

## **Chapter 5**

### **Conclusion and Recommendation**

This chapter presents the conclusions and recommendations of this research. The conclusions were derived based on the findings on the factors affecting and assessing the probability of borrower's repayment delinquency and default adoption in a micro-finance institution of sub-urban areas of Yangon, Myanmar. The recommendations are provided to be able to establish the regulatory framework for the improvement of financial system for microfinance as well as to strengthen community development by focusing on the adoption of repayment performance in YWDP organization.

#### **5.1 Conclusion**

Repayment performance is one indicator for measuring the effectiveness of the loan released by any credit institution. The aim of credit provision to poor people is to promote the self employment in order to generate household income. In Myanmar, most of MFIs are working as non governmental organizations. In this study, the MFI YWDP is a Christian-based religious organization but this organization runs a holistic development project which is helping all members of the community without restriction of any religion.

Based on the information of this survey, 123 borrowers were in the history of late and default repayment list. According to the empirical analysis, 12 variables were affected on the repayment performance of borrowers. Firstly, the most influential factor is health problems which severely affected the borrower created a high probability to become a bad borrower. Health expense is used frequently for pregnancy and child birth. Since most of the borrowers are women and they needed medical care for their pregnancy and childbirth.

Other cases that influence borrower behavior are the death of a spouse who is main income earner and also family health issues. Those emergency health issues cannot avoid using large amounts of money and also it will affect their job. This situation was experienced by 51 households out of 123 bad borrowers. The empirical analysis provides evidence of the important and strong role of the health issue in the borrower's family. If the borrower has this problem, the probability of delinquency and default will be increased by 85%.

The second most influential factor is group agreement for delinquency and default. Although borrowers do not need to pay any collateral, they have to pay social collateral in the form of group agreement for loan default and delinquency. The institution motivates the group guarantee for borrowers before they lend the loan. However, some groups were not strong in group agreement regarding repaying the total amount of every borrower in time because they were not interested in borrowing the next higher loan or they were frustrated with the bad borrower. Some members thought only for themselves and then stopped participating as a member of the MFI. If the groups do not have solidarity group agreement, it will increase the probability of repayment rate by 70%.

After that, the sex of the borrower is the third most influential factor on repayment performance. Group members who are female exhibit a higher tendency to be a bad borrower when compared to male borrowers. However, in this YWDP organization, men are only 2 % of the total borrowers. Those male borrowers are working at a sufficient income level. Although male borrower should be increased above 2%, most of men who are also household heads work outside the home so they could not attend the group meeting. Thus, the numbers of female borrowers are more than male borrowers. Since, women are less empowered than men and they have other responsibilities and conditions such as pregnancy, household chores, and responsibility of taking care the children, those women were vulnerable to become bad borrowers. The result shows that a female borrower increases the probability of being a bad borrower by 41%.

And then, borrowers taking other loans positively influenced loan delinquency and default of group repayment. It implies that households which have extra loans exhibit more tendency to be a bad borrower. However, some members who have a certain level of wealth and business knowledge could be handle borrowing of an additional loan, but it could be worse for the low income families who have less knowledge on income generating activities. The empirical results indicate that if the borrower has other loans, the probability of late repayment and default is increased by 39%. Moreover, group pressure on late repayment among the groups significantly influences the repayment outcome and helps to mitigate the moral hazard<sup>1</sup> of group members (Wydick, 1999). The empirical result shows that group pressure on late

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<sup>1</sup> “Moral hazard arises when individual does not takes the full consequences and responsibility of its action and leaving another party to hold some responsibilities for the consequences of those actions” (Wikipedia the Free Encyclopedia)

repayment can increase the probability of good borrowers by 22%.

Also, higher loan amount creates more burden to repay the loan than lower loan amounts. According to the empirical result, people on their first time to fifth time loans have less tendency to become a bad borrower than the other loan amount. The group of loans refers the first cycle loan to fifth cycle loan. The amount of loan is not higher than 100,000 kyats (\$100 US). Since the repayment amount per week or per month is relatively lower than higher loan amounts, borrower can afford the repayment installments. On the other hand, next higher loan is persuaded them, they are try to pay the lower amount of loan. The logit model result expressed that someone with the loan amount is between first to fifth loan cycle their probability of being a bad borrower decreased by 20%.

Furthermore, borrower education level also affects the repayment performance of delinquency and default in group lending. The analysis showed that primary level of borrower education affects default repayment positively and the probability of late repayment and default of borrower will be increased by 19%.

Beside, household head occupation also affects the repayment of the borrower, since those household head or spouse are the main income earners of the borrower's family. If they have a well-paid occupation, it will decrease the risk of late repayment or default by the borrower. The result of this study showed that if the household head is employed by a company or non governmental organization, the probability of default and delinquency will decrease by 17%. Additionally, utilization of the loan in the business influences repayment rate. If borrowers used a higher percent of their loan for their business, they can repay the loan without difficulties. The result shows that for every 1,000 kyat (calculated based on the average loan size) that the borrower

does not put towards their business that their probability of being a bad borrower will increase by 1.6%. Also, in these findings, the age of the borrower also influences the repayment performance of borrower. The result indicated that the age group of 20 to 40 years old has more of a tendency to be a bad borrower than older borrowers. This may be because older borrowers have more awareness of the importance of repayment and is more stable than a young borrower. The result showed that borrowers between the age of 20 to 40 have an 16% increase in the probability of being a bad borrower.

Then, a second income generating activity of borrower, such as a small business, also influences the loan repayment performance. The result indicates that small home business which is the second income from the family can be decrease the probability of being a bad borrower by 13%. The last significant factor which affected the borrower's repayment performance is the occupation of the borrower. Among the six groups of business types, seller or street vendor occupation is the most related to being a bad borrower. In those cases, the probability of delinquency and default will be increased by 11%.

## **5.2 Recommendations**

Based on the empirical analysis, the following policies are the recommended: As we have seen, the highest probability of loan delinquency and default is because of a health emergency of a borrower and his or her family. According to that result, a methodology should be implemented based on the issue of health emergency cases. Some steps to address this issue might include: i.e,

(a) Firstly, MFIs have to carry out a survey with the support of the health department and figure out what kind of health problem is happening to most

households. Then, according to the survey results, MFIs should consult with the respective township health officer and activities should be implemented such as health talks, related trainings, medicine distribution, food distribution and regular examination of the health of the household with the support of a respective person from the field of public health.

(b) The second highest influential factor was a group solidarity agreement for delinquency and default. It was found that when the group does not have a group solidarity agreement, there is a weakness in group members' team spirit and less willingness of group leaders to motivate their groups. This finding suggests that these agreements should be encouraged by the loan officer and that groups should make guidelines for group members about how to choose a good leader among the group. The loan officer should help the group to create group by laws as a loan discipline before lending the loan.

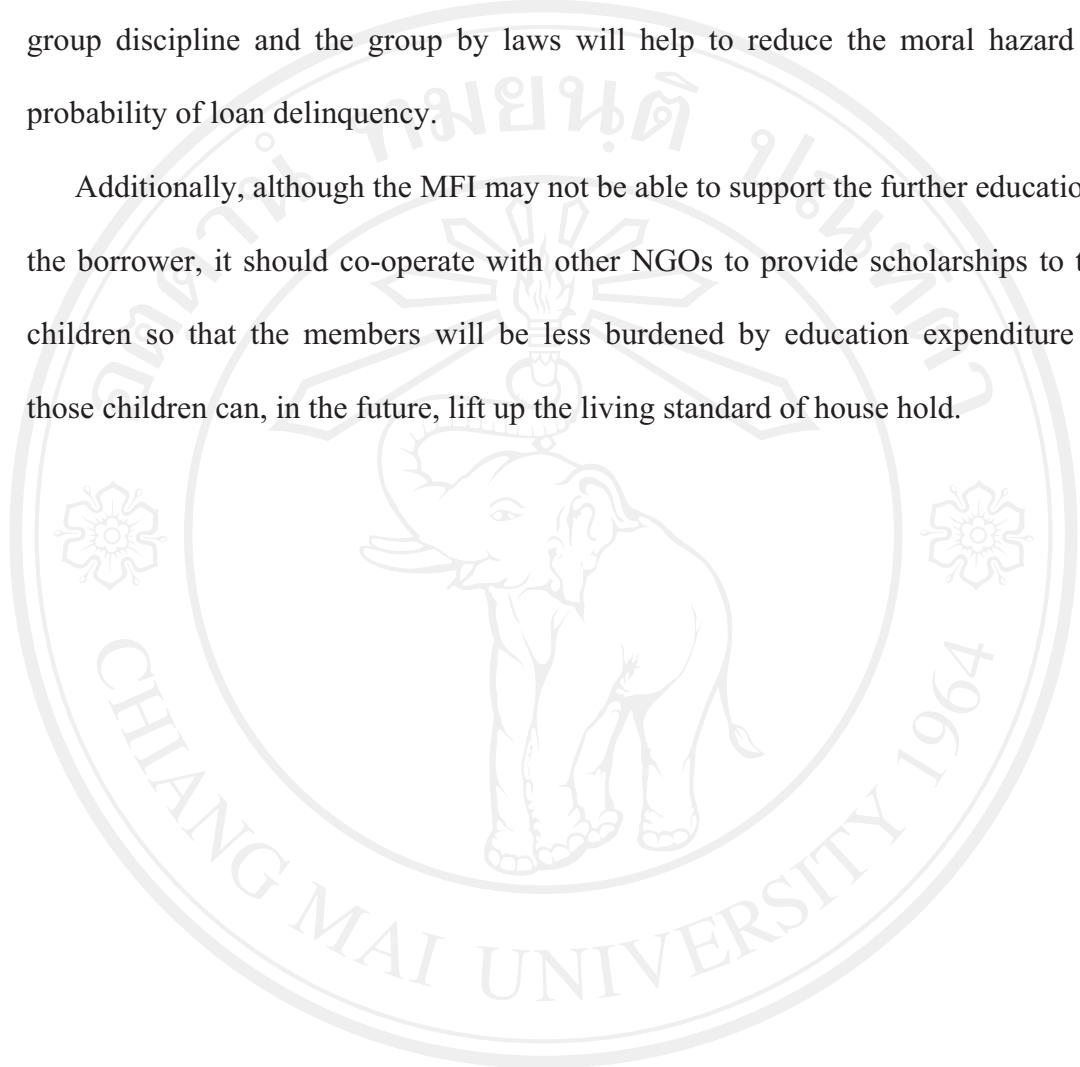
In the group by laws, group members should add loan penalties for the borrower who is not an active member. They should require bad borrowers to follow the group discipline and the borrower should be followed up with by using peer pressure on the members. In addition, in order to get the strong group agreement among the members, the groups should be made aware of the importance of careful member selection. For instance, if clients are required to form peer groups, they may just accepted some new members without knowing that person's history or observing their behavior. Sometimes client characteristics or attitude are unobservable, and groups can find themselves in trouble with a bad borrower although they have chosen group members carefully.

(c) Improper loan utilization or borrowing additional loans from outside should be



followed up on by the loan officer and evaluated before the group is allowed to borrow the next higher loan. Having the group leader remind groups members of the group discipline and the group by laws will help to reduce the moral hazard and probability of loan delinquency.

Additionally, although the MFI may not be able to support the further education of the borrower, it should co-operate with other NGOs to provide scholarships to their children so that the members will be less burdened by education expenditure and those children can, in the future, lift up the living standard of house hold.



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