IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)
An International Open Access, Peer-reviewed, Refereed Journal

REPAYMENT BEHAVIOUR OF MICRO CREDIT FROM BORROWER'S PERSPECTIVE

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A B S T R A C T

Microlending has emerged as one of the most important financial tools to foster financial inclusion. It enables the poor and low-income households to increase their income levels, improve their overall standards of living and thereby in aggregative sense play a role in poverty alleviation. Loan default is a frequent phenomenon associated with the microlending activities in India. It is affecting the microlending Institution's sustainability. The present study aimed to analyse the factors affecting the repayment behaviour of borrowers associated with microlending in India. The study has also focused in identifying the delinquent behaviour influenced by the demographic aspects of any individual. The study not only examines the effect of demography on the delinquent behaviour of individual but also considers the loan characteristics as determinants. The data denoting characteristics of loan has been collected in the form of secondary data. Total 250 samples collected from one of the applications and web based microlending Institutions in West Bengal. The data collected in the form of primary and secondary has been analysed with the use of descriptive statistics and non-parametric test to develop the findings of the study.

Keywords:: Delinquency, Microlending, Demographic aspects, Loan Repayment, Non-parametric Test

1. Introduction:

Microlending is the process of connecting a borrower and a lender for smaller loans. A borrower usually uses microloans if they do not have access to any local financial institutions or if they have poor credit or finance or if they want a loan smaller than what the banks provide. It is heavily supported by peer-to-peer lending digital capabilities that connect borrowers, investors, and lending platforms across the world. Loan repayment is critical in terms of development of both the client and the microfinance institution (MFIs). When MFIs disburse funds to the clients, they are expected to repay the loans in a specified period as agreed upon in the loan agreement. Repayment usually takes the form of periodic payments that includes part of the principal plus interest in each instalment payment. MFIs through their loan officers screen their clients in terms of their demographic ability to pay and assets owned by them before disbursing the loans. In addition, they explain to these clients about the terms and conditions governing the loan in terms of interest rate, collateral, and loan period (credit terms). This is done to ensure that only clients who qualify for the loan receive it after understanding their obligations to ensure timely repayment. Financial service sector is the backbone for any developing nation. The quest of providing accessibility to financial services at an affordable cost to all individuals in the nation is the concept of financial inclusion. Digital lending refers to the online disbursal of loans where all processes, even the loan approval and recovery stage, takes place typically through mobile apps or web platforms, utilizing technology for authentication and credit evaluation. Apart from the process of lending the main purpose of microfinance institutes are financial inclusion of the poor and the underprivileged. As the growth in number of internet users has been has been more than doubled in last 5 years-2015 to 2020 (The Indian Telecom Services Performance Indicator Report January - March, 2020)Number of internet users in India from 2015 to 2020 with a forecast until 2025, Statista, Last accessed on 23/02/2021), India Stack, one of the catalysts in technology advancement in MFI helped the lenders to create financial services according to the different customer needs(KPMG, 2021) help to embrace them under the purview of financial inclusion. Study suggests that the cost of disbursement of loan has been reduced drastically because the cashless layer of India Stack (KPMG, 2021). The focus of the paper is throwing some light on the determinants of small size loan repayment default on individual microlending. This characteristics of default or delayed repayment of individual is known as delinquency. Many literatures are there which emphasize on the comparison of intensity of default between group lending and individual lending from microfinance Institute (Ghatak, 2000; Ghatak & Guinnane, 1999; Besley & Coate, 1995;). Few studies have indicated the biased outreach of microlending in India(Ray & Mahapatra, 2016; Sangwan & Nayak, 2019). There has been an inverse relationship between the loan size and the poverty (Ranjani & Kumar, 2018). One of the reason of this biased outreach is the microfinance Institute's anxiety of repayment risk in case of unsecured loan to the poor (Stiglitz, 1990). Microfinance institutes are exposed to greater amount of default risk because of the relaxed appraisal of the loan. The reporting of these phenomena has been referred from the past studies (Guérin, Roesch, Venkatasubramanian, & Kumar, 2013; Krishnaswamy & Ponce, 2010; Mirpourian, Caragliu, Di Maio, Landoni, & Rusinà, 2016; Nandhi, 2015). In case of microlending there is 5C (Baiden, John E.,) issue (character, capability, capital, collateral, and condition) which are the key pointers of creditworthiness and chance of default. In this context from the perspective of individual microlending the pertinent questions arise here that what are the factors which influences the loan delinquency behaviour of a borrower. It is needless to mention that default has direct relation with low-income level but apart from that there are other demographic aspects and loan characteristics (Guérin et al., 2013; Khandker, 1998; Stiglitz, 1990) also matter. The aim of the paper is to explore the demographic aspect as well as the loan characteristics. The paper has been arranged in the following manner. After the first part depicts the introduction and literature review. Second portion has stated the objectives and hypotheses of the research. The third portion discusses the research methodology with the analysis and findings. The last part concludes**.**

2. OBJECTIVES OF THE STUDY

a) Analysing the behaviour of consumers according to delinquency or non-delinquency regarding short term loan from a microcredit organization.
b) To identify the association between delinquency with demographic aspect and loan characteristics To proceed with the following objective the following hypothesis has been followed. The null and alternative hypothesis are as follows: -

2.1 i) **Hypothesis 1**

H_0: Delinquent behaviour has no association with the demographic aspect of the borrower

H_1: Delinquent behaviour has association with the demographic aspect of the borrower

ii) **Hypothesis 2**

H_0: Delinquent behaviour has no association with loan size and loan tenure.

H_1: Delinquent behaviour has association with loan size and loan tenure.

3. Research Methodology:

3.1. Data Collection

A total of 250 data set of individuals is taken from a metro city of India. Primary sources of information have been gathered to construct the relevant data set. The aim is to analyse the delinquency behaviour of individual borrowing small size loan in urban area. In this model the independent variables are grouped into 2 categories namely demographic variables and loan characteristics. Here demographic variables are based upon the client's characteristics, such as age, gender, occupation, and education whereas loan characteristics are indicated by loan size and loan tenure. Both quantitative as well as qualitative types of data have been used. The reason for using both quantitative and qualitative is to create a better understanding of the research problem by combining both numeric value from quantitative research and the detail of qualitative research.

3.2. RESEARCH METHODOLOGY

The summary of data has been represented in the table 1. Here the demographic aspect of the sample borrower has been considered. The demographic aspect has been represented by gender, education. Occupation and Age. As it has been mentioned in the past studied already that there has been an inverse relationship between income and loan repayment. So in this research work the income variable has not been incorporated. The aim of the paper is to explore the repayment risk in micro credit sector so small size loan has been taken into account. Primary survey depicts that there are number of students who are technically coming under the unemployed section, getting the privilege of having the facility of microlending specifically in urban area.

Table 1:

	Gender		Education		Occupation		Age		
	Male	Female	Graduate	Post Graduate	Student	Employed	18-25	25-30	30 and above
Non defaulter	163	38	131	70	137	64	128	40	33
Delinquent	32	17	28	21	34	15	33	6	10

Demographic summary of the sample

From Table 1 has shown that out of 250 samples of individuals, 195 are males and 55 are females. Out of them 32 males and 17 females are delinquent or defaulters and 163 males and 38 females are non-defaulter. Educated non-defaulters consist of 131 graduates and 70 post graduates, whereas educated defaulters or delinquent consist of 28 graduates and 21 post graduates. In case of occupation, number of non-defaulters sum up to 137 as students and 64 as employed, whereas number of defaulters or delinquent sum up to 34 students and 15 employed. For age criteria of 250 individuals, non-defaulters sum up to 201 total whereas for defaulters or delinquent the total sums up to 49.

Delinquent and default are both terms indicate almost same concept representing missing payments. However, the implications and consequences of each term are different. A loan becomes delinquent when one makes late payment (even one day late) or miss out on his regular instalment payments or payments. Payment delinquency is commonly used to describe a situation in which a borrower owed for a certain type of financing such as a student loan.

According to the loan characteristics classified between loan size and loan tenure the data has been summarized in table 2

Table 2

		Gender		Education		Occupation		Age		
		Male	Female	Graduate	Post Graduate	Student	Employed	18-25	25-30	30 and above
LT	1	138	42	111	69	125	55	132	27	21
	2	34	8	31	11	30	12	18	13	11
	3	23	5	17	11	16	12	11	6	11
LS	500	106	17	81	42	79	44	80	25	18
	1000	64	30	59	35	72	22	65	14	15
	2000	25	8	19	14	20	13	16	7	10

Source: Authors Computation

Sample summary according to Loan size and loan Tenure

Loan size means the amount of the Loan that respective individual has taken. Loan Size consists of 3 types small, medium and big. Loan Tenure refers to the amount of time period that respective individual has taken loan for. As data has been collected from a micro credit organisation so tenure must be less unlike traditional bank loan.

The same sample of 250 individuals, as shown in Table 1, is distributed according to the Loan Size and Loan Tenure taken by that respective individual. It can be seen that most of the Males and females are inclined towards small loan size and minimum time period. Very few of them are inclined towards big loan size and maximum time period. The same goes with the education, occupation, and age variables. The Chi-square test of independence (also known as the Pearson Chi-square test, or simply the Chi-square) is one of the most useful statistics for testing hypotheses when the variables are nominal, as often happens in clinical research. Unlike most statistics, the Chi-square ($\chi 2$) can provide information not only on the significance of any observed differences, but also provides detailed information on exactly which categories account for any differences found. This test is a non-parametric statistic and is also called a distribution free test. It may be clearly understood that Chi-square test only tells about the probability of the independence of a distribution of data or in simple terms it will only test that whether two variables are associated with each other or not.

3.3. Analysis and Findings

The results of the analysis has been represented in Table 3.

Table 3:

	Gender	Education	Occupation	Age	Loan Tenure	Loan Size
$\chi 2$	4.8397	0.77814	0	1.70170	5.6859	29.989
df	1	1	1	2	2	2
p - value	0.02781*	0.3777	1.111	0.427	0.0582*	3.07

Rule: If p-value is less than the cut-off points of 0.05 significance level then we should reject the null hypothesis.

After doing the analysis of the 2 tables we can see from the table 3 that except gender and loan tenure all the others between delinquent behaviour er p values are > 0.05. Since we are doing this hypothesis at 95% level of confidence, the p value should be < 0.05. In case of Gender the p-value is 0.0278 which is < 0.05, therefore this qualifies the criteria or the rule. This implies that the two factors that is Gender and delinquent behaviour are not independent which means that there is an association between them since the p-values are less than 0.05. As the association between delinquent behaviour and gender is coming significant, so we are rejecting the null hypothesis and accepting the alternative hypothesis 1. The justification can be given as in the reference of literature it has been shown that females have precautionary motives of holding money and it is also supported by the alternative hypothesis that is set above. Also, the p-value of loan tenure is coming as 0.058. It can also be seen that there is a slight association between the Loan Tenure and the Delinquent behaviour.

Therefore, based on the above findings it can be said that the delinquency behaviour has an association with the gender and a slight association with the loan tenure.

3.4. Conclusion:

Our country India has a diverse socio-economic diversity and leads to rise of various micro lending institutions. These institutions provide financial services to rural and low-income group communities. The study mainly focuses on the effect of demographic factors like Gender, age etc along with loan tenure association with delinquency. Delinquency occurs when borrower misses to pay loans on time, which eventually effects the credit score of the individuals. Loan tenure is the repayment period and it varies from monthly, quarterly or half yearly. The total repayment period cannot be more than 3 years. The study reveals the fact that there exist an association between gender and delinquency behaviour and a slight association of the behaviour with the loan tenure.

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