Draft

~~An Investigation Into Sources of Weekly Instalment~~ Payments in RDP

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EXECUTIVE SUMMARY

RDP is BRAC's core programme for the implementation and expansion of BRAC activities. Credit, a major component of RDP, is provided to the VO members at 15% flat interest, payable in weekly instalments. Few studies are available on the money for paying weekly instalments which prompted us to do this study.

The objective of the study was to identify the sources of instalments after obtaining the current loan. Although, weekly repayment is supposed to originate from the micro-enterprise itself, most of the borrowers have to depend on sources other than project income as this often proves to be insufficient to cover the instalment payment. Field work was undertaken in four Village Organisations (VOs) in four regions namely, Comilla, Manikgonj, Rangpur and Nilphamari and the key findings are as follows:-

For projects with immediate returns, about 40% of the instalments were paid through sources other than the income generated from the present loan, and for projects with a gestation gap it was 81.7%. Instalments in these cases were primarily met through the husband's income or that generated from other micro-enterprises.

Considering other factors which could affect the source of instalment payments such as the number of earning members, household size or membership length, it was found that the husband's income still constituted the major source compared to project revenue.

However, this may imply several things - income has not yet started generating from the project, or money has been used elsewhere due to its fungibility or the project is not as profitable as it is believed to be. Nonetheless, it is also worth mentioning that husband's share constituting the major portion of the instalment payments may be attributed to another variable - the degree to which he appropriates the loan.

Our recommendations to BRAC are the following:-

1. Seasonality of income patterns should be considered for determining the loan repayment schedule.
2. More scrutiny during applications and closer supervision of loan use may be needed.
3. More investment should be directed towards training, accounting and literacy skills for borrowers so that they can deal more effectively with higher cash investments and complex technology. This will help them out of the traditional sectors and also enable them to plan business better.
4. Access to some sort of emergency fund would help borrowers in times of large unforeseen expenditures.

1. INTRODUCTION

1.1 Context of the study

Emerging as the third top priority of the poor after wage employment and primary schooling[1], the provision of micro-credit has taken centre stage in rural poverty alleviation strategies. At BRAC it constitutes a central component of its Rural Development Programme (RDP) alongside its health, education and other social mobilisation and support programmes.

Credit under RDP is disbursed either for 'sector programmes' or as general loans. In the former case loans are invested in particular micro-enterprises for which BRAC provides technical training, inputs and logistical support. In the case of general loans, no extension services are provided and the borrower manages the micro-enterprise herself.

The village work of RDP begins with the establishment of an Area Office. The target households, those owning about 0.5 decimals are organised into units called Village Organisations (VOs). Credit is provided at 15% flat interest to the VO members, payable at weekly instalments. The members in the group are jointly liable for each others loans - the repayment of the initial borrowers being the prior condition for disbursing to other members in the sub-group.

Critics, however, have argued that borrowers are having reservations about credit services particularly with regard to weekly instalment payments[2]. Recent enquiries have suggested that in most cases borrowers have to rely on other sources of income than that generated by the micro-enterprise in order to meet weekly instalments as repayment schedules are not based on project returns[3]. Few studies are available on different aspects of weekly instalment payments especially regarding borrowers' initial constraints and the reason for late payments.

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[1] A Pro-Poor Agenda, UNDP's 1996 Report on Human Development in Bangladesh
[2] Women and Poverty - Women for Women (P. 9)
[3] A Pro-Poor Agenda, UNDP's 1996 Report on Human Development in Bangladesh

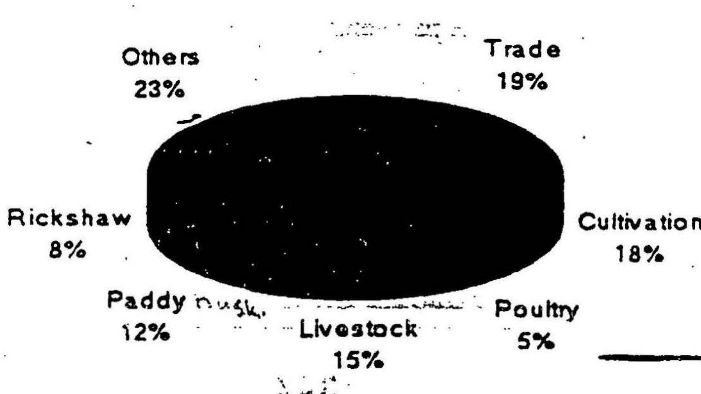
1.2 Objective of the study

The objective of this study is to find out the sources of funds for loan repayment with special reference to the gestation period of certain micro-enterprises (period before which income starts accruing). Loan size, household size, number of earning members, and membership length have been taken as variables to see whether these have any influence on the source of instalment payments.

1.3 Sample area and sample size

The study was conducted in four VOs in four regions, namely Comilla and Manikgonj (two better off/vibrant areas in terms of economic activities) and Rangpur and Nilphamari (two worse off/relatively depressed areas). The sample was drawn through multi stage purposive sampling. Research was carried out from mid-October to mid-November. Area Offices (AOs) were chosen on the basis of diversified activities. Each VO comprised 50 members on average and the total sample size amounted to 195 All interviewees had to fill a structured questionnaire. They were asked a range of questions about their loan uses and also to recall the sources of instalment payments for the last ten weeks from the date of the interview. However, as loans are disbursed at different times throughout the year, borrowers were found to be at different stages of loan use. Consequently, a number of members received their loans less than ten weeks ago and could not provide evidence of repayment behaviour for the specified time frame. The borrowers were the main respondents though they were at times assisted by other members of their household. Field visits were undertaken to Gazipur and Matlab by the researchers as preliminary preparations to conduct the study.

Fig.1: Loan use in sample



1.4 Limitations of the study

- It was not possible to identify whether the members are associated with other NGOs or not.
- It was difficult to obtain reliable data on money related matters using direct responses from entrepreneurs whose records usually come from their memory. Besides, the members were cautious in replying as they felt frightened for everything they said was recorded.
- Sample size was small and selective and therefore, the study may not be an accurate representation of the programme.

2. FINDINGS ON FACTORS AFFECTING INSTALMENT PAYMENTS

2.1 Micro-enterprises with gestation periods versus projects with immediate returns

During informal discussions with the borrowers, it became apparent that household cash flows are not always sufficient to pay the weekly instalments. Borrowers often repaid even to the detriment of the economic health of their business even though they had earned little or no revenues. An important finding from our study was that in enterprises with immediate returns, 40% of the borrowers repaid their loans partially or exclusively from sources other than project income (figure 2). In the case of IGAs with a gestation period this was as high as 81.7% (figure 2), indicating that project revenue often does not cover loan repayment. This applies particularly to the first instalment which sometimes is due before the micro-enterprise has generated any significant income. Montgomery (1993) suggests that BRAC borrowers may turn to informal lenders simply for weekly repayment due to the absence of any supporting mechanism from BRAC.

Table 1: Sources of instalment payments for micro-enterprises without gestation period

Source of instalment payments (%)	Trade (n = 38)	Paddy Husking (n = 24)	Rickshaw (n = 16)	Average
Income from present loan	69.8	36.2	78.3	60.0
Profit from last loan			1.7	0.3
Husband's income	7.3	17.7	10.0	11.1
Other IGA	4.4	0.8		2.5
Others	3.9			2.0
Husband's income + other sources*	5.4	25.4	-	11.1
Income generated from present loan + other IGAs	5.4	19.2	10.0	10.6
Mainly group members	3.9	0.8	-	2.4

* Partly Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

The enterprises with no gestation gaps had virtually no problem in paying the instalment from the income earned from the project. However this does not imply that the instalments were always made on time or from the income earned from the present loan.

From figure 2, our findings show that out of 40%, as mentioned earlier, husband's direct involvement constitutes 11.1%. Cases where the members had to either borrow, sell off their assets, use income from other IGAs or partly use husband's income together account for 29% of the instalment payments. Profits from the last loan only constitute 0.3% of the cases.

Considering the individual cases, for instance rickshaw, as in table 1, 78.3% of the instalments were met from the income earned from pulling rickshaw. Another 20% of the instalments are covered by borrowing, previous savings or profit from the previous loans and this refers to the period when the husband is unable to drive due to illness.

In the majority of cases for trade, instalment payments were made through the income generated from the present loan (69.8%). Thirty percent of the instalments are covered from a variety of sources including income from other IGAs (4.4%), husband's income (7.3%), and a combination of either the husband, other IGAs or group members (18.5%). It should be mentioned here that only 4 women borrowers and 28 husbands of the borrowers were found to be involved in trading. Women were found to be little involved in trading, their husbands seemed to rule the domain. Rural women are not still accepted in the market place and thus they have to rely on men to conduct most of the market transactions.

For paddy husking, which is supposed to generate sufficient income within a short span of time, only 36.2% of the total instalments were met from own revenue. It has been observed that usually the profit after the first husking is ploughed back which leads to the increased dependence on secondary sources of income for instalment payments. This constitutes support mainly from the husband who is directly involved in 17.7% of the cases and indirectly in 25.4% of the cases, along with income from other IGAs or income received from selling assets, or group members or contributions from the sons. This has a serious implication in the sense that the husband is directly or indirectly involved with 43.1% of the instalment, in spite of the fact that this enterprise is a profit earning venture and members are not supposed to face any difficulty regarding the payment of the instalments.

Usually the enterprises with gestation gaps meet the instalment payment during the gestation period from other livelihood supports or from the income earned by the husband. Once the gestation period is over (when income from the project starts accruing), the member finds it relatively easier to pay from the project income and this holds true for any membership of length. Our findings reveal that only 18.3% of the instalments are met by the present project and 34.1% from the husband's income.

Table 2: Sources of instalment payments for micro-enterprises with gestation period

Source of instalment payments (%)	Vegetable cultivation (n = 36)	Chick rearing (n = 10)	Cow rearing (n = 29)	Average
Income from present loan	33.6	42.9	4.0	18.3
Previous savings	1.7	-	-	0.6
Husband's income	18.5	21.4	46.6	34.1
Other IGA	12.6	-	9.1	9.6
Sell off property	-	-	1.7	0.9
Others	3.4	-	13.6	8.7
Husband's income + other sources*	26.9	25.0	21.6	23.8
Income generated from present loan + other IGAs	3.4	10.7	3.4	4.0

* Partly Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

In enterprises like chick rearing, income is received usually every two months depending on the sale of the two month old chicks thus enabling a member to earn four times a year. During the initial gestation period funds are obtained from the husband or other IGAs for the payment of instalments. After the gestation period is over, 42.9% are financed from the project income and the rest from other sources, mainly the husband's income (46.4%) wholly or partly. Similar result has been obtained for vegetable cultivation where the gestation period is normally one to three months depending on the types of crops cultivated.

The situation is somewhat reversed for milch cow rearing where the earnings from the present loan account for only 4% of the total instalments. This is due to the fact that in the majority of cases, calves were bought due to unavailability of funds leading to a longer gestation period. So the husband's income comprised the largest share accounting directly 46.6% and indirectly 21.6% of the total instalments including other factors also.

Table 3: Sources of instalment payments for multiple loan use and housing loan

Source of instalment payments (%)	Two IGAs, one with gestation period + one without (n = 5)	Two IGAs, both with gestation period (n = 6)	Housing (n = 4)	Others (including tubewell, fish culture + goat related programmes) (n = 14)	Average
Income from present loan	69.6	18.9	-	48.5	36.2
Husband's income	-	32.4	-	3.0	9.2
Other IGA	4.3	-	-	9.1	4.6
Others	-	16.2	23.1	-	7.9
Husband's income + other sources*	26.1	32.4	76.9	27.3	36.8
Income generated from present loan + other IGAs	-	-	-	12.1	5.3

* Partly Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

Members performing two activities simultaneously, mainly one with immediate returns and one with a gestation gap, pay 69.6% of the instalments from the project income. The husband's direct contribution is nil, but he does contribute partly in 26.1% of the cases. In cases where members are involved with two activities with gestation gaps, the husband's income source is significant. For housing loans, repayment is made by the husband and other sources, mainly other IGAs, accounting for 76.9%.

In all the cases observed, income earned from other IGAs also played a crucial role and it may be mentioned that other IGAs are undertaken with the cooperation and assistance of other family members.

Stated briefly, all the above cases have the following implications regarding the sources of instalment payments - the project is either unprofitable or income has not yet started generating from the project or money accrued from the enterprise has been used elsewhere due to fungibility.

2.2 Loan size

There were differences in opinions regarding the loan size and the instalment payments. One group was in favour of the existing size stating that a greater loan size, though required, would lead to greater instalment payment as sufficient income may not be produced within a short span of time which will eventually create a burden for the loanees to pay high volume of interest.

Another group complained about the ceiling being so low as proper implementation of the IGA cannot generate sufficient income to make payments for the weekly instalments. Yet there also existed another minority group who were not eligible for the weekly payment on even the minimum floor of Tk.2000.

2.3 Household structure

Household structures were considered with respect to the number of earning members and household size to see whether these had any bearings on the sources of instalment payments

Table 4: Sources of instalment payments by number of earning members in the household

Sources of instalment payments (%)	Number of earning members in the household					Average
	1	2	3	4	5	
Previous savings	0.6	-	-	-	-	0.12
Sell off property	0.9	-	-	-	-	0.18
Income from present loan	56.5	35.6	12.2	15.2	-	23.9
Profit from last loan	0.3	-	-	-	-	0.06
Husband's income	13.9	24.4	22.0	3.0	33.3	19.32
Other IGA	7.6	4	7.3	-	-	3.78
Others	0.9	5.0	19.5	27.3	-	10.54
Husband's income + other sources*	13.0	22.4	35.4	15.2	66.7	30.54
Income generated from present loan + other IGAs	6.0	8.7	3.7	15.2	-	6.72
Mainly group members	0.3	-	-	24.2	-	4.9

* Partly-Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

The **number of earning members** in our sample ranged from 1 to 5. For the majority of cases in single earner households, instalments were paid through the income generated from the present loan (56.5%). In few instances this was in combination with either previous savings, borrowing or profits from the last loan (6%). In other single earner cases instalments are paid primarily through the husband's income (13.9%) or through a combination of the husband's income with either previous savings, selling property, profits from the last loan, borrowing or the income generated from the present loan (13%). A similar pattern emerges for 2 earner households.

In the case of three earning members the situation changes slightly in that for the majority of households instalments are paid through the husband's income alone or in combination with the other sources mentioned above (22% & 35.4% respectively).

For four earner households, husband's income no longer figures prominently but is still significantly high combined with other sources of instalment payments (15.2%). The income generated from the present loan is also an important source but again this may be in combination with other sources. What does seem a little surprising is the fact that in nearly a quarter of the cases instalments were paid through combinations of borrowing from friends/relatives and group members or through profits from the last loan. With 4 earning members, one would have thought that members would probably not need to resort to these sources. In five earner cases, instalments were paid primarily through the husband's income.

From the above evidence one can deduce that the primary sources for instalment payments seem to be the income generated from the present loan and the husband's income. As the number of earning members increases, however, the husband's income becomes a more significant source. Even if it does not wholly pay for the instalment, it nonetheless may constitute a part of it.

Moreover, an important aspect with regard to the income generated from the present loan and the husband's income is that there may be some overlapping. For example, the IGA invested in with the present loan may be rickshaw pulling in which case the income generated from the present loan is also the husband's income. Consequently, the husband's income as a source of instalment payment may be understated in certain instances. Previous savings or selling property do not seem to be significantly important.

Table 5: Sources of instalment payments by household size

Sources of instalment payments (%)	Number of members in the household				Average
	1 - 3	4 - 6	7 - 9	10 - 12	
Previous savings	-	0.4	-	-	0.1
Sell off property	-	0.5	-	-	0.125
Income from present loan	31.6	43.1	40.7	-	28.85
Profit from last loan	-	-	0.5	-	0.125
Husband's income	33.7	16.6	19.1	26.3	23.925
Other IGA	19.4	5.2	-	-	6.15
Others	9.2	2.7	12.4	-	6.075
Husband's income + other sources*	6.1	22.0	20.1	47.4	23.9
Income generated from present loan + other IGAs	-	9.3	3.1	26.3	9.675
Mainly group members	-	0.2	4.1	-	1.075

* Partly Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

Household size in our sample ranged from 1 to 12 members. In the case of smaller households (1 to 3 members) the primary sources of instalment payments came either from the income generated from the present loan or the husband's income.

The findings do not change in the case of larger households. However, the number of instalment payment sources seem to be increasing with rising household size. In other words this implies that increasing burden requires pooling of funds from different sources to meet the weekly instalment.

Whether these different sources leave members in economic strife or enable them to meet instalments comfortably is difficult to tell directly from the above data. From anecdotal evidence, however, it was generally found that members did not have to drastically resort to borrowing or selling assets to pay instalments. Where borrowers did express difficulties was in times of large unforeseen expenditures, for example, medical care due to illness. As instalment payments are fixed costs, these obviously do not take into account for temporary fluctuations. In these cases borrowers were found to resort to borrowing or other measures to ensure that the instalment payments were also met.

2.4 Membership length

Table 6: Sources of instalment payments by membership length

Sources of instalment payments (%)	Membership length (months)			Average
	1 - 12	13 - 48	49+	
Previous savings	-	0.4	-	0.13
Sell off property	-	0.6	-	0.2
Income from present loan	32.8	42.7	39.1	38.2
Profit from last loan	-	0.2	-	0.07
Husband's income	34.3	17.4	14.1	21.93
Other IGA	13.9	3.1	6.3	7.77
Others	-	7.8	3.1	3.63
Husband's income + other sources*	8.8	21.3	26.0	18.7
Income generated from present loan + other IGAs	4.4	6.7	10.9	7.33
Mainly group members	5.8	-	0.5	2.1

* Partly Husband's income and partly income from other IGA, income from present loan, sell off property or borrowing from friends/relatives.

Membership length in our sample ranged from 1 to 8 years. For the majority of new members (i.e. 1 year), instalments were paid through the husband's income (34.3%). This seems to change with membership age when the primary source of instalment payment becomes the income generated from the present loan (39.1%)

The fact that the primary source of instalment payments seems to switch from the husband's income to the income generated from the present loan seems to be a positive sign. Having said this, the husband's income still has a significant role as even after more than 4 years it partly constitutes instalment payments in 26% of the cases. Moreover, a major drawback for this observation is the fact that we are looking at cross-sectional data. We are therefore restricted in drawing conclusions on how repayment behaviour is changing over a time frame in which we could reasonably assume repayment behaviour to change. The sample size is also relatively small. The conclusion nonetheless is the same as above in that the income generated from the present loan and the husband's income still constitute on average the main sources of instalment payments regardless of membership length.

3. REPAYMENT BEHAVIOUR - CASE STUDIES

All the VO members had one characteristic in common, they were all very conscious of BRAC rules and procedures, particularly regarding loan payment. They all revealed that no matter what, loan payment must be made even if it means having to reduce their consumption level. Recovery of loan is also ensured by tight supervision of loan utilisation by the staff and members. Although most of the borrowers initially declined to confess any pressure exerted by the office staff or group members, on probing they admitted that they are always under pressure. Future access to credit would be denied not only to them but to the entire group and this itself acts as a powerful weapon to promote loan repayment on time. It is quite evident that an important element of the success in maintaining high recovery rate has been peer monitoring and the threat of future credit denial. Besides, women who fall behind in their repayment are publicly scolded and they are often visited in their homes by BRAC field staff or group members.

> *Jamiron, wife of a van driver has been a member of BRAC for six years. She has taken four loans and has always invested in paddy husking though she is involved in other income-generating activities like selling betel nut which earns her about Tk.550 per month. Her son helps her in selling the rice in the market and with the income earned from this enterprise she pays her weekly instalments. She does not demand for a higher loan as she thinks that the weekly instalment is a problem. She has missed two instalments because she lent to someone but did not get it back but the office staff was reluctant to hear any of the excuses. She cried, but in vain, and having no other options, had to sell off her house to pay for the instalment.*

Even some field staff have ad hoc arrangements with VO members, allowing partial payment one week in return for additional payment in the next. In Kellai, Manikgonj, in some chick rearing units the members were found either to pay the full instalments after two months to the respective POs or buy on credit the food of the chicks to ensure the weekly payment on time. Rutherford (1993) found in his study that TRDEP staff make informal loans to members to ensure timely repayment, because unless such figures appear in their repayment book, their jobs are at risk.

If a member fails to pay the instalment, fellow members will usually contribute, while making it a private matter to collect from the defaulting member. It shows that informal lending between members do occur. Hossain (1988) observes that other members of the group also extend financial support to a member in times of genuine difficulty. Similar finding has been confirmed in a UNICEF published report on China - "if someone in the group has problems, we all help her out."

Initially, the members help out others with financial problem; but then again such support is limited. The members have to be persuaded and sometimes extreme measures are adopted, e.g., forced acquisition of defaulters' assets. In Barura, Comilla, for example, other members sold the defaulter's cooking pots and paddy to raise the necessary funds. Similar finding has been observed by Khan and Stewart (1993) where a member's house was pulled down by other group members as she was unable to pay her house loan. Pressure from the loan officers or the group members has been the most effective penalty within the programme.

Sufia of Nilphamari had taken a loan, but before she could even think about using it in a productive purpose, her husband, an alcoholic and a gambler used it up and instead of handing over her the weekly payments, he beat her around. Now she cannot come to the VO meetings and pay back her instalment as there is no money in hand and cannot even rely on others to help her with repayment. All the members are furious with her as they have to compensate for her weekly instalments.

Dipali Rani, aged thirty and mother of three young children has been with BRAC for two and a half years. Her husband, before falling ill, used to run a small furniture shop. Now, Dipali has to devote her entire time not only on household chores but also looking after the shop. She applied for a loan to cultivate vegetables but bought a milch cow instead for Tk.8000 as it would give an immediate return. She admitted that she would not apply for any more loans as it is too big a burden for her to pay the instalments on time.

4. CONCLUSION

4.1 Concluding remarks

Our findings on loan repayment sources have shown that project income does not always play as important a role as is often assumed. Although results differ according to particular circumstances, on most counts the husband's income and other livelihood activities proved to be vital for members' ability to meet instalment payments. The study looked at several factors which could help explain this.

When considering IGAs in terms of gestation gaps, it was found that even in the case of micro-enterprises which generate immediate returns, in 40% of the instances ~~members had to rely on alternative sources to pay for instalments. A possible~~ explanation for this may be the nature of investments. Loans used in women's work tend to be invested in low risk, familiar and low productivity activities such as trading. Women are deterred from going into non-traditional enterprises due to impeding factors such as lack of access to the markets or low numeracy and literacy skills for example. This also applies for IGAs with gestation periods.

Having said this, the above would also seem to imply a strong assumption that loans are to be repaid exclusively through the income generated from the BRAC loan. Our findings, however, have highlighted the importance of the family unit pooling funds from several sources to meet household expenditure including instalment payments. Therefore the sources of loan repayments will not always be clearly defined let alone from an individual enterprise. The implication is that this may be more due to the family operating as an economic unit rather than the profitability of the micro-enterprise. The importance and advantage of this concept is evident in the case of loanees undertaking IGAs with a gestation period in which case people have to rely on alternative sources anyway.

This in turn may have an impact in terms of who actually controls the use of the loan. Usually it is the husband who solely controls the finances (74% in our survey) and women would simply be given the money to cover the repayment on time. Most family earnings earned by the labour of many enters the family through the husband. Since all the funds or most of it are accumulated in the hands of the head of the family, the amount of instalment also comes from him. In the absence of the husband, some members were found to hand the money over to their son and as a result, have to depend on them for the timely payment of instalment.

For IGAs with gestation gaps, members quite obviously had to pool funds together from other sources in order to meet instalment payments as these are fixed costs and thus inconsistent with project return. With regard to the household size, number of earning members and membership length, the husband's income and current loan project income seem to figure most prominently in terms of instalment payment sources.

Our findings revealed that borrowing from the money lenders is apparently growing out of practice. Only two cases in our sample admitted to having obtained loans from money lenders. However, this could be an under-representation as people considered that borrowing from money lenders carried a social stigma.

RDP has launched a biweekly repayment system to monitor the effect on loan repayment. However, the overall impression seemed to be that members were dissatisfied with the biweekly schedules as there is a tendency to divert income away towards consumption when money is kept for a longer period. The extent of loan diversion is well brought out in a study by David Hulme and Paul Mosley where it is mentioned that credit is often used for a series of independent income generating and subsistence activities rather than for a specific micro-enterprise. This creates difficulties for BRAC field staff in terms of screening loan applications and monitoring loan use.

4.2 Recommendations

1. Loan repayment terms should be tailored to the seasonality of income patterns or borrowers could be allowed to make smaller and more frequent repayment depending on the cash flow of the project.
2. More scrutiny during applications and closer supervision of loan use may be needed.

3. More investment should be directed towards training, accounting and literacy skills for borrowers so that they can deal more effectively with higher cash investments and complex technology. This will help them out of the traditional sectors and also enable them to plan business better.
4. Access to some sort of emergency fund would help borrowers in times of large unforeseen expenditures.

5. REFERENCES

1. RDP Phase II Report (1990-1992)