

## Over-Indebtedness in Nepalese Microfinance Institution – A Study of Clients of Nirdhan Utthan Bank

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### Abstract:

**T**his paper analyses the over-indebtedness of micro-borrowers of Nirdhan Utthan Bank in Birgunj, Nepal. Descriptive analytical research design is attempted to explore the scenario of factor of over-indebtedness and impact of multiple borrowing. The research is primary data based on 150 sample respondents from Birgunj and convenient and structured questionnaire had been used to collect response of the respondents and data was collected through face to face interview with the clients. In this study majority of the clients are involved in multiple borrowing 82 %, it finds that loss of income and multiple borrowing is the major factor that leads to over-indebted. The paper also shows the association between factors of over-indebtedness and multiple borrowing and how frequently micro-borrower repeats them and for this cross tabulation analysis and chi-square test was used to analyze the data. The results show that over-indebtedness is significantly associated with multiple borrowing. The risk of over-indebtedness further increases with the occurrence of multiple borrowing. Results show that small size of loans issued by MFIs and needs of the clients was one of the major reasons for multiple loans contracts. Other reasons for multiple borrowing include family obligation, loan recycling, and relaxed or simple loan procedures, and influence from friends who are taking multiple loans, delayed loan disbursement from the MFIs in which the client first applied.

**Keyword:** Microfinance institution, Multiple borrowing, debt-to-income ratio, Nirdhan Utthan Bank, loan, income, poverty.

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### I. INTRODUCTION

Microfinance institutions have been celebrated for its potential to reduce poverty while simultaneously being financially sustainable or even profitable. However, a number of crises in the industry have recently threatened both financial sustainability and the industry's social reputation. As the social mission of microfinance industry gives specific importance to protecting the interest of customer, 2008/2009 global banking crises has pointed out that an unsustainable financial services offer based on irresponsible lending implies risk for the industry as a whole. In this context, over-indebtedness is currently one of the most serious risks of microfinance, endangering both social impact and industry stability. It has the potential to push customers further into poverty, accompanied by the material, psychological and sociological consequences of debt. Increasingly rigorous impact studies are questioning the original impact and poverty alleviation of microfinance (Banerjee, Karlan, & Zinman, 2015).

Microfinance is facing trouble because the purity of its mission has been diluted. When it was started, microfinance was a financial tool being used for social good. Now it has increasingly become a social tool used as a way to generate money, which is why it has lost a lot of its original mission. This is one reason why microfinance have default crisis. A number of rigorous field studies have shown that even when lending programs successfully reach borrowers, there is only a limited increase in entrepreneurial activity and no measurable decrease in poverty rates.

Micro-financiers believe that direct evidence is not needed, that as long as microfinance institutions demonstrate high "repayment rates," they can be assumed to be improving lives. The logic goes that if a person is able to repay their loan with interest, they must have used it productively. But this argument flies in the face

of most studies. It is true that many studies have been conducted on the impact of microfinance, but not all of them are flawless. The few – and recent – stronger studies show mixed effects. Critics say the industry has grown too fast, creating multiple loans to overextended borrowers. Indebtedness has been a problem in several other countries. A study on indebtedness in microfinance by the Institute for Financial Management and Research, a not for profit research organization, has found that 23% of the MFI clients in its sample were over-indebted. The study also found that the drivers of over-indebtedness include low or unstable income, multiple borrowings, high loan sizes, poverty levels, use of loans and cross borrowings

Over-indebtedness has become one the biggest current risks in microfinance. However, its consequences can spill over to the investor, donors and the microfinance sector. In several countries such as Bosnia, Morocco, Nicaragua, Pakistan, and India, an over-indebtedness crisis among microfinance clients has already materialized. Over-indebtedness occurs when an individual's takes loans beyond his/ her capacity to repay. A low income individual who falls into such a situation will suffer hardships, as basic needs will have to compete with loan obligation for limited funds. For a poor microfinance client, this could mean skipping meals in favour of making a loan payment or defaulting on the loan. Clearly, no microfinance institutions (MFIs) would want any of their clients to be trapped. However, more and more cases of over-indebtedness are being reported. MFIs cite over-indebtedness as one of the top reason for delinquent account.

## **II. THEORETICAL BACKGROUND**

Over-indebtedness is one of the major risks for the microfinance industry, but there is little research on its prevalence in microfinance market. A low income individual who falls into such a situation will suffer, as basic needs will have to compete with loan obligations for limited funds.

In defining over-indebtedness, we note the fact that there is still no conceptual consensus on what constitute over-indebtedness and how it ought to be measured. Moreover, all of the indicator used to measure over-indebtedness so far have certain limitations. Over-indebtedness is the outcome of the 'ethics of conviction' of MFIs (Schmidt R. , 2012). (Canner & Luckett, 1991) treat over-indebtedness when the debt problems are structural and persistent over a certain time horizon. Over-indebtedness from client sacrifice perspective when a customer continuously struggle to meet repayment deadlines and has to make undue sacrifice related to his/her loan obligations that has more than transitory effects (Schicks, 2013). Some researchers and practitioners measure it as the debt service ratio (Collins, 2008). It also excludes the borrowers who strategically default or deliberately accumulate unsustainable amount of debt (Schicks, 2013). Over-indebtedness in this case, not only harms the poor clients, but also causes the investors to lose confidence in MFIs when the MFIs make losses and suffers negative growth. So, it not only causes problem to these troubled MFIs, but also spillover another MFIs, put the whole industry in question (Gonzalez A. , 2008). Over-indebtedness also worsens borrower's social-economic and psychological situations rather than improving their living condition from debt use. (Guerin & Roesch, 2009) treated microfinance as the 'double edged sword'; it can either reduce financial vulnerability or push the household's further debt. It contradicts social mission of microfinance, exacerbate poverty level of borrower, threatens their social and economic position, and push them into mental and psychological disorders (Shicks & Rosenberg, 2011). It causes borrowers to reduce their consumption, sale of income generating assets, stop their children from school (Schicks, 2013). The extreme form of this evil act is bonded labor or slavery, suicide, sexual harrasment and prostitution when they fail to repay the loan in due time (Churchil & Guerin, 2004). Regarding, it the study identify what are the major factors or indicators that could lead to over-indebtedness?

Cross Borrowing is taking loan from multiple MFIs. (Wisniwski, 2010) stated, key reasons for multiple borrowing are clients struggling and loan pushing from the MFIs side and loan recycling from the borrowers' side. Few studies find that multiple borrowing has a positive influence on loan repayment and sustainability of MFIs (Krishnaswamy K., 2007). But number of studies like (Mpogole, Mwaungulu, Mlasu, & Lubawa, 2012) and (Wisniwski, 2010) show that the influence is negative. Krishnaswamy K. (2007) argues about the direct positive impact of multiple borrowing on loan repayments. He found multiple borrowers performing equally or better in loan repayment than those who had single loan in the same villages. But this finding is not quite consistent with the other works on the similar topics. A number of occurrences of failure to repay because of multiple borrowing have been found by different researchers which is very much contradictory with the findings of (Krishnaswamy K., 2007). For instance Chaudhury & Matin (2002) found that there had been dramatically increasing households in Bangladesh those take multiple loans from different MFIs and their repayments rate

had been declining. Occurrences like these had been found in Bolivia, Morocco, Bosnia, Herzegovina and Nicaragua (Wisniwski, 2010). It had been found from different studies that multiple borrowers had increasingly high debt levels and repayment obligations, which they frequently could not bear out because of over-indebtedness. So, the question that needs to be address is do borrowing from multiple sources simultaneously increase risk of over-indebtedness? And what are the reason and effects of multiple borrowing?

Depending on their financial and household situation, borrowers vary significantly in their capacity to handle debt. The indicators of absolute debt amount do not take these differences into account. It is therefore common in the consumer finance literature to use the ratio of a borrower's debt burden relative to his or her financial capacity as an indicator of debt and repayment problems. The most common measure is the debt-to-income ratio, i.e. a borrower's monthly repayment burden related to monthly income (Rinaldi & Sanchis-Arellano, 2006). Microfinance specific research equally uses debt-to income ratio as measures of over-indebtedness (Collins, 2008) and confirms that the debt-service ratio is correlated with subjective debt stress (Krishnaswamy K, 2007). Hence weather does the debt-to income ratio is related to over-indebtedness as a measure of repayment burden relative to financial capacity? Is the another focus of the study.

### **III. PURPOSE OF THE STUDY**

The general objective of this research is to study the case of over-indebtedness of clients of Nirdhan Utthan Bank, Birgunj. The specific objectives of this study are below:

- a) To identify the factors of over-indebtedness in micro finance institutions.
- b) To assess the association between over-indebtedness and multiple borrowing.
- c) To measure the incidence of multiple borrowing, reason of multiple borrowing and effects of multiple borrowing by microfinance borrower.
- d) To assess the association between age and source of debt payment.
- e) To find out the association between number of people in household and number of loans from micro finance institutions.
- f) To explore the association between education and multiple loans participants.

### **IV. RESEARCH METHOD AND DATA**

The study is mainly a primary data-based descriptive analytical research. The populations of the research are all the clients of Nirdhan Utthan Bank and the sample include its clients from Birgunj, Parsa district, Nepal. The total clients size of Birgunj is 4327 among which, 150 were selected as sample as per the convenience. The valid response was 144, representing 96 percent response rate. Primary source of data is the microcredit borrower from Birgunj who are involved in any sorts of micro-credit program for last few years. As well as different articles from journals, books, websites and published reports had been reviewed for this study.

A structured questionnaire was developed based on a theoretical review for the purpose of collecting primary data. The questionnaire was filled up by interviewing the clients in Bhojpuri and Nepali language and then translated into English before processing through SPSS. The questionnaire was designed to collect various information regarding over-indebtedness, multiple borrowing and debt-to-income ratio.

### **V. RESEARCH HYPOTHESIS**

*Ho<sub>1</sub>: There is no significant relationship between over-indebtedness and multiple borrowing.*

*Ha<sub>1</sub>: There is significant relationship between over-indebtedness and multiple borrowing.*

*Ho<sub>2</sub>: There is no significant relationship between age of the respondent and sources of debt payment when regular household income is not enough.*

*Ha<sub>2</sub>: There is significant relationship between age of the respondent and sources of debt payment when regular household income is not enough.*

*Ho<sub>3</sub>: There is no significant relationship between number of people in household and number of loan from MFIs.*

*Ha<sub>3</sub>: There is significant relationship between number of people in household and number of loan from MFIs.*

*Ho<sub>4</sub>: There is no significant relationship between educational qualification and multiple loan participants*

*Ha<sub>4</sub>: There is significant relationship between educational qualification and multiple loan participants*

### **VI. ANALYSIS**

This research is a descriptive study pointed toward obtaining a general depiction of the over-indebtedness, impact of multiple borrowing, reasons for multiple borrowing and associated effects of over-

indebtedness and multiple borrowing. To attain the objectives of this research, this part of the study analyze the collected responses of the respondents against a structured questionnaire. Statistical analysis like frequency distribution, cross-tabulation, chi-square test and other graphical tools (bar chart, pie chart etc.) had been used to conduct and present the analysis on collected data.

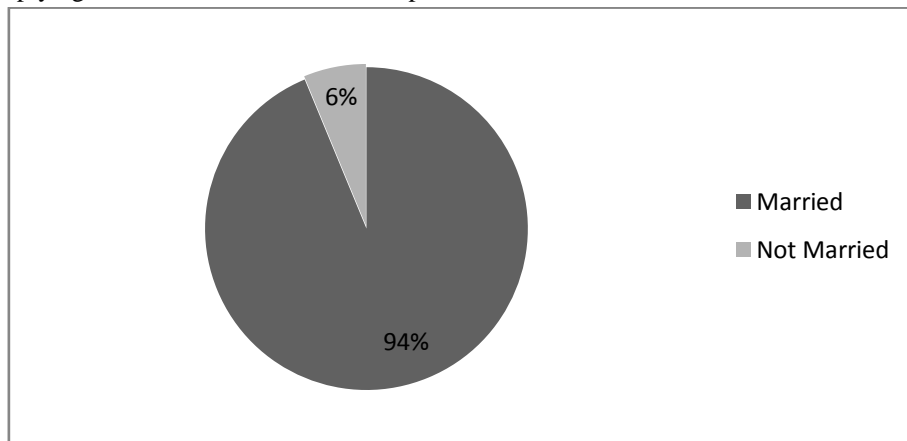
**VII. RESPONDENTS PROFILE ANALYSIS**

In order to get better understanding of the loan borrower demographic data of the respondent were collected from the questionnaire. The survey contains 12 individual questions. The survey was conducted among the clients of Nirdhan Utthan Bank Limited of Birgunj. The responses indicating different demographic of the respondent like age, gender, educational qualification and borrower household size is presented in the section that follows.

Out of 150 respondents selected as for the convenience of the researcher, 144 were valid responses resulting in response rate of 96% were the majority of the respondent are female. The percentage of male microfinance customers at most MFIs is small.

**A. Marital Status**

The Figure 1 represents the marital status of the respondents. Out of the total responses i.e. 144, 94 percent of them are married and 6 percent are unmarried. Therefore, majority of the respondents under the study are married implying the domination of married respondents.

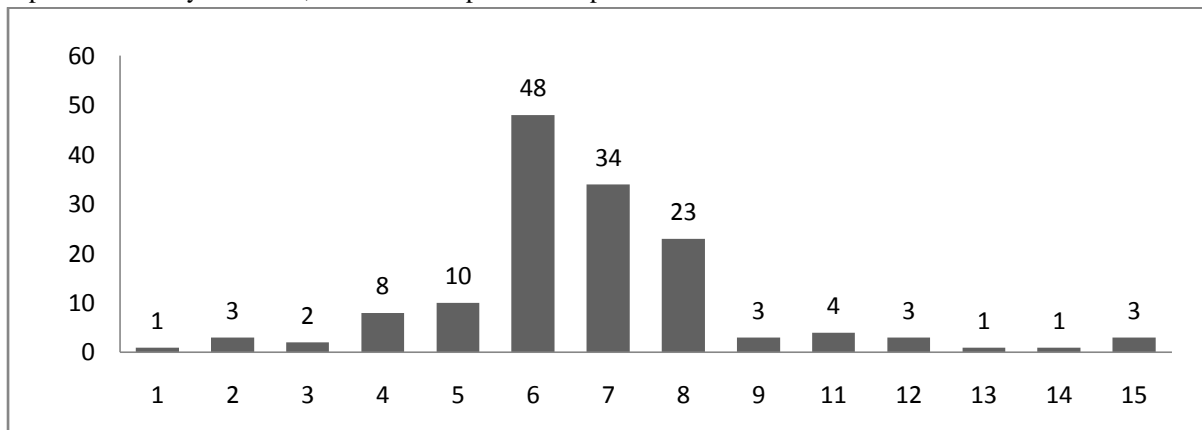


Source: Appendix 2(A)

**Figure 1: Marital Status**

**B. Number of People in Household**

Figure 2 shows the household size of respondent. The household size of respondent varied form single person household to up to 15 members in the family. Majority of the respondent in the study have 6 to 7 dependents family members, while four respondents reported a total household size of eleven individuals.

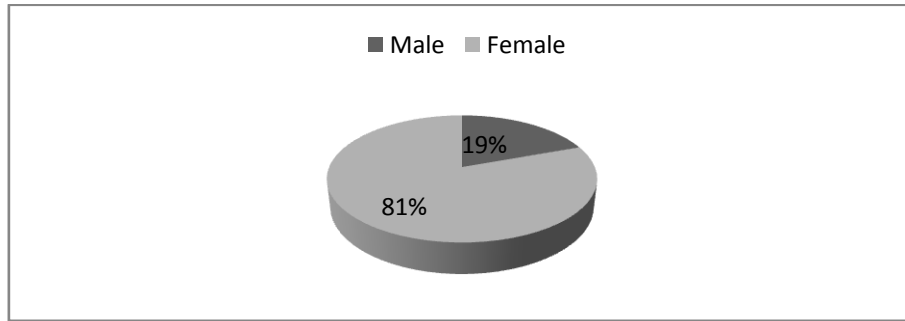


Source: Appendix 2( D)

**Figure 2: Number of People in Household**

**C. Gender**

As per the respondent profile presented in Figure 3, out of the 144 survey respondents, about 19% were male while the remaining about 81% was female. Since our sample was random this reflects the current situation where majority of the MFIs focus their loans to women. It was expected that men would have more multiple loans than women because are less risk averse as compared to women (Olomi, 2009).

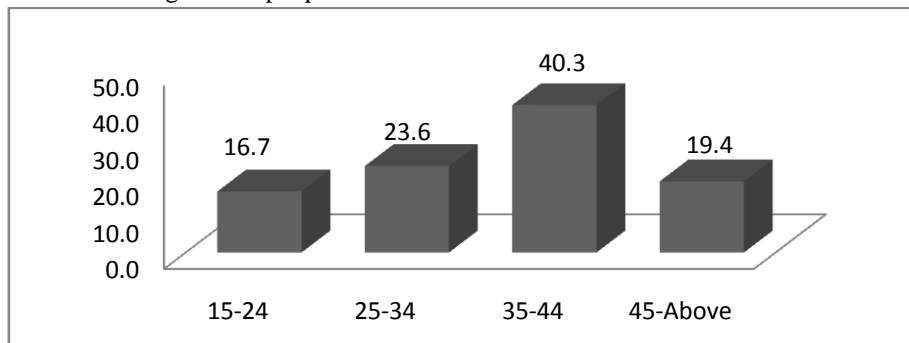


Source: Appendix 2 (C)

**Figure 3: Gender**

**D. Age of Respondent**

Figure 4 displays the age-wise classification of the respondents where 16.7 % of respondents belong to 15-24 years of age category, 23.6 % belong to 25-34. And the remaining 19.4% comprises of 45-above age groups. It is found from the analysis that nearly 80% of population falls between 15 and 44. It was expected that older people would have more loan contracts than younger ones reflecting the family obligations, since clients of 45 years of age or above were negligible; it either means that older people were not engaged in small businesses or MFIs discouraged such people.

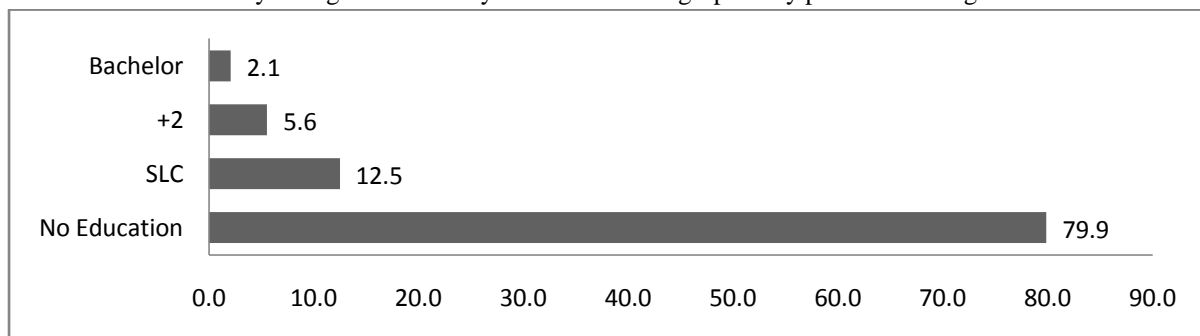


Source: Appendix 2 (B)

**Figure 4: Age of Respondents**

**E. Formal education of Borrowers**

The education qualification was divided into four different segments starting from “No formal education” to “Higher secondary or above” level of education as indicated in figure. Majority of the respondent, 79.9 percent, had no formal education. 12.5% of respondent had education up to SLC). From the data the literacy rate among the respondent was low that is 20.2% are well educated those took higher secondary education or went to any college or university. The statistics is graphically presented in Figure 5.



Source: Appendix 2 (E)

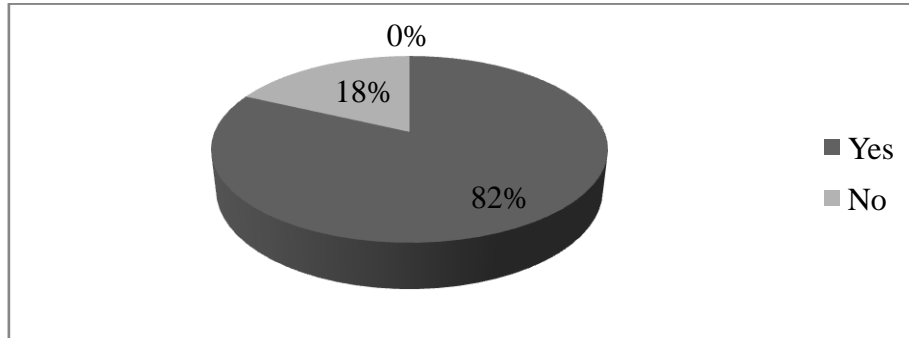
**Figure 5: Formal Education of Borrowers**

**VIII. ANALYSIS OF MULTIPLE BORROWING**

After examining the frequency results from the surveys, several interesting patterns emerged from the responses to key questions that warrant examination and further consideration.

**Involve in Multiple Borrowing**

The study attempted to measure the prevalence of multiple borrowing by asking the respondents directly about the number of MFIs they are involved in multiple borrowing. The data shows those respondents are involved in taking multiple loans (82%).

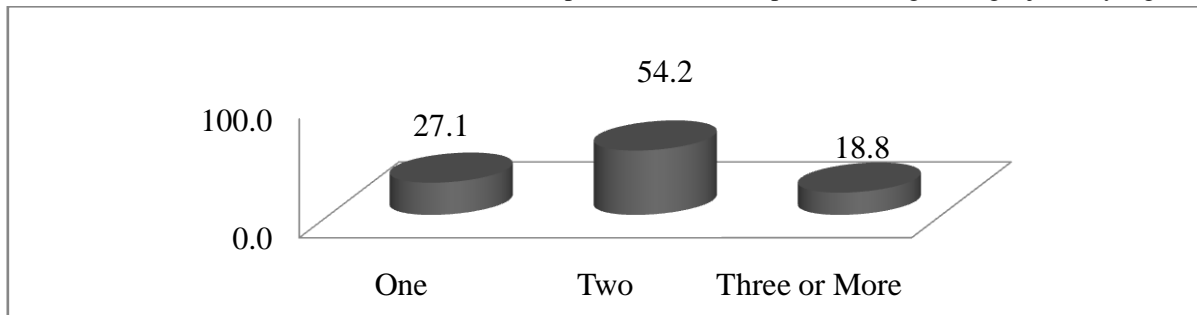


Source: Appendix 3(A)

**Figure 6: Involve in Multiple Borrowing**

**A. Number of Loan from MFIs**

Figure 7 indicate that about 73% of all survey respondents had two or more loan contracts with different MFIs at the same time. This shows that the prevalence of multiple borrowing at Birgunj is very high.

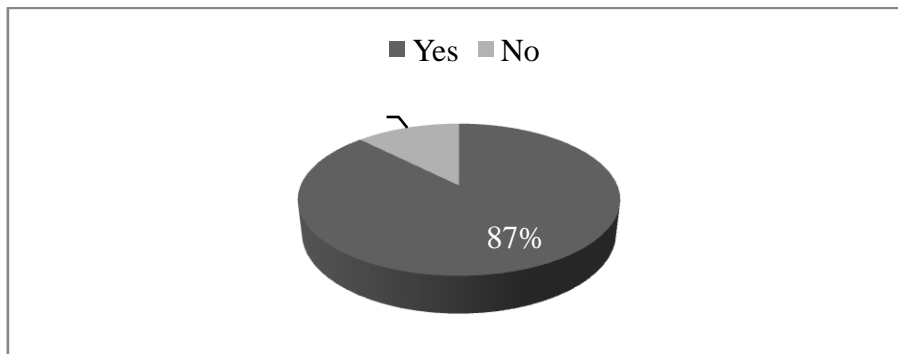


Source: Appendix 3(B)

**Figure 7: Number of Loan from MFIs**

**B. Loan from Informal Borrower or Lender**

Figure 8 presents the status of informal borrowing and lending situation of the clients of micro-finance institutions. In addition to multiple loan contracts with MFIs, about 13% of all survey respondents had borrowed from informal borrower or lender.

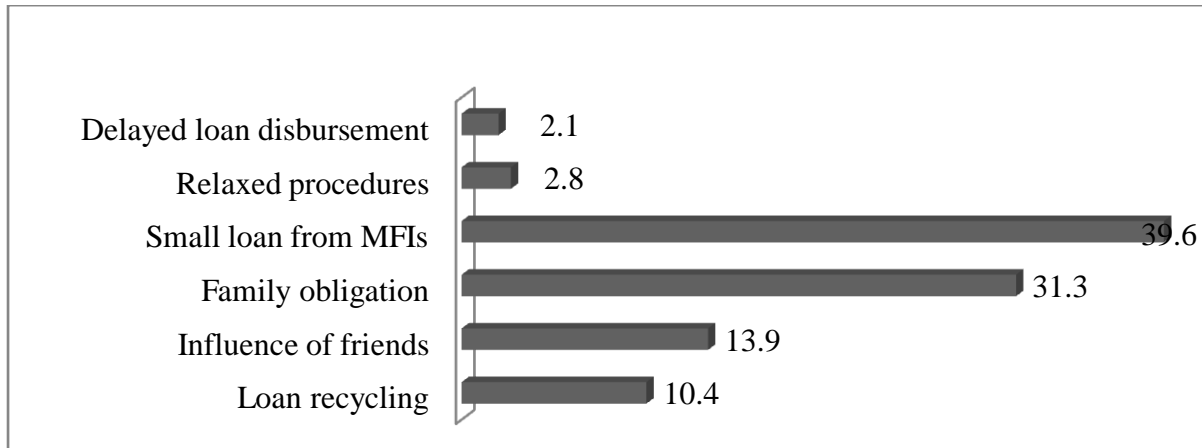


Source: Appendix 3(C)

**Figure 8: Loan from Informal Borrower or Lender**

**C. Reasons for Multiple Loan**

Figure 9 mentions the major reason for multiple loan contracts. Results show that the mismatch between the size of loans issued by MFIs and needs of the clients was one of the major reasons for multiple loans contracts. During the interview, it was found that some MFIs provide small loan. These amounts are too small to conduct any meaningful business; as such clients have to take loans from different sources to reach their goals. Other reason for multiple borrowing include family obligation, loan recycling, and relaxed or simple loan procedures, influence from friends who are taking multiple loans, delayed loan disbursement from the MFIs in which the client first applied. Family obligation is the second highest (31.3%) after small loan (39.6%). This means that although MFIs provide loans for running businesses, clients used the loan for family obligation as well.

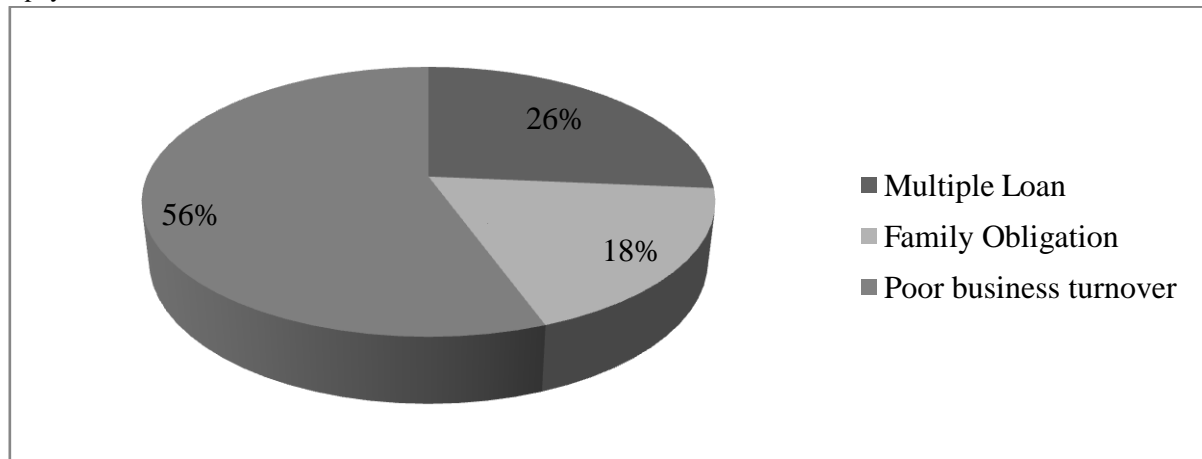


Source: Appendix 3(D)

**Figure 9: Reason for Multiple Loans**

**D. Reason for Late Payment**

Figure 10 shows the reason for late payment. Multiple borrowing was one of the major reasons for failure to repay on time. Although the other reason such as family obligation, and poor business turnover were mentioned. The major reason remains to be multiple borrowing. The argument backed by the fact that about 73% of all survey respondents had two or more loan contracts. Hence, our finding is consistent with previous studies that multiple borrowing among the poor increases their indebtedness, which threatens their ability to repay.

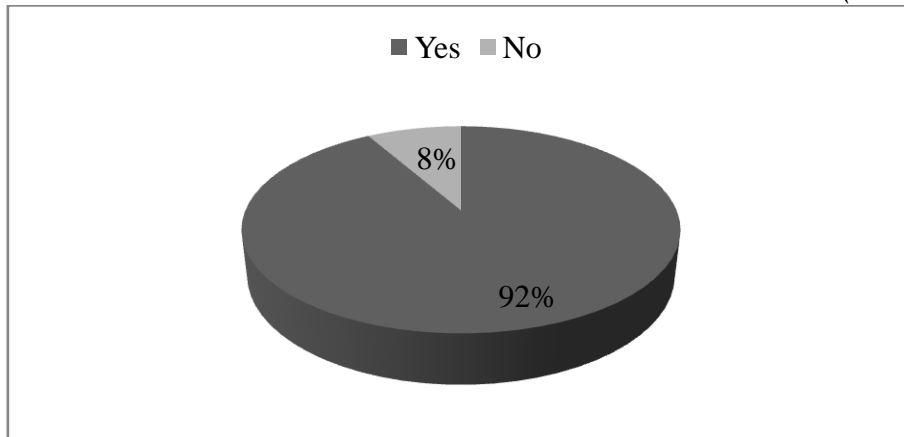


Source: Appendix 3(E)

**Figure 10: Reason for Late Payment**

**E. Incidence of Late Payment**

The incidence of late payment is presented in the Figure 11. From the data we can say that incidence of late payment is high. About 92% of all survey respondents admitted to often face the problem. Multiple borrowing was one of the reasons for late payment.



Source: Appendix 3(F)

**Figure 11: Incidence of Late Payment**

### IX. ANALYSIS OF OVER-INDEBTEDNESS

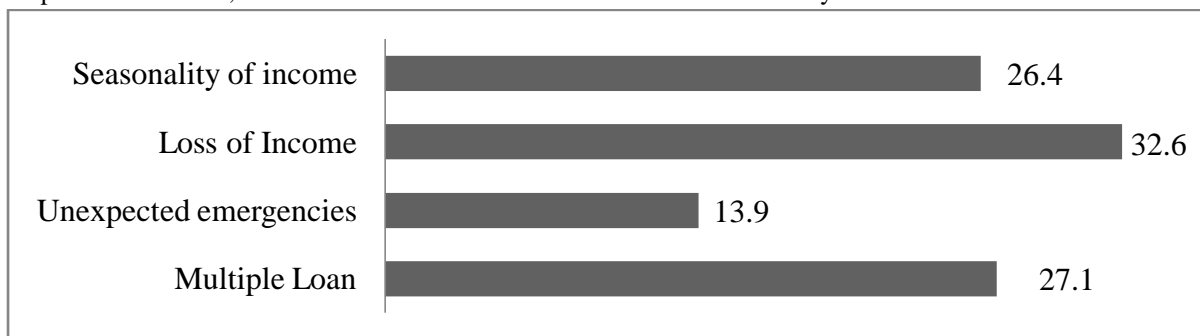
Respondents cited loss of income, multiple borrowing, unexpected emergencies, and seasonality of income as the most prevalent drivers of over-indebtedness.

#### A. Factor of Over-indebtedness

The Figure 12 reflects the factor of over-indebtedness. The most common reason for borrowing more is loss of income (32.6%). Clients become over-indebted when expected income does not materialize. This may be due to unstable nature of client's business and unemployment which creates financial difficulties and taking additional loans.

In addition to loss income, seasonality income and expenses (26.4%) are other drivers of over-indebted. Like, in rainy season they may have problem in loan payment. For clients whose business depends on customers from agriculture sector, sales usually dip in the times of planting, and peak in times of harvest. Seasonality income and expenses also leads to financial difficulties and can result in over-indebtedness. Further multiple borrowing also contributes to over-indebtedness.

An unexpected emergency is another driver of over-indebtedness. Clients can suffer from sickness of family members and accidents can occurs at any time. This makes them to purchase medicines and possibly hospital confinement, while it reduces income of the household from inability of sick member to work.



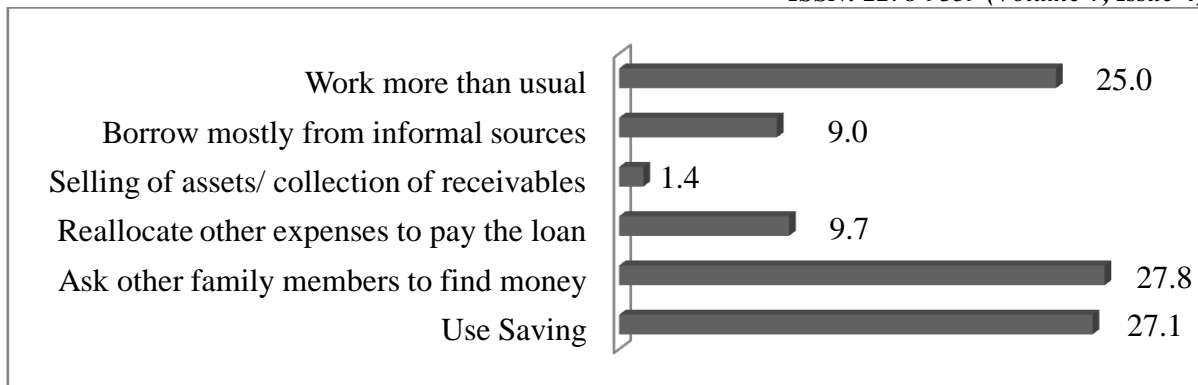
Source: Appendix 4(B)

**Figure 12: Factor of Over-indebtedness**

#### B. Source of Debt Income When Insufficient Regular Household Income

Whenever income of respondent falls short, participants result to several ways to come up with money for loan repayments. Among them work more than usual, borrow from informal sources, selling assets, reallocate other expenses, ask other family member to find money and some of them use their saving. The most common approach is to borrow from informal sources (9%). Majority of the respondent find easy to ask other family members to find money (27.8%). Similarly, some of the respondent use saving to payback their loan when household income is enough. Only 1.4% of the respondent are pressurize to sell their assets (Figure 13).





Source: Appendix 4(A)

**Figure 13: Source of Debt Income When Insufficient Regular Household Income**

### X. CHI-SQUARE ANALYSIS

Chi-square test was used to determine whether there is a significant association between the two variables. It is a test to measure the categorical variables. To make analysis more precise and clear hypothesis was used.

#### A. Over-Indebtedness and Multiple Borrowing

The cross-tabulation analysis describes the connection between over-indebtedness and their behavior in case of multiple borrowing. The following tables (1-2) show that borrower's behaviors towards multiple borrowing are affected by factor of over-indebted.

**Table 1: Cross-tabulation Analysis (Over-indebtedness and multiple borrowing)**

Factor of Over indebtedness	Involve in Multiple Borrowing		Total
	Yes	No	
Multiple Loan	37 94%	2 6%	39 100%
Unexpected Emergencies	12 60%	8 40%	20 100%
Loss of Income	37 79%	10 21%	47 100%
Seasonality of income	32 84%	6 16%	38 100%
Total	118 81%	26 19%	144 100%

Source: Appendix 6(A)

The first Hypothesis ( $H_{01}$ ) is tested at this stage to check if there is any relationship between factor of over-indebtedness and multiple borrowing. Chi-square test is used to test the hypothesis.

**Table 2: Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.376 <sup>a</sup>	3	.010

Source: Appendix 5(A)

Null Hypothesis: There is no significant association between factors of over-indebtedness and multiple borrowing. Since p-value of chi-square statistics is lesser than 5 percent level, null hypothesis is rejected. This means that there is significant association between the factor of over-indebtedness and multiple borrowing. These results suggest that individuals with multiple borrowings were at a higher risk of default.

**B. Age and Sources of Debt Payment When Household Income is Enough**

This table describes the connection between ages of the respondents and their behavior in case of sources of debt payment when household income is not enough. The following tables (3-4) show that sources of debt payment are affected with ages of the respondent.

**Table 3: Cross - tabulation Analysis (Age and Sources of Debt Payment When Household Income is not Enough)**

Age of respondent	Scale of Response						Total
	Use Saving	Ask other family members to find money	Reallocate other expenses to pay the loan	Selling of assets/ collection of receivables	Borrow mostly from informal sources	Work more than usual	
15-24	8 33.33%	9 37.5%	2 8.33%	0 0%	0 0%	5 20.84%	24 100%
25-34	12 35.3%	11 32.36%	1 2.94%	1 2.94%	2 5.89%	7 20.58%	34 100%
35-44	15 25.86%	10 17.25%	9 15.51%	0 0%	7 12.068%	17 29.32%	58 100%
45-Above	4 14.28%	10 35.73%	2 7.15%	1 3.58%	4 14.29%	7 25%	28 100%
Total	39 27%	40 28%	14 10%	2 1%	13 9%	36 25%	144 100%

The second Hypothesis (Ho<sub>2</sub>) is tested at this stage to check if there is any relationship between age of the respondent and scale of responses. Chi-square test is used to test the hypothesis.

Null Hypothesis: There is no significant association between age and scale of responses Since p-value of chi-square statistics is greater than 5 percent level, null hypothesis is accepted. This means that there is no significant difference association between age and scale of responses.

**Table 4: Chi-Square Test**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.337 <sup>a</sup>	15	.245

Source: Appendix 5(B)

**C. Number of people in Household and Number of loans from MFIs**

Connection between number of people in household and number of loan taken is shown hereafter through cross tabulation.

Here borrowers having 3 to 5 members are less involving in multiple loan. On the other hand, borrower with higher number of dependents in the family (6 or above) are participating more in multiple loans. This indicates a relationship between number of dependents in the family and participation in multiple loans.

To check if there is any relationship between number of people in household and their tendency to take multiple loans, third hypothesis (Ho<sub>3</sub>) was set. Null hypothesis will be rejected if calculated chi-square statistics is less than 5% and will be accepted when the chi-square statistics is greater than 5%. (Table 5-6).

**Table 5: Cross-tabulation Analysis (Number of People in Household \* Number of Loans from MFIs)**

Number of People in Household	Number of loans from MFIs			Total
	One	Two	Three or More	
1	0	0	1	1
2	0	3	0	3
3	1	1	0	2

4	1	5	2	8
5	5	3	2	10
6	13	27	8	48
7	13	20	1	34
8	3	12	8	23
9	0	0	3	3
11	2	1	1	4
12	1	2	0	3
13	0	0	1	1
14	0	1	0	1
15	0	3	0	3
Total	39	78	27	144

Source: Appendix 6(C)

Since p-value of chi-square statistics is lesser than 5 percent level, null hypothesis is rejected. This means that there is significant difference association between number of people in household and tendency of taking multiple loans.

**Table 6: Chi-Square Tests**

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	45.684 <sup>a</sup>	26	.010

Source: Appendix 5(C)

**D. Education and multiple loan participants**

The following table (7-8) shows the connection between the level of education of the respondent and their behavior toward multiple borrowing. Here, relatively higher educated borrower (+2 or bachelor) show less interest in multiple borrowing from others. In facts, participants of these groups of respondent are low even in the microfinance industry.

**Table 7: Cross-tabulation (Education and Multiple Loan Participants)**

Education	Involve in multiple borrowing		Total
	Yes	No	
No Education	115 100%	0 0%	115 100%
SLC	0 0%	18 100%	18 100%
+2	2 25%	6 75%	8 100%
Bachelor	1 34%	2 66%	3 100%
Total	118 81%	26 19%	144 100%

Source: Appendix 6(D)

Here, the fifth hypothesis (Ho<sub>5</sub>) is tested to check if there is any relationship between educational qualification of the respondent and their tendency to take multiple loans. Null hypothesis will be rejected if chi-square statistic is below 5% level of significance and accepted if chi-square statistic is above 5% level.

**Table 8: Chi-Square Tests**

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	129.356 <sup>a</sup>	3	.000

Source: Appendix 5(D)

Calculated chi-square value is less than 5 % level of significance. That null hypothesis is rejected. That means there is significant association between the educational qualification of respondent and multiple loan participants.

## **XI. CONCLUSIONS**

The main objective of this study is to identify the factors of over-indebtedness and to measure the incidence of multiple borrowing, reason of multiple borrowing and its effect of multiple borrowing by microfinance borrower on loan repayment. On the other hand, dependent and independent variable were assessed to analyze the association between them.

This study has revealed some of the problems with the current microfinance industry in this particular study area. The study has shown that microfinance, in its current form, has been ineffective for many of its borrowers and long term effects of these programs are not yet known. However, the increasing number of microfinance institution and lack of monitoring institution will increase the number of client taking loan from multiple institutions, not only this at the time of problem that take loan from informal borrower or lender this may over-indebtedness the borrower and the poverty may in fact prove harmful to economic systems in developing countries.

Providing loan to borrower is good for economic development of the country. When income falls short to meets needs, they borrow and even in times when an outstanding loan is due for repayment and there is not enough money on hand, they also borrow from others informal sources. It is clear to borrower that continuing access to credit is dependent on good repayment record, they take extra effort to maintain a good credit record even if it means skipping a meal to come up with the amount needed.

From the above result the major factors of over-indebtedness are loss of income, multiple borrowing, unexpected emergencies, and seasonality of income. This study has identified loss of income as the main driver that turns credit from a source of relief to a burden. Clients become over-indebted when expected income does not materialize which may be due to irregularity, instability or vulnerability of the household income. Getting out and staying out of over-indebtedness is difficult and time consuming according to borrower in the study. Three insights can be drawn from client's strategies to address over-indebtedness. First, clients need training and awareness program to build-up their income base towards stability and sustainability. Second, in times of plenty, clients will do well to save. Clients need convenient and safe saving facilities to develop the habit of saving more and borrowing less. Third, clients can benefit from access to micro insurance to prepare them to face emergencies and unexpected events. Another common driver of over-indebtedness is multiple borrowing, as seen in the study loan are easily available, and borrowing can even occur within on institution on easy terms. Clients affirm that in times of sudden need, in particular, it is easier to access loans than to generate extra income.

The study also shows the sources of debt payment when regular household income is not enough. When income falls short, participants resort to several ways to come up with money for loan repayment. The most common approach is to borrow from informal sources. This type of borrowing is based on goodwill founded on a long-standing relationship. Saving is also used for loan payments. Most of clients start saving from the beginning of their earning to pay back their loan. Incidence of late payment is high; the multiple borrowing was one of the major reasons for failure to repay on time. Although the other reason such as family obligation, poor business turnover was mentioned. The major reason remains to be multiple borrowing. The arguments backed by the fact that about 73% of the survey respondent had two or more loan contracts. Hence, our finding is consistence with previous studies that multiple borrowing among the poor increases their indebtedness, which threatens their ability to repay.

This is clearly visible from the analysis that people with multiple borrowers are having more trouble in timely repayments. Above 91.5% of the borrowers those have two, three or more loans from MFIs, admit their failure to repay their debts timely. On the other hand, respondent having single loan seemed to be more successful in their loan repayments.

The study found that there is significant association between the factor of over-indebtedness and multiple borrowing. When income falls short to meet needs and outstanding loan become due for repayment they borrow from other sources which lead to multiple borrowing. Similarly, number of people in household and tendency of taking multiple loans, educational qualification of respondent and multiple loan participants both have significant difference association between them. On the other hand, there is no significant association between age and scale of responses.

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