangladesh. A qualitative study was carried out to assess the experiences of the borrowers, who are engaged with Building Resources Across Communities (BRAC), Grameen Bank (GB) and Association for Social Advancement (ASA). The observations and findings from the in-depth interviews highlight the effects of repayment pressure imposed on the borrowers. This pressure pushes the borrowers into a vulnerable economic condition, while disharmonising their social and family lives.Thus, this study provides a deeper understanding of the repayment issues.So far, very few studies have been carried out in Bangladesh on this particular topic. Findings of this study can add value to the current literature by providing insights on the forced loan recovery technique and its negative effects.

Keywords: Microfinance, Repayment Pressure, Loan Default, Loan Trap, Poverty.

Introduction

The recent world is observing the astonishing rise of one of the most celebrated strategies, namely microfinance that has been utilised for poverty alleviation and sustainable development (Marconatto, Barin Cruz, and Avila Pedrozo, 2016). Microfinance has introduced a new banking institution to the poor communities and has ostensibly contributed to social transformation (Dehejia, Montgomery, and Morduch, 2011). This financing system refers to the idea of providing financial services to the low-income households, who are typically defined to be 'non-bankable' by the traditional banking

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system (Lahkar and Pingali, 2016, Serrano-Cinca, Gutiérrez-Nieto, and Reyes, 2016). In the 1990s, the term microfinance replaced microcredit (Yunus, 2010) by including a broad range of financial services such as micro-loan, venture-capital, tiny-savings, micro-insurance and micro-pension (Karim, 2011). In Bangladesh, the clients of MFIs are the rural poor women who have non-wage, self-employed income, usually generated through informal activities or the practising of microenterprise (Gonzalez, 2008). By extending credit, MFIs are generally inclined to scale up the livelihoods of those poor women, who have no access to the conventional financial system due to a lack of tangible collateral (Yunus, 2007). Microfinance thus looks to enhance the income and economic security of the poor and positively contribute to the local economies by building assets and creating demand for other goods and services (especially nutrition, education and health care) (IRTI-IDB, 2007). The performance of MFIs is also deemed effective for its collateral free lending mechanism, higher rates of loan repayment, operational efficiency and financial sustainability (Hashemi, Schuler, and Riley 1996, Velasco and Marconi 2004). Among all these other attractive features, MFIs were found extremely influential in empowering poor rural women (Karim, 2011).

However, along the way the microfinance system has given rise to paradigmatic controversy, especially regarding the 'repayment pressure' practised in the stage of loan recovery. This pressure is mostly associated with the process of 'loan trap', a complicated phenomenon created by the borrowers, who get engaged with multiple loan schemes of several MFIs (Diop, Hillenkamp, and Servet, 2007, Jain and Mansuri 2003). In this process, the borrowers reasonably run into difficulties in paying the loan instalment as the size of the payment increases or the frequency of payment becomes shorter. Furthermore, repayment pressure is directed by the peer members as well as by the loan officers in order to collect due repayment (Siwale and Ritchie, 2012, Besley and Coate, 1995, Velasco and Marconi, 2004). These pressures force the borrowers to seek loans from other formal and informal sources. Loan-trapped borrowers consequently experience the vulnerable economic life as well as family and social disorientation. Concern for the aforesaid issues along with the lack of empirical research thus far, specifically in Bangladesh, forms the basis of this study. It is expected that the output of this research can help microfinance practitioners, policy makers, and regulatory authorities gain a better understanding of the existing microfinance approaches.

Objectives

The objectives of this study are to explore the causes and consequences of loan repayment pressure exerted by the microfinance institutes on their borrowers in Bangladesh. The relevant issues, such as loan traps, peer pressure, behaviour of the loan officers and family and social disorientation were critically analysed.

Literature Review

Loan Default and Late Payment: Higher default risk arises when the lending technologies of Microfinance Institutes (MFIs) are unable to isolate the opportunistic from non-opportunistic borrowers and fail to design effective contracts to reduce their opportunistic behaviour (Gonzalez, 2008). Besides, the cost-cutting approach that is adopted by various MFIs has an adverse relationship with the loan repayment process. In order to economise the transaction cost, MFIs pay less attention to some ex-ante and ex-post factors like borrower selection, business proposal evaluation, loan tracking and monitoring. This generally leads to higher loan defaults (Bhatt and Tang, 1998). On the other hand, over-stretched financial commitments due to over-indebtedness or illness within the family can also exacerbate repayment problems (Kassim, Salina and Rahman, 2008). Over-indebtedness generally results from the opportunistic behaviour of lenders and borrowers, unexpected and adverse systemic shocks, or limitations to the lending technologies in forecasting ordinary repayment capacity. Correspondingly, there may be circumstances under which the borrower may decide not to repay because of his/her unwillingness as a kind of habit (Gonzalez, 2008, Norell, 2001). Another obvious reality is that, if the income from business goes down or the business fails, the borrowers meet hardship in repayment (Batabyal and Beladi, 2009, Pretes, 2002). A possible reason behind this problem is an inappropriate level of capitalisation. For instance, too much capital provided by MFIs may induce borrowers to overspend for personal needs while too little capital may generate too little profit to repay (Bhatt and Tang, 1998, Norell, 2001). Therefore, circumstances arise where it becomes very difficult for the borrowers to cope with the credit programmes. Default tendency may also get higher since the growth of other economic opportunities can weaken borrowers' incentives to maintain their relationships with the MFIs (Ahlin, Lin, and Maio 2011).

Loan Trap : Loan trap can be considered a twist that is created when clients get engaged with multiple loan schemes of several microfinance institutes in order to repay the dues. In this system, borrowers eventually become trapped in a cycle of 'borrowing-repaying' (Diop, Hillenkamp, and Servet, 2007, Rahman, 2001, Jain and Mansuri, 2003). Sometimes, MFIs create this trap with the view of expanding their market and sustaining clients. Reportedly, microcredit institutes used to offer bigger loans in a short processing time if a borrower migrates from another MFI (Ahmad, 2002). This practice most likely provokes the borrower to get engaged with various loan schemes. On the other hand, borrowers may resort to informal financing sources for additional funds, probably because of inadequate supply, unavailability of seasonal working capital and strictly scheduled frequent repayments (Mallick, 2012, Shoji, 2012). Higher interest rates and loan security funds presumably bedevil the borrowing-repaying cycle. It is worth mentioning that under the guise of gaining a 'sustainable interest rate' accentuated by the default and transaction cost, MFIs are asking for high rates of interest (Goodwin-Groen, 2002). This exploitative rate of interest exacerbates the borrowers' indebtedness and prolongs impoverishment (Li, Gan, and Hu, 2011).

Repayment Pressure: No particular terminology such as 'repayment pressure' exists in the finance and banking literature. This metaphor is adapted in this paper due to reflecting the core statement on the negative externalities that come out during loan repayment. The meaning of pressure herein is confined to be 'the use of persuasion or intimidation to make someone do something' (Oxford English Dictionary, 2012); similarly, 'when someone tries to make someone else do something by arguing, persuading, etc.' and 'a difficult situation that makes you feel worried or unhappy' (Cambridge Advanced Learner's Dictionary, 2009). Therefore, this phrase can be understood as the psychological/ mental pressure that is typically created by the MFIs on their borrowers. Rigid repayment schedules and payment related strict liabilities of the borrowers and peer members induce repayment pressure (Dulal, Gingrich, and Stough, 2008). Evidence indicates that group based lending can spread the lender's risk, while using peer pressure to encourage borrowers to pay off the debt (Churchill, 1999, Gokhale, 2009). In this mechanism, the non-defaulting borrowers can use some kind of enforcement in order to coax the defaulter repaying his/her loan (Breza, 2010). But at times, it is observed that group pressure acts as an enforcement device, rather than stressing the dynamic incentives like progressive lending (Naveen 2012). Theoretically, the well-grounded notion is that social interactions enhance the norms of reciprocity and trust (Feigenberg, Field, and Pande, 2010). Therefore, strong social ties work like a catalyst. If the social ties among peers are sufficiently strong, the net effect of group lending becomes significantly positive. Because in this mechanism defaulted borrowers wilfully incur sanctions from both the bank and their peers (Ghatak, 1999, Ghatak and Guinnane, 1999). However, the overall purposes of inflicting repayment pressure are to achieve the economies of scale, operational & financial self-sufficiency and to reduce the percentage of loans in areas of MFIs (Norell, 2001).

Peer Members' Pressure: It is believed that group intervention increases the social capital in individual liability and that led to better repayment performance of the borrowers (de Quidt, Fetzer, and Ghatak, 2016). This borrowing method incorporates partial group liability, where borrowers are penalised if their group members default (Allen, 2016). It substitutes the physical collateral based lending technique by utilising the existing social relationship among the borrowers to quicken repayment by putting pressure on the defaulters (Velasco and Marconi 2004). Since this lending methodology disallows the group for further access to future credit in case of default by any member, other group members suffer for an individual defaulter (Besley and Coate, 1995). In the occurrence of defaulting on the loan, peer members may not always be sympathetic to the non-remittal. In this case, the borrower who encounters difficulties in making payments may get humiliated and stigmatised by their peers and this supposedly creates social tension, especially in small communities where everyone is likely to know the borrower's situation (Goetz and Gufta, 1996). In this regard, a study pointed out that lower risk associated with joint liability is largely dependent upon the similarity of risk characteristics (profiles) of the joint borrowers (Agarwal et al. 2016).

Role of the Field Officers: Studies show that higher repayment rates of the informal lenders such as the rural elite, loan sharks and pawn shops are simply a consequence of strict procedures of retrieving loans where no human value is present (McKernan, Pitt, and Moskowitz, 2005). Currently, microfinance institutes seem using the similar methods to ensure higher levels of loan recovery. In this case, roles of loan officers have become more prototypical with debt collectors rather than group facilitators. Reportedly, they are oftentimes applying inappropriate methods in order to compel repayments (Dixon, Ritchie, and Siwale, 2007; Siwale and Ritchie 2012,), while some MFIs are observed taking legal action for debt recovery (though MFIs are committed not to inflict legal enforcement on their clients in order for repayment). However, in Bangladesh, it is not a common practice of field officers falling back on police to recover loans. Furthermore, they appeal to the influential people in the community to exert pressure on the deadbeat (Ahmad 2002, Jain and Mansuri, 2003). Allegedly, loan officers become rude to the defaulters due to collect money or seize household items for sale (Dixon, Ritchie, and Siwale 2007).

Women Only Approach: Women demonstrate better repayment behaviour (Dorfleitner, Just-Marx, and Priberny). MFIs believe that women are more capable of utilising minuscule amounts of money for productive purposes and have a better reputation for repayment (Rahman and Nie, 2011). Therefore, the involvement of the higher percentage of female clients significantly contributes in decreasing portfolio risk as well as minimising credit risk (D'Espallier, Guérin, and Mersland, 2011). However, this notion mostly remains unjustified due to the reality of the difficulty of repayment and public shame that lead women to borrow from elsewhere and thus, they get entangled in multiple debts (Gokhale, 2009, Swain, 2007). Besides, women, especially in rural Bangladesh, are generally shyer and appear to be more submissive (Dowla, 2001). Therefore, intimidation and stigma are more commonly experienced by the defaulted women than by their male peers. Oftentimes, these realities make it necessary for a woman to borrow from a friend to make the repayment in order to not face embarrassment as well as to avoid the shame of the seizure of her household belongings by the group members or loan officers. With all of this in mind, it stands to reason that men in these communities try to avoid putting their wives in such disgraceful situations (Johnson, 2004). Given this theoretical backdrop, the MFIs under this study and their engagement in Bangladesh need a brief introduction.

A Brief Profile of GB, BRAC and ASA: Bangladesh is one of the world's most densely populated countries with about 163 million people (World Bank, 2018). Since 1996, she has consistently gained an economic growth of 5-6 per cent per year, despite political instability, weak infrastructure, endemic corruption, insufficient power supplies, and slow implementation of economic reforms. Recent statistics show that the national poverty rate(1.9$ household income per day) in Bangladesh is 14.8 per cent in 2016 where it was 19.6 per cent in 2010 and 25.7 per cent in 2005.

In this progressive trend of poverty alleviation, Microfinance Institutes (MFIs) have been making contributions by providing credit services to the poor households (Imai and Azam, 2012). Overall, Grameen Bank (GB), Building Resources Across Communities (BRAC) and the Association for Social Advancement (ASA) are the most active players in the rural financial market in Bangladesh. The credit services of these MFIs can be categorised into six broad groups which include general microcredit for small-scale self-employment-based activities, microenterprise loans, loans for ultra-poor, agricultural loans, seasonal loans and loans for disaster management (Mujeri, 2015).

Grameen Bank (GB): Grameen Bank (GB) has been pioneering an international movement that heralds new approaches to poverty alleviation by providing collateral free loans (Morduch, 1999; A. Rahman, 2001). This movement emphasises market-based institutions that offer credit to poor households in order to generate income (Morduch, 1999). Based on the practices of GB, microcredit is usually identified as having certain unique features. Following the group-based lending method, GB provides a small amount of loan, mostly to women who are living below the poverty line. It does not require physical collateral or the enforcement of legal obligation. In this practice, the bank goes to the client and not the other way round. This lending programme is complemented with compulsory or voluntary savings where the interest and capital are paid in regular instalments at frequent intervals (Argandoña, 2009). At present, the total number of borrowers of GB is 8.93 million, 97 per cent of whom are women. This bank has 2,568 branches operating in 81,400 villages(GB, 2018). Since its inception, GB has seen a disbursement of loans reaching TK 684.13 billion (US $ 11.35 billion). Out of this amount, TK 610.81 billion (US $ 10.11 billion) has been repaid. Currently, an amount of outstanding loans stands at TK 73.32 billion (US $ 968.31 million). The present loan recovery rate is 97 per cent. GB finances 100 per cent of its outstanding loan from its deposits and over 56 per cent of these deposits come from the bank's own borrowers. The government of Bangladesh has a fixed interest rate at 11 per cent flat rate which amounts to about 22 per cent on a declining basis. GB offers four types of interest rates for loans such as 20 per cent for income generating loans, 8 per cent for housing loans, 5 per cent for student loans, and 0 per cent (interest-free) loans for struggling members (beggars). In term of deposit, Grameen Bank offers the rate of interest from 8.5 per cent to 12 per cent (GB 2014b). As a result, nearly 10 million family members, on the net rose above the $1.25 a day threshold between 1990 and 2008 (GB 2014a).

Building Resources Across Communities (BRAC): BRAC is one of the oldest initiatives and largest microfinance institutes that has been operating since 1974 and covers all the 64 districts in Bangladesh. It provides access to financial services for the poor, who are unable to obtain credit from the mainstream banks. The lending methodology is similar to the Grameen Bank.

BRAC works to combat poverty in 70,000 villages and 2,000 slums (BRAC, 2015), with 4.8 million borrowers an integrated package of services for rural and urban communities. More than 1,15,000 people, involved with BRAC work as microfinance officers, teachers, health staff and enterprise managers (BRAC, 2015). By 2016, BRAC outreached 5.4 million borrowers by extending $ 3.7 billion loans (BRAC, 2018)

Association for Social Advancement (ASA): ASA claims to be the most cost-effective microfinance model in the world and has been working in Bangladesh to assist the poor since 1978, with a goal of gradually eradicating poverty from the society.Through its 'cost–effective and sustainable microfinance' model, it contributes to becoming a self-sustainable MFI within a short span of time. ASA declared itself a 'donor-free MFI' in 2001(ASA, 2016). Up to December 2018, it has introduced 3,017 branches in 65,710 villages across the country where 26,413 staff are working to serve more than million clients. It is also running a number of non-financial programmes, such as education, sanitation and agriculture(ASA,2018).

Methodology

This research was carried out by employing an intensive qualitative approach. Data were collected from the borrowers, who were initially involved with any of the three specific microfinance institutes (MFIs) namely, BRAC, Grameen Bank and ASA.Twenty borrowers were selected as respondents by snowball sampling process(Morgan, 2008). Fourteen 'suffering/unprivileged borrowers' and six 'progressive/ privileged borrowers', residents of two villages, namely Uttor Islampur and Ransa Ruhitpur of Munshiganj district in Bangladesh were profoundly interviewed. One-on-one interviews were caried through a deliberate selection process (Gobo, 2004). Local newspapers, journalists, villagers and group members served as the sources for primary information about the 'suffering borrowers'. Besides this, visual indications such as the conditions of the house and household appliances, the attire of the respondents and their family members and peripheral environment were taken into consideration to identify them. General indications, such as indebtedness, lower income or low levels of assets, and a poor lifestyle were regarded as the signs of the unprivileged borrowers. In the same way, based on the report of the neighbours or group members,'progressive borrowers' were selected. In that case, borrowers, who gained higher income, assets and overall had a better quality of life after joining the microfinance programme were considered as successful borrowers. In order to cross-justify the statements of the borrowers, six field officers and two branch managers of GB, BRAC and ASA of the same region were also interviewed. All the cases were constructed as available in-situ.

Two sets of semi-structured questionnaire[1] were designed comprising open-ended questions aimed at acquiring descriptive statements from the respondents about their experiences in their own words (Maykut, Morehouse, and Morehouse, 1994). A section in the questionnaire was designed to extract the demographic information of the borrowers covering their basic loan history and income. All the self-evident interviews of the borrowers[2] were taken by using a digital voice recorder and each session lasted for about half an hour. Before conducting the interview, the interviewees were briefed about the purpose of the research and the interview process. Every respondent was assured for keeping anonymity (or using a pseudo name). All questions were framed in English, but were later translated into the vernacular (Bengali).

During the interview session, greater attention was paid to obtain information on the 'repayment performance' of the borrower and the impacts of 'loan repayment pressure' on them. In that regard, certain issues such as loan-traps, interest rates, peer pressure, the behaviour of the loan officer and impact of the 'repayment pressure' on the family and social life were specifically addressed. Further, questions were asked about the borrowers' experiences with the credit programme, their views on group landing and satisfaction and dissatisfaction with the services provided by the MFIs (Siwale and Ritchie, 2012). However, a careful distance was always maintained from the staff of MFIs upon request by the informants while interviewing. At the end, by using data from diverse sources, 'triangulation' was performed in order to validate the findings(Given,2018).

Findings

Demography of Respondents: All the respondents for the present study were female-borrowers who were the inhabitants of two villages in the Munshiganj district of Bangladesh namely, Uttor Islampur and Ransa Ruhitpur. Most of the interviewees were at childbearing age, but five of the women were at their menopausal age, considered here to be, above 50 years old. All respondents were married and three were widowed. Four respondents had post-primary education, seven had primary education and eight had no formal education and the extent of their literary skills is the writing of their names. However, one member of the latter group could not write her name and thus, this interviewee used her thumbprints for official needs. All but one of these borrowers had the occupational status of 'housewife'. Among the unprivileged borrowers, eight of them said their income was less than three thousand Taka[3] per month, while four of them reported their income within three-five thousand and the rest two mentioned their income as five-seven thousand Taka. Income of the privileged borrowers was reported within eight-ten thousand Taka only.

Loan Trap: This study identified a complex cycle of borrowing and repayment that typically led the borrowers to financial-entrapment, which can be called as 'loan-trap'. This miserable trap is autonomously created due to borrowers' involvement with multiple loan schemes of several MFIs at a time. Seventeen out of twenty respondents of this study were found dealing with more than one MFI. Most of them (twelve of seventeen) reported that the non-repayment of previous loans was the instrumental cause behind getting involved with several MFIs. Only five of them, who were found as successful borrowers mentioned that their allocated money from one MFI was insufficient for running the income generating projects. Three respondents identified themselves entrapped with the informal moneylenders in order to get rid of the 'repayment pressure' of the formal MFIs. The impact of the loan trap thus can be exemplified in Case 1.

Case 1

During her tenure of dealing with Grameen Bank, BRAC and Islamic Bank, Hamida Begum (45), an impoverished woman, had been entangled with multiple loan schemes in order to repay the previous loans. "I had been dealing with Grameen Bank for about 20 years but I encountered hardship to pay back the loan during last ten years. My husband's income went down because of illness and unexpected decline of his business. On the other hand, family expenses went higher due to my children's schooling and burdensome expenses for the wedding of three daughters. We had sold out our last piece of land and several times asked my brothers for financial help in order to pay out loan-instalment". She underscored husband's enforcement as a reason for getting involved with multiple loan schemes. "My husband forced me to engage with several loan projects and NGOs –when he failed to manage the money to pay the instalment". This story seems a classic picture of what loan entrapment looks like and how it affects those involved.

Repayment Pressure: Fourteen borrowers affirmed that, due to the pressure exerted by MFIs, they underwent extreme mental stress. They were univocal about the unfriendly and unbecoming behaviour of the loan officers, who dealt with them. They also denounced 'peer-group pressure' as inflammatory verbal attacks by other group members. They marked these unwanted externalities as the catalysts for their sufferings. This kind of pressure gives rise to social and family tension during the time of loan repayment. In the case of default or late repayment, payment related tensions further escalate when the loan officers and group members decide to auction the belongings of the defaulters.

Cases 2 and 3 illustrate what repayment pressure looks like to the borrower and how they view their own circumstances.

Case 2

Rahima Begum recounted the response of group members when she was late in paying back the loan instalment saying, "(in a harsh manner) If you can't pay the loan then why did you take it? We can't wait a whole day for your delay, rather you sell out your belongings to pay the instalment." This depicts how peer pressure pursues borrowers to take extreme measures for paying back the loans of MFIs.

Case 3

"I sold out all of my household belongings such as wooden wardrobe, chair, table, aluminium cooking vessels, even a part of my house; only to pay back the loan," Yasmin Begum (32) expressed her condition remorsefully, "It was better starving than tolerating their (peer member/loan officer) demeaning behaviour". Her situation shows the kind of impact repayment-pressure can have on the emotional, mental, and relational health of the borrowers.

In the midst of these painful fallouts of repayment-pressure, different stories were told by the successful borrowers. By utilising the money in income generating activities they were able to ensure better earnings and a well-off life. They admitted the existence of underpinning 'peer pressure' considering it as a necessary strategy that needs to be followed. Cases 4, 5, and 6 hereunder reveal that some of the borrowers' community see pressure as an effective device that can mobilise repayment process and thus keep moving the financing process.

Case 4

Parul Begum (44) had been dealing with Grameen Bank and Islamic Bank for about 21 years and never encountered any repayment problems, rather increased her property while gaining financial solvency. "My husband was running a small grocery business. But, after having been engaged with the MFI, now we have one more business, such as rickshaw-renting. It was possible because we always made an investment with the borrowed money". As an answer to the question of peer-pressure, she said, "some borrowers never utilise the money for income generating activities. Whenever they fail to manage the money to pay loan instalment, they remain absent in the group meeting. In that situation, we pay together with shared responsibility, but in order to recollect our money, we put pressure if the borrower doesn't pay us duly." The perspective seen here is that peer pressure is how the community operates to make sure the money ends up where it needs to.

Case 5

Komola Begum (35), a solvent borrower of GB and Islamic Bank explained, "I generally help my group mates to repay the loan, but when they become reluctant to pay me back, I put pressure on them to rescue my money. Most of the time I try to pursue and convince them through motivation" Her remark makes the point that, in the eyes of these successful borrowers, pressure is not always a negative force. Motivation can be viewed as a sense of pressure to bring about the desired results.

Case 6

Aklima Begum (37) is the centre leader and identifies herself as a successful borrower owning a well-breeding poultry farm. She built a new tin-shed house and sanitary latrine while funding her son to go abroad.[4]

"I am responsible for collecting the unpaid debt because they (borrowers) get the loan on my recommendation. At the time of convincing me for recommending their loan, they make the promise of investing the money for income generation, but most of the time they break their promise and fail to pay back the instalment duly. We try to help them, but how long can we continue? At the end, we are bound to auction their household belongings to pay the instalment." Her story reveals the reality that the pressure of repayment is not only on the borrower, but also on those around them. The group members take on the responsibility of repayment and so in order for the advancement of the whole, they apply pressure on the borrower.

Commonalities in Suffering: Four respondents reported that they couldn't eat properly on the day of loan repayment due to the intensity of repayment pressure. They found it preferable to have less or no food to save the money for instalments rather than being in a position of delinquency. The following quotes reveal this sentiment of multiple respondents:

"Sometimes we starve…………"- Fazila Begum (60).

"We eat less to save the money for repayment "- Yasmin Begum (32).

"Sometimes our stove remains extinguished …………" - Bilkis Begum (40).

"Several times I kept away the empty vessel of rice so that others couldn't understand that I didn't cook on the day of repayment" - Laila Begum (30).

Roles of the Field Officers: A small proportion of interviewees (four out of twenty) reported the behaviour of loan officers to be gentle and fair. Fourteen respondents unambiguously reported the actions of loan officers to be unsympathetic and humiliating. The interviewees remarked that it was commonplace for the officers to use harsh words and threaten police involvement in the situation of the borrower. They further added that in some situations, loan officers even instigated the group members to auction off the belongings of the defaulter and the late payer.

Case 7

Amina Begum (50), a widow, is a street vendor. By selling home-made cake she has been managing her livelihood while carrying a heavy burden of debt. She can only earn a half that she needs to pay for loan instalments to five microfinance institutes she is involved with. In order to manage the pay, she needs to be engaged with some informal jobs such as dishwashing, spices grinding in wedding ceremony, etc. "If I paid fewer than the predetermined sum of loan instalment, the field officer always threw away the money. I always try to save myself from such rude behaviour. Sometimes, I make a fervent request to my friends or neighbours to give me borrowing so that the loan can be paid duly." In order to emphasise the urgency of loan repayment, loan officers would even say: "You can bury the dead body (if a family member dies on the day of repayment) only after paying the instalment", she narrated, thus remorsefully.

Case 8

"The loan officers are generally good in behaviour. They only impose pressure, when the borrower fails to pay the loan instalment duly", Komola Begum (35) answered to our query.

On the day of loan repayment, if the borrowers were unable to repay the instalment in full amount, they generally run into disturbed social and family life. Nine respondents reported that on the day of paying loan instalment they experienced uneasiness as they related to their family and the larger community. Ten of them admitted that they had to swallow the bitter treatment of their neighbours, group members and social elites. Two respondents said that they were threatened with divorce by their husbands. Seven interviewees were directly or indirectly forced by their husbands to ask for financial support from their parents or siblings, in a situation similar to a dowry. One was physically tortured by her husband several times due to the conflict of loan payment. So, it is evident that the current nature of loan repayment and the pressure involved with it are at the heart of the familial and social conflict in these rural communities. Case 9 works to flesh out what this kind of conflict actually looks like for women in these communities.

Case 9

"Due to low and irregular income of my husband, I often encounter difficulties to repay and in that situation, I make borrowing from my neighbours and group-mates to pay off the debt on time. I have to confront harsh behaviour of my friend/s if I fail to pay back the borrowing duly. Sometimes, they even force me to sell out my household belongings", Chamely Begum (30), a member of ASA, POPI, BURO Bangladesh was narrating her sufferings with tears in her eyes. "The loan instalment pressure gives rise to domestic chaos. I experienced physical torture by my husband whenever I bargained for the money of instalment", she added.

It is apparently seen that rural women are confronting difficulties, because the men they are relying on for support are generally not willing to do what is required to payback the loans. Since the borrowed money is generally being utilised by the mature male members of the family, women need to depend on their investment skills and capability of earning. This puts these women in a situation where they are feeling the pressure of repayment while at the same time feeling incapable of doing anything to alleviate it.

Statement of the Loan Officers: Two branch managers and six loan officers of these three organisations in this district were interviewed on the issues of loan repayment system. They reported that they were providing loans to the most vulnerable poor; so, if any borrower encounters hardship to repay the loan instalment, officers usually conduct an inspection to identify the actual cause. Once the nature of the case is ascertained, several options are proposed to the borrower to make the repayment easy and affordable. Negotiation and motivation are the primary strategies that precede expanding the tenure of repayment. Interviewees maintain that sound communication and supervision are critical components of allocating a new revamping loan. On the other hand, respondents also point out that it is common practice to distribute repayment responsibilities among other group members so that the defaulter can be assisted by the group members. Case 10 provides the feelings and impressions of MFI members regarding loan traps and repayment pressure.

Case 10

"We only give loans for income generating activities so that the borrower can pay back from the profit. If anyone can't cope with the loan instalment, we follow the flexible repayment method. Therefore, the imposition of pressure for loan repayment or taking legal action is beyond our repayment policy. We never consider the group responsible for any individual defaulter", Mr. Badrul Alam (35), a regional manager of BRAC narrated about the loan disbursement and repayment policy."Besides being well trained, our field officers are well trained, knowing how to serve the client with friendly behaviour, that is our organisational norm," he added. "We never give loans to the clients who are engaged with several MFIs. Therefore, the allegation of creating loan-trap can be declined." However, he admitted his ignorance about the existence of 'loan trap'.

Other officers added that they never took any legal action against the defaulting borrowers but rather look to maintain a cordial relationship. There is no 'default penalty' of 'repayment pressure' practised by the MFIs. Loan officers said that they never interfere with any issue of social or family disorientation. Furthermore, they claim that 'loan trap' is literally absent in the context of microfinance institutions. It is obvious that the perception of MFIs about pressure and loan traps is quite different than that of the individuals and communities who borrow from them.

Discussion

Usages of Loan: The most common ways that female borrowers of MFIs used the loans were either for household consumption or to help their husband or other male family members to invest in their businesses. Only one respondent, a widow, was found pursuing her own business of making cakes by utilising the borrowed capital. The businesses that were engaged in by these families varied in many ways. The husbands or family members of seven respondents invested the borrowed money in agro-based businesses. One used the money for farming and cattle rearing, while another started a seasonal fruit business. Another respondent said that her husband utilised the money for fishing, while four others invested in consumer products. Among the rest of the five respondents, one had a rickshaw renting business; three were rickshaw-pullers who owned their own rickshaws, and the husband of the fifth one was unemployed and had a propensity for alcohol abuse.

Reasons for Being Late in Repayment: This study identified several causes that contribute to repayment problems. One major problem is the utilisation of the borrowed money for different purposes other than for profitable business. It was revealed that the borrowers do not employ the full amount of money in income generating activities. Therefore, the usage of the loan does not reach its optimal level. Eighteen respondents mentioned that they didn't fully utilise the money in income generating activities. Only four borrowers reported that they used the total money as capital for business and therefore, never faced repayment problems. Another factor for finding difficulties in repaying the loan comes with losses in business or decreased profitability. Some businesses fell into this unexpected reality due to mismanagement, illness of the manager and some of the climate-induced problems. Statements of five respondents revealed that their husbands couldn't run the business properly while two suffered due to inclement weather and one fell sick with a life threatening disease (tuberculosis).

The insincerity of the husband is also a major factor responsible for the difficulty in production and repayment. Two cases showed that it is not uncommon for the husbands of these borrowers to be irresponsible in this process. One husband was extremely prone to alcohol abuse and the other was reluctant to work. It becomes very difficult to repay loans when instrumental players in the process are not willing to do their part. Social corruption was detected as another intervening factor for repayment. For example, one borrower was found burdened with a loan of TK 5,500.00 (USD 62.56). She had borrowed that small amount of money to pay a bribe in order to gain a job for her husband as a janitor in the municipality office. Climate-induced vulnerabilities may also cause harm to business and thus may lead to default or irregular payment. When the borrowers choose farming and agro-based business they might incur seasonal losses due to the effects of weather on their crops. Two respondents indicated that inclement weather was the prime cause for the loss of their businesses. These aforementioned issues put a lot of strain on borrowers while making it extremely difficult for them to succeed in producing capital and repaying the loan duly.

Discordance: From the overall discussion, the figure (Figure 1) reflects a partial exposure of the microfinance institutes. It shows that the application of repayment pressure, as stated by the borrowers, results in discordance between the expected outcome and the end-state of the MFIs. Factors that commonly work to induce repayment pressure are market-oriented divergent organisational goals, market exposures, deflection of the goals of individual borrowers, social corruption and natural calamities.

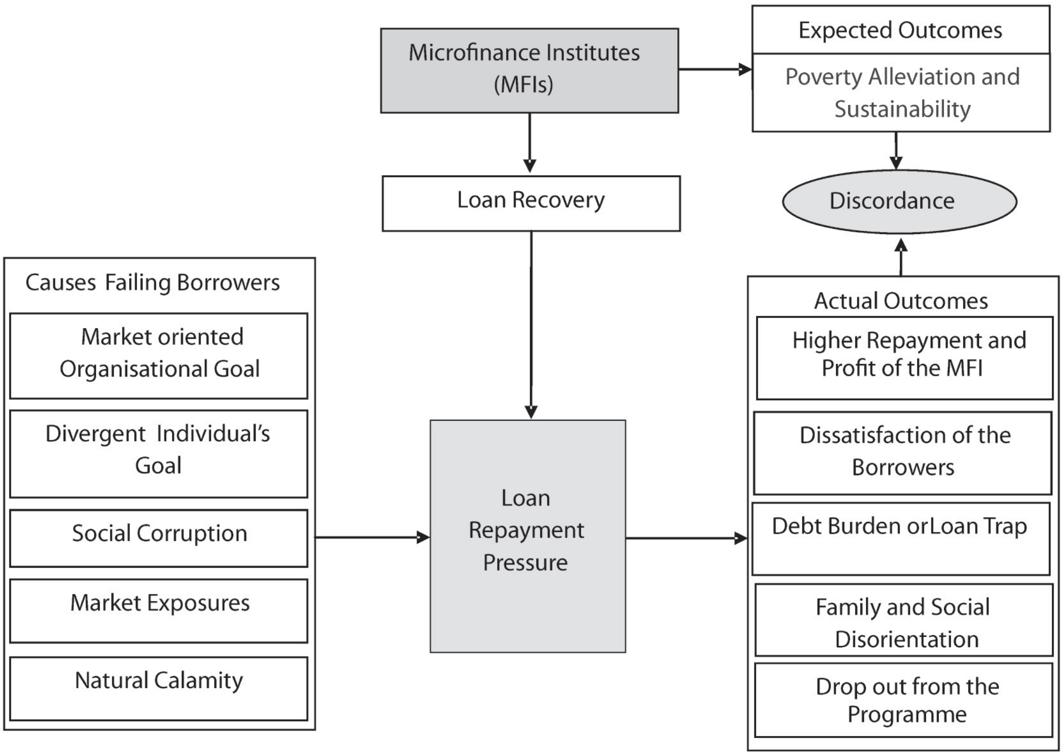

Figure 1: Discordance between Expected and Actual End-State of Microfinance Practice

It is apparent that microfinance institutes are seemingly divorced from their mission-based approach and are mostly working as the market focused financial entities set out to achieve profitability and sustainability. In order to gain competitive advantages and profitability by expanding the size of their organisational force, Microfinance Institutes (MFIs) are becoming market-oriented. For this reason, MFIs are very keen to ensure quick and full loan recovery. Consequently, loan repayment pressure comes as a rude shock to the borrowers who in many cases, are utilising the money elsewhere rather than in business. In addition, social corruption and natural calamities in Bangladesh work as a catalyst in loan default or late payment. However, loan repayment pressure generally creates a distasteful situation for the borrowers while it intends to contribute to higher loan recovery and profit for the MFIs. When the debt burden increases, it gives rise to dissatisfaction among the borrowers and also family embarrassment, and can even lead to the borrower dropping out of the programme. Therefore, out of all the issues that influence loan repayment, repayment pressure was observed to be the most detrimental to the well-being of these borrowers.

Similarities with Other Researches: Professor Lamia Karim conducted an ethnographic study on Grameen Bank, BRAC, ASA and Proshica Human Development Centre. Her findings affirmed that the poor women are highly indebted and facing numerous adversities in their socioeconomic lives. She also reported the demining behaviour of the field officers (Karim, 2011). It shows similarities with the findings of A. Rahman (2001). Ali et al., (2017) carried out another extensive research on the borrowers of BRAC, ASA and Proshika in Bogra district of Bangladesh. They found ineffective performances of these organisations. They pointed out high-interest rates, unproductive uses of loan, insufficient size of the loans, frequent repayment schedule and physical and mental harassment by the loan officers. Besides, lack of education, healthcare, social safety nets, employment opportunities, natural catastrophe, rising cost of basic needs and persistence of dowry system were underscored as the causative factors of ineffectiveness of microfinance. In some cased, mismanagement, unskilled and corrupted field staffs were held responsible for mistreating the poor beneficiaries (I. Ali et al., 2017). Another empirical study recently carried out in Satkhira district of Bangladesh. Findings of that study unveiled that over-indebtedness occurs due to unprecedented natural calamities and previous debts. Burdensome debt pursues poor borrowers to sell out their tangible assets (Fenton, Paavola & Tallontire, 2017). The findings in other countries revealed that the income fluctuation of the borrower adversely affects repayment. Therefore, borrowers are extremely likely to encounter hardship if the business becomes unprofitable as shown by Batabyal and Beladi (2010). An inappropriate amount of capital investment and over-stretched financial commitment are also responsible for loan repayment problems as underscored by Bhatt and Tang (1998) and Kassim, Salina, and Rahman (2008). This corresponds with the findings of Diop, Hillenkamp, and Servet (2007), who observed that the 'loan trap' is created due to the engagement of a borrower with multiple loan schemes concurrently. A study that was conducted in Pakistan highlighted that women expressed displeasure about the interest while reporting repayments as difficult (Khan and Khan 2016).

The alleged unbecoming behaviour of the loan officers such as employing inappropriate methods to compel repayments, as pointed out by Dixon et al., (2007) and Siwale and Ritchie (2012), is substantiated by the present study. This study also corroborated the reality that borrowers were always worried about the alleged rude behaviour of the loan officers and stigmatisation by the group members or neighbours as stated by Goetz and Gufta (1996). In terms of the women-only-approach, it was found that all the women were sincere about repayment that led to low portfolio risk, as was suggested by Rahman and Nie (2011) and D'Espallier, Guérin, and Mersland (2011). However, all of the respondents, except one widow, reported that they borrowed money for their husbands or other male family members who utilised it for other purposes. Thus, the findings here contrast with the statement of Rahman and Nie (2011) that, "the women are capable of utilising the tiny amount of money". The capability of women for repayment was generally not realised because their husbands or family members were the ones actually running the business. In this sense, they may be serious about repayment, but are socially not in a position to take control of the business and thus, the process of repayment. Hence, the findings of this study Hence, the findings of this study seem consistent with similar studies that were previously carried out in other places.

Concluding Remarks

It can be concluded that MFIs impose pressures for repayment in different ways such as collective peer pressure, intimidation and stigmatisation, harsh treatment by the influential social figures and the seemingly unbecoming conduct of the loan officers. The aim of such pressure ostensibly is to ensure repayment. However, throughout this process, MFIs tend to ignore the mission of microfinance which is to uplift the poor to the mainstream of the economy so that they can deliver better economic outputs and thereby, contribute to the national economy. It is observed that the profitability approach taken by MFIs continues to create the kind of social disharmony that is not likely to contribute to better economic sustainability. This approach is also creating 'micro-economic loopholes'. Individuals are suffocated with the burdensome loans by being involved with multiple institutions and thus, they are consuming more than they can generate income. These borrowers eventually get stuck in a cycle where they can neither meet their own financial needs for stabilising business capital after daily consumption nor repay the loans duly. Thus, they take out loans from other MFIs which increases their debt volume and generally leads them to become serial defaulters. At the end of this process, the individuals are left in a state of greater economic distress and the larger economy of the rural economy is weakened greatly.

A few suggestions stem from these observations made about this cycle of microfinance in Bangladesh. Firstly, a particular code of behavioural conduct needs to be integrated within the institutional context of MFIs to see a greater level of empathy with the situations of the borrowers. This flows into the needs for a greater harmonious integration of the welfare approach and the market-based profitability and sustainability approach. In this sense, MFIs need to develop a greater level of commitment to fulfil their mission to aid these people as well as producing profits to sustain themselves. Most vulnerable people are generally in a position where they need to be treated by the mission-based welfare approach. After scaling up their economic standing to a certain level, the market-based approach can be practised. On the other hand, since MFIs need to follow the cost-cutting approach in order to economise the loan cost, governmental support and aid from donor community are crucial. In that regard, soft loans, cheap capital and higher availability of funds would be effective. Governments and MFIs should be committed to sharing responsibilities in this process. The government may monitor the ex-post facto scenarios such as the performance of the borrowers and also of the MFIs. Training to build entrepreneurship quality and basic accounting knowledge may be undertaken by the MFIs more vigorously and this approach would reduce the unnecessary risks taken by MFIs.

Notes

1. One set for the borrowers and another set for the officers of MFIs.
2. Loan officers and branch managers disagreed to talk before the voice recorder. Researcher was permitted to take notes only.
3. No borrower mentioned any fixed sum of income. Besides, they seemed hesitant to disclose this information.
4. Some microfinance institutes do financing to go overseas to work expecting the loan to be paid by remittance. This type of loan is offered under pre-departure loan programme (Martin, 2009).

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