Factors Affecting Either the Voluntary Exit or Forced Eviction of Borrowers from Microfinance Loan Networks

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ABSTRACT

This paper seeks to analyse the issue of loan repayment in microfinance institutions and examine the factors that affect the exit of borrowers from microfinance borrowing networks. This paper presents the analysis of the borrower-level data of agricultural microfinance borrowers/borrowers in the Philippines from 2008 to 2010. Results reveal what sets of reasons explain both the continued, sustained relationship of MFI borrowers with their lenders, as well as the relationship with some borrowers who were eventually evicted from the MFI system or had voluntarily exited the system. The study also indicates that MFI borrowers' poor perceptions and economical exits from the MFI system are attributed to borrowers' weaknesses and uncontrollable circumstances.

BACKGROUND

In the milieu of economic crisis, there is often less confidence in the tenacity and endurance of the agricultural sector in weathering business survival challenges. The farm sector, especially those from the agricultural sector in weathering business survival challenges. The farm sector, especially those from the agricultural sector, usually subject them to unique sources of risk and uncertainty often not faced by other industries. Farmers' capability to weather such natural and seasonal variations and operate, they usually depend on, among others, the availability of borrowable capital to supplement existing farm incomes for their operating expenditures and meeting capital requirements. Lending institutions, however, have traditionally funded their financial services with the needs of large conventional farming systems. These farms and agribusinesses on microfinance institutions (MFIs) that extend smaller loans to their clients compared with commercial lending institutions. Microfinance borrowers tend to have no precepts to offer an loan security (collateral) as they are poor and low-income, and thus would constitute a considerable risk to lenders once they default. MFIs, therefore, have to devise a system to ensure that loan defaults are as low as possible in order to maintain their financial sustainability, without which they would most assuredly face higher interest rates that would only deter the original intent of their microfinance lending philosophy.

OBJECTIVES

To identify factors that affect the voluntary exits of Philippine borrowers from microfinance networks and examine the factors that lead to the exit of borrowers from microfinance borrowing networks. This paper presents the analysis of the borrower-level data of agricultural microfinance borrowers/borrowers in the Philippines from 2008 to 2010. Results reveal what sets of reasons explain both the continued, sustained relationship of MFI borrowers with their lenders, as well as the relationship with some borrowers who were eventually evicted from the MFI system or had voluntarily exited the system. The study also indicates that MFI borrowers' poor perceptions and economical exits from the MFI system are attributed to borrowers' weaknesses and uncontrollable circumstances.

DATA

The analysis was done using data collected by the Social Enterprise Development Partnerships, Inc. (SEEDP) on microfinance networks in the Philippines from 2008 to 2010. The data set contains a national scope of data on financial characteristics and socio-demographic characteristics of defaulted microfinance clients.

ANALYSIS OF DATA

Borrower's Tenure

- The tables associating various variables with the borrower's tenure (length of relationship) with their microfinance lender indicate the following:
  - Borrowers with tenure ranging from 1 year to more than 10 years have an average loan cycle of about 4x. Borrowers with shorter tenure tend to have availed of more loan cycles.
  - Majority of the borrowers are engaged in trading business, with most borrowers in all business cycles.

Experience of Repaying the Last Loan

- Experience of Repaying the Last Loan
  - For borrowers whose relationship with their MFI lender was cut off, majority declared that such decisions were their own (15.46%), while a few others claimed that they were asked by their MFI lenders to leave the system (8.59%).

In conclusion, this study indicates that while most reasons for MFI borrowers' poor repayment and problems with MFI policies and procedures, as basis for their exit from the system.

SUMMARY AND CONCLUSIONS

This study has shown a varied set of reasons to explain both the continued, sustained relationship of Philippine MFI borrowers with their lenders as well as the strained relationship with some borrowers who were eventually evicted from the MFI system or had voluntarily exited the system.

- Among borrowers that declared personal reasons for leaving the MFI system, the following are the popular cited reasons:
  - Greater efficiency in loan delivery can be addressed by exploring strategies to minimize loan processing times and increase the quality of loan servicing.
  - Some borrowers in poor economic situation could definitely relieve unemployment workers with large servicing burdens.
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