

Multiple Borrowing and Loan Repayment: A Study of Microfinance Clients in the Trincomalee District

D.Ravichandran¹

Studies on multiple borrowing and its effect on loan repayment among clients and the sustainability of microfinance providers show contradicting results. Some studies indicate that multiple borrowing has a positive effect on loan repayment and the sustainability of Microfinance Institutions (MFIs) while others show that it leads to over-indebtedness and consequently defaults on loans. Therefore, this study analyzed the incidence of multiple borrowing, reasons for multiple borrowing, and effects of multiple borrowing on loan repayment in the Trincomalee District. The target population comprised of a total of 12,340 loan borrowers out of which a sample of 100 was picked using stratified simple random sampling, which enabled every member of the population to have an equal and independent chance of being selected as respondents. It was also the simplest, most convenient and bias free selection method. The data was collected with the use of self-developed questionnaires issued to the microcredit borrowers, in depth interviews with microcredit group leaders and MFIs' Manager and staff. The data was analyzed by using statistical software (SPSS V 21) and tabulated using tables and figures. Results show the prevalence of multiple borrowing in the Trincomalee District was very high. Over 80% of the 100 microfinance clients had at least two loans from different MFIs at the same time. In addition, about 41% also borrowed from individual lenders. Major reasons for multiple borrowings were loan recycling, insufficient loans from MFIs, and family obligations. Over 70% of the respondents had problems in loan repayment because of multiple pending loans. It was found that the age group, number of dependents of the respondent, previous loan settlement and inadequate loan amounts provided by MFIs significantly influenced the number of loan contracts. Further, the findings revealed that most borrowers did not spend the loan amount on intended and agreed purpose and that, as a result, they did not have adequate returns to repay the loan. Recommendations are provided in the study.

Key words: *Loan repayment; Microfinance; Microfinance institutions; Multiple borrowing;*

¹ Department of Business and Management Studies, Faculty of Communication and Business Studies, Trincomalee Campus, Eastern University Sri Lanka., mdiluxshy@yahoo.com