

Drifting into Debt? Voices of the Salaried Poor in Bangladesh



By Nadine Vickers

The debt problem...

“We are a family of five, but I’m the only income earner. Expenses exceed income, and I have to take loans.”

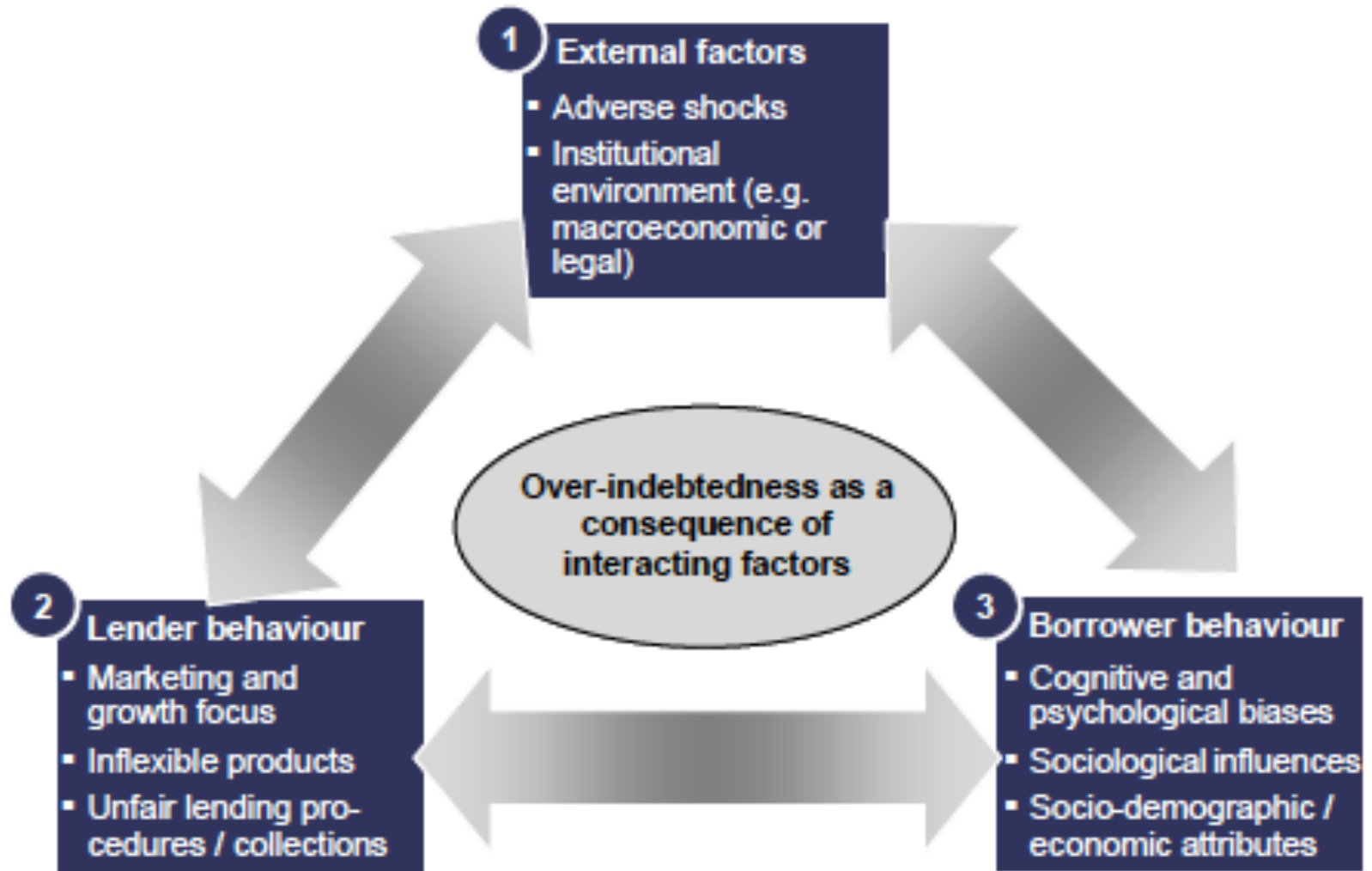
*** This paramedic earned \$229/month**

- Household expenses \$115
- Loan repayments \$136 (54% of income)
- Compulsory savings \$26

*** Borrowed \$64** from friends/family to
make repayments on existing loans

HOUSEHOLD DEBTS: \$1,700 (8 months salary)

Three Drivers of Over-indebtedness

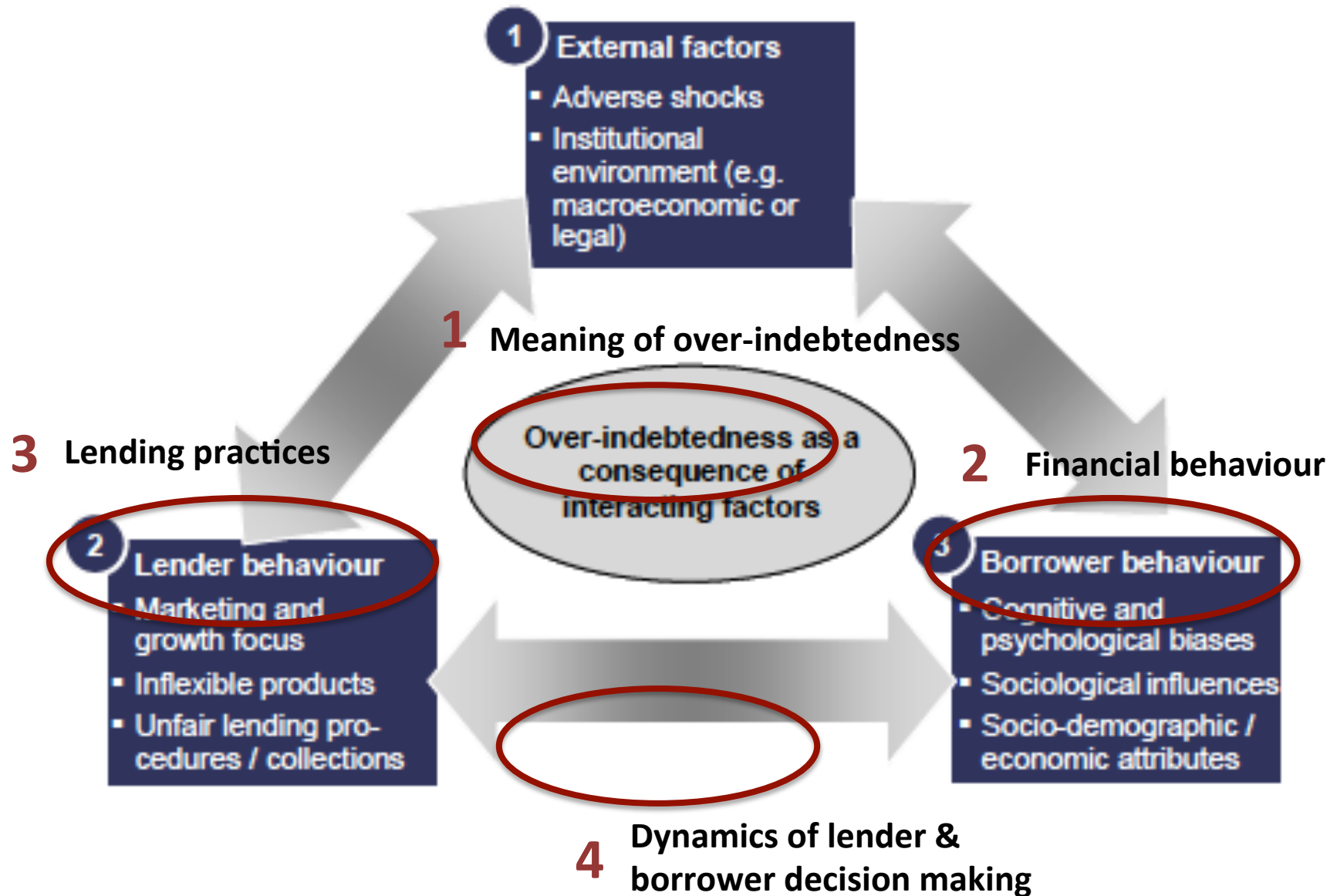


Research Objectives:

1. Understanding of **household over-indebtedness**
2. Explore **financial behaviour** of **salaried micro-borrowers** and reasons for indebtedness
3. Examine borrowers' perceptions of the **lending practices** of **microfinance providers**
4. Lender and borrower **decision-making** & how this ***influences*** risk of over-indebtedness

Using case study of Kailakuri Health Care Project

Three Drivers of Over-indebtedness



Research Methods

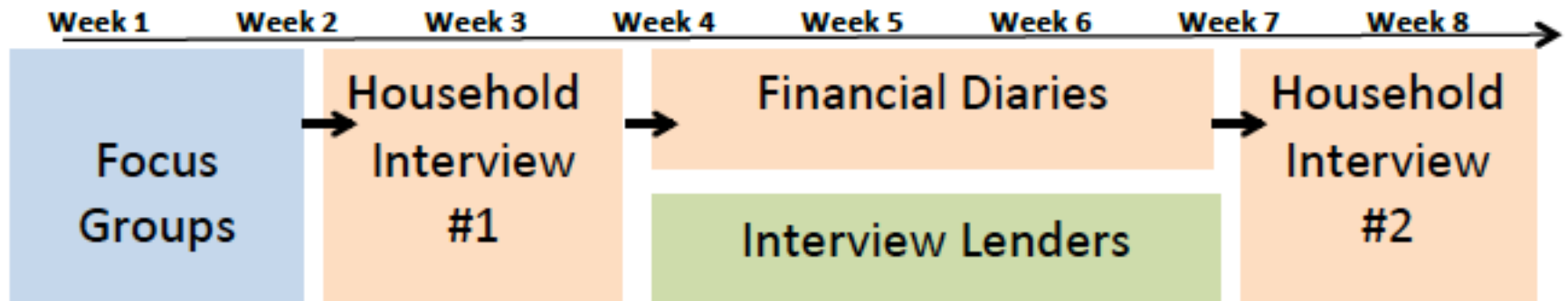
FOCUS GROUPS – 24 **salaried microborrowers**

INTERVIEWS & FINANCIAL DIARIES – 7 **over-indebted households**

- DEBT equiv. to 4- 20 months salary

INTERVIEWS – 11 **microfinance providers**

- **Multiple credit sources:** moneylenders, NGOs, Credit Union, committee, bank, govt dept, haolats, shop credit



Key Finding #1: Indicators of Household Over-Indebtedness

1. Lenders constantly visit borrower's home

"They keep coming back on the same day. First the NGO loan officer, and then the manager."

2. Sale of assets

"They sell... cows, goats, pigs, ducks, chickens, trees..."

3. Lack of suitable food & clothing

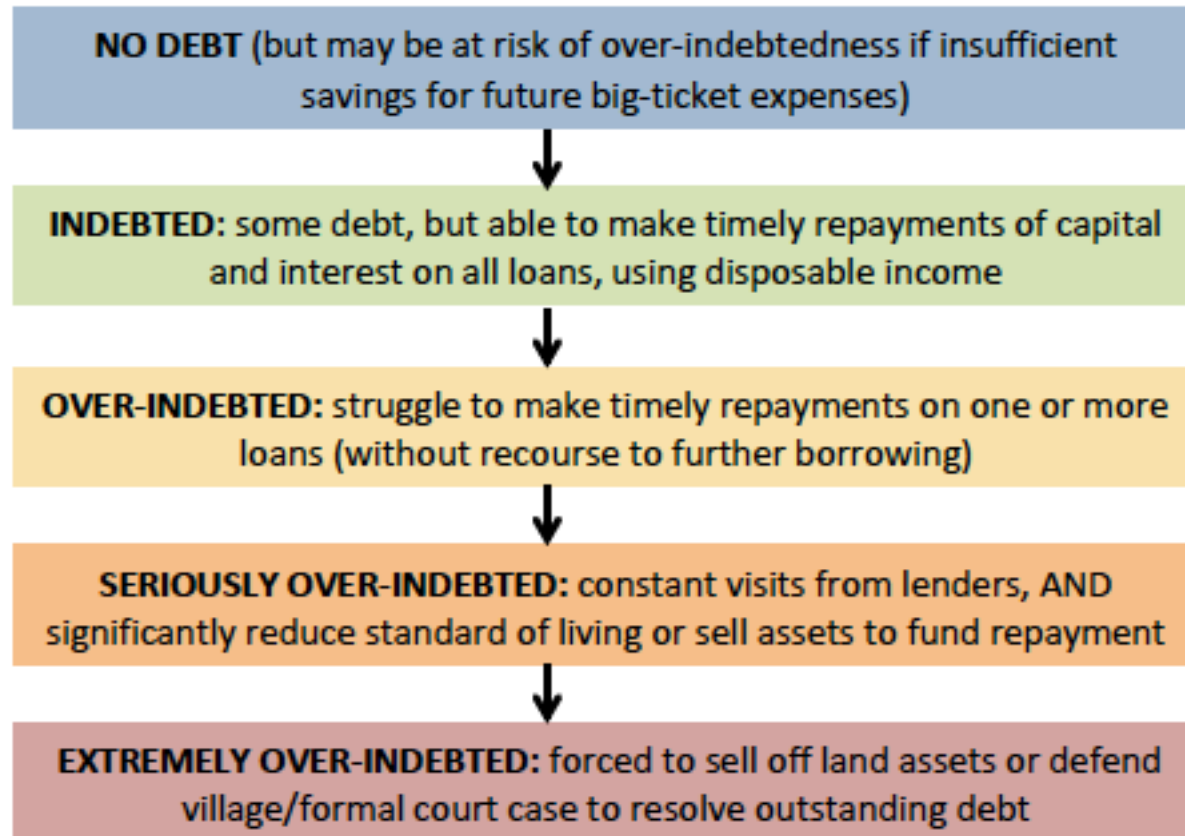
4. Debt-related stresses

5. Deceitful behaviour of borrowers

6. Insufficient income to meet household expenses

7. Court cases against borrowers

Key Finding #2: Five Stages of Indebtedness



Source: Author

Financial Behaviour:

A household's financial behaviour focusses on flows of money **saved and withdrawn, borrowed and repaid, lent and recovered**, & the costs of doing so (Collins et al, 2009)

Key Finding #3

Numerous categories of loan expenditure (20)

Repaying loan



Children's education



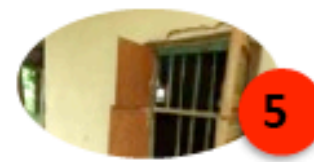
Food or clothes



Investment in land



House repairs/ construction



Agriculture



Livestock



Income generating asset



Wedding/ festival



Household items



Business stock



Sanitation



Health Treatment



Transport – personal



Electricity installation



Miscellaneous



Luxuries



Addictions



Overseas for work



Court case



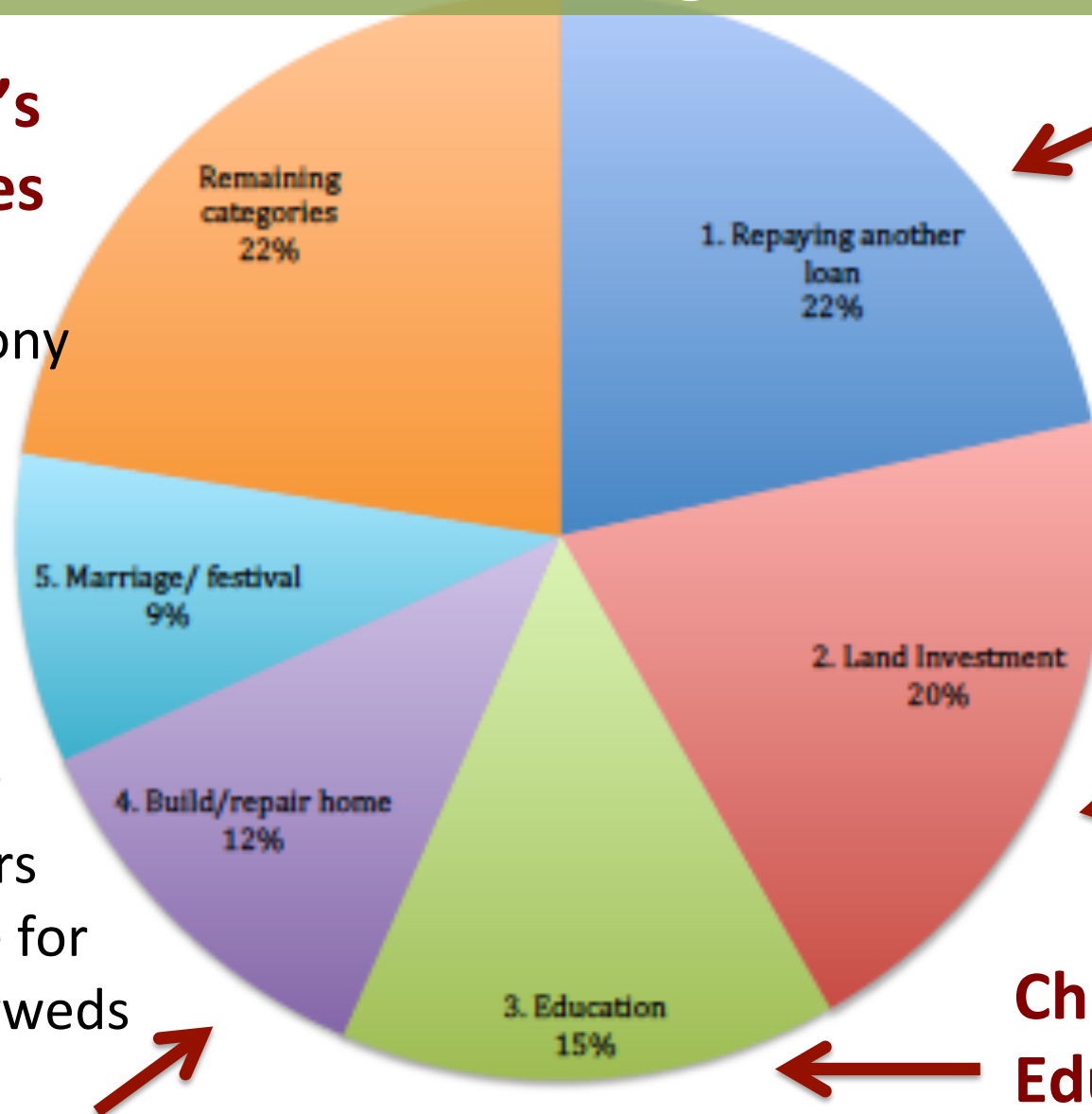
Key Finding #4: Why households are becoming over-indebted - five most significant categories:

Children's Marriages

- Dowry
- Ceremony

Housing

- Repairs
- Home for newlyweds



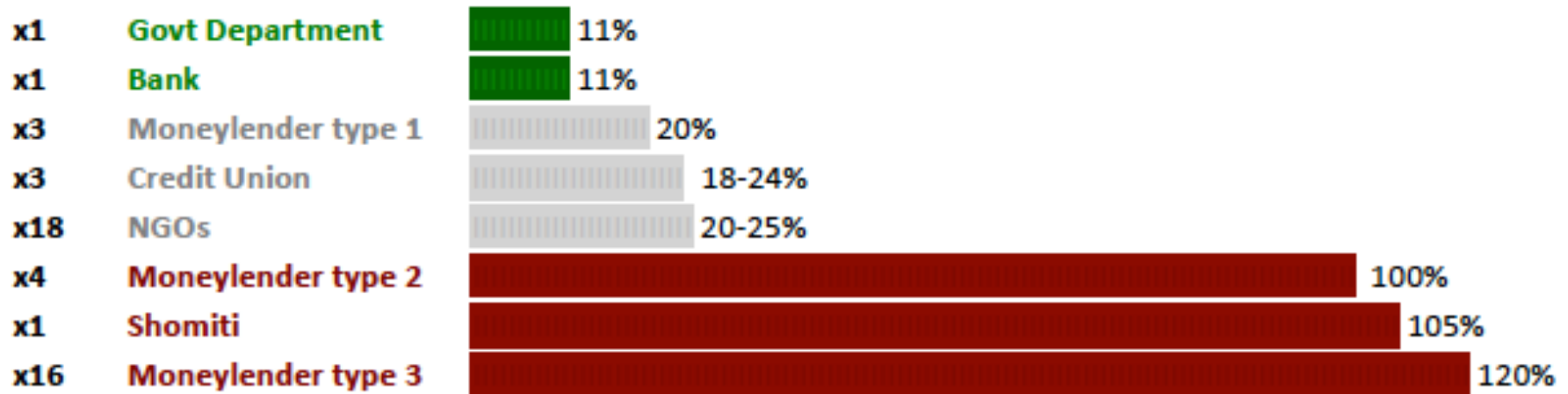
Loan recycling

Land

- Cultivation
- Children's Inheritance

Children's Education

Key Finding #5: Interest rates matter, but no correlation b/w low interest & high borrowing



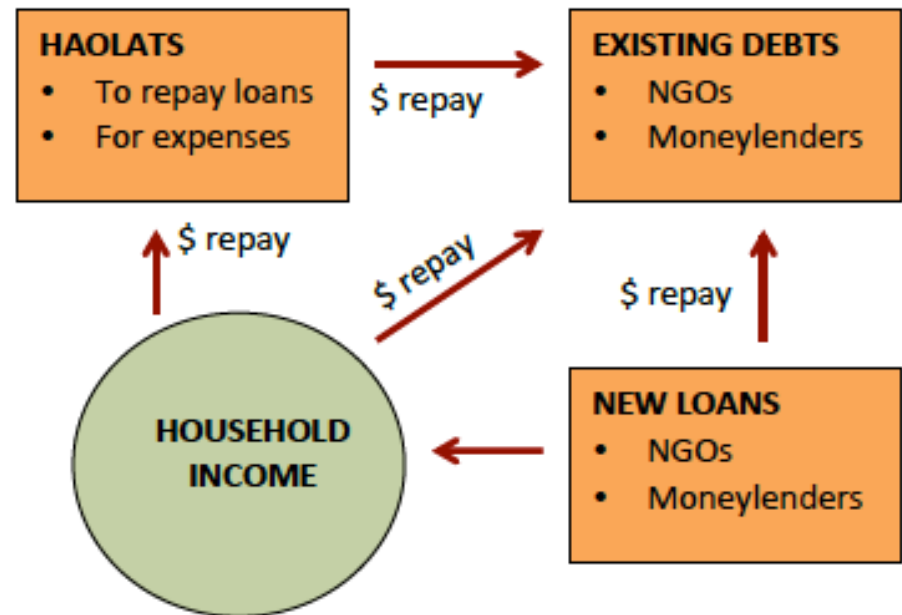
Source: Author

“There is a tale that horses can’t run as fast as the interest. The same applies for human beings.”

Key Finding #6: Strategic juggling of different loan types

Most significant credit sources:

1. **moneylenders** (23 out of 47 current loans)
2. **NGOS** (18 loans)
3. **haolats** (small interest-free loans from family or friends)



"We get lower interest loans from NGOs than moneylenders"
"Moneylender loans are easy to get"

Key Finding #7: Borrowers weigh up a number of factors, aside from interest

1. **Effective cost:** *“if you have 2000 taka savings, you can get a 10,000 taka loan from a Credit”*
2. **Loan forgiveness:** *“if your husband dies, the NGO will forgive the loan balance”*
3. **Time delays:** *“if I want an NGO loan, I have to become a member and wait for 1-2 months”*
4. **Collateral:** *“with banks, you need to provide mortgage over record land to get a loan”*

5. Bribes: *“Banks take bribes. Make no mistake”*

6. Exclusions: *“NGOs don’t lend to the elderly as they could pass away at any time.”*

7. Loan ceilings/floors: *“A haolat is a small loan for a short time. Only a few days.”*

8. Installments: *“it seems like only 2 days have passed before you pay the next installment”*

9. Pressure on repayments: *“NGO loan officer: you can eat, why can’t you repay your loan?”*

How does lender & borrower decision-making influence risk of over-Indebtedness?

1. Whether to borrow/ lend to particular customer:

- Will the borrower be able to repay the loan?
- Is it the borrower's or lender's responsibility to assess 'likely repayment capacity'?
- Should the lender be aware of over-lapping loans?

2. Relevance of loan purpose:

- How does type of loan spending affect borrower's risk of over-indebtedness? E.g. productive/consumption
- Lender may try to exercise control over loan purpose, although borrowers did admit lying about this!!

3. Significance of lending practices

- How do borrowers' preferences for certain types of loans affect their risk of over-indebtedness?
- How does lender's choice of loan terms and conditions affect risk of borrower over-indebtedness?

4. Decisions re loan amount

- Are borrowers taking too much, too little or just the right amount of debt to achieve loan purpose?
- To what extent is loan amount dictated by lender?

5. How loans are repaid

- Do borrowers repay high interest loans first? Do lender policies place any restrictions on this?
- Do lenders allow for flexible repayment e.g. loan rescheduling or early repayment provisions?

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ANY QUESTIONS

