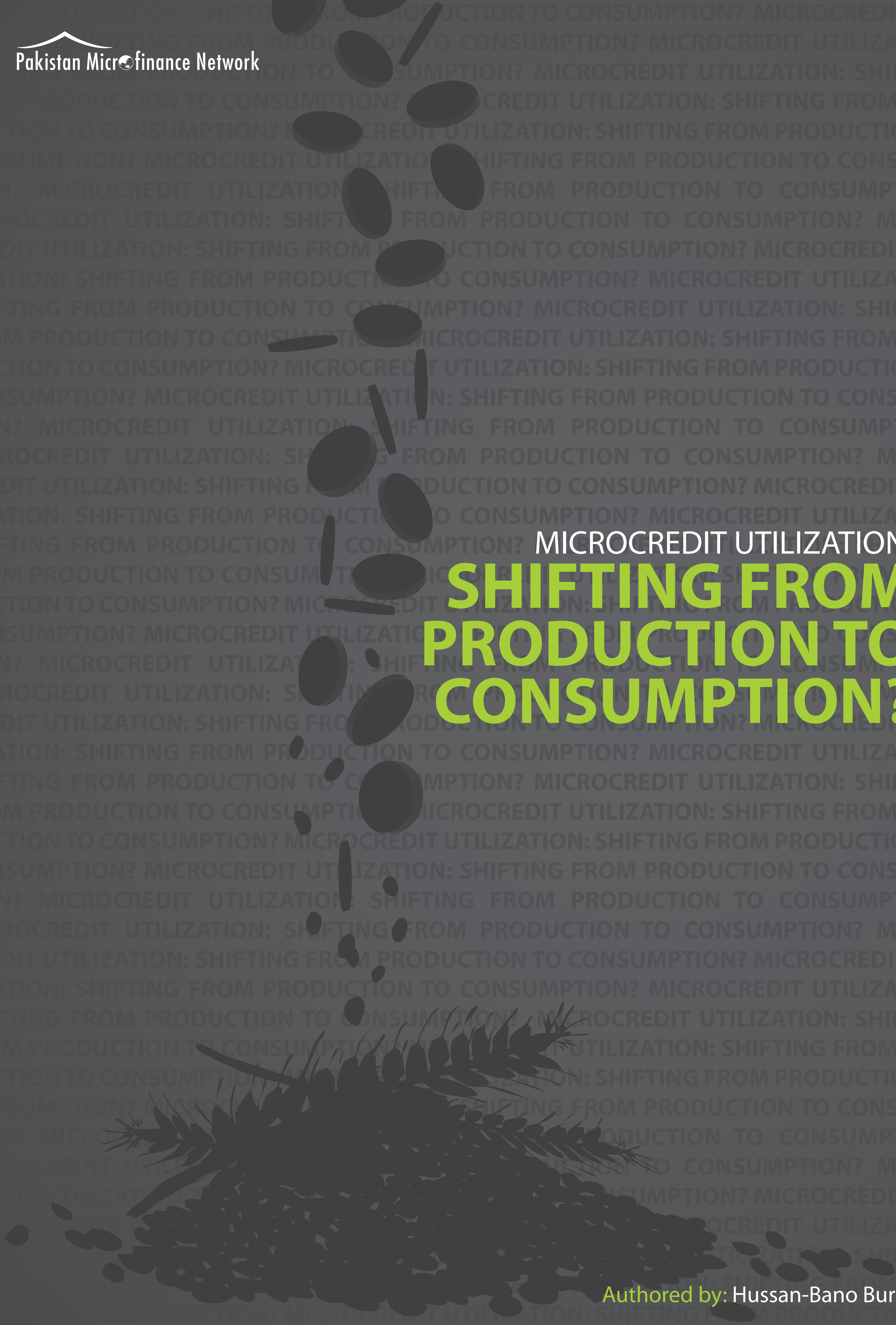
Pakistan Microfinance Network



MICROCREDIT UTILIZATION: SHIFTING FROM PRODUCTION TO CONSUMPTION?

Authored by: Hussan-Bano Burki

The Pakistan Microfinance Network is an association of retail microfinance providers. Our vision is to extend the frontiers of formal financial services to all and mission is to support the sector, especially retail microfinance institutions to enhance scale, quality, diversity and sustainability in order to achieve inclusive financial services.

Microcredit Utilization: Shifting from Production to Consumption?

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Research Report

Microcredit Utilization:

Shifting from Production to Consumption?

November, 2010

Acronyms

CPI	Consumer Price Index
DFID	Department for International Development
ECA	East Europe and Central Asia
FGD	Focus-group Discussion
FY	Financial Year
GBL	Group-based Lending
GDP	Gross Domestic Product
GLM	Group Loan Methodology
LAC	Latin America and the Caribbean
MENA	Middle East and North Africa
MFB	Microfinance Bank
MF-CIB	Microfinance Credit Information Bureau
MFP	Microfinance Provider
MIX	Microfinance Information Exchange
NGO	Non-government (Not-for-profit) Organization
PKR	Pakistani Rupee
PMN	Pakistan Microfinance Network
RSP	Rural Support Programme
SBP	State Bank of Pakistan
SME	Small and Medium Enterprises
USD	United States Dollar

Exchange Rates Applied

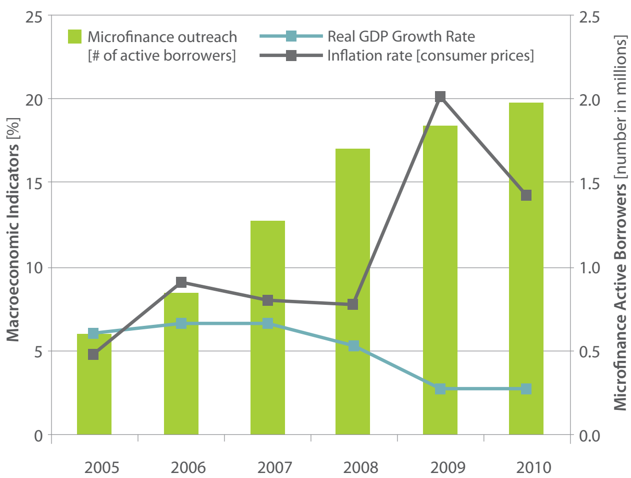
2006	USD 1 = PKR 60.7
2007	USD 1 = PKR 60.5
2008	USD 1 = PKR 82.0
2009	USD 1 = PKR 83.0
2010	USD 1 = PKR 85.0

Contents

1. Introduction

Pakistan's inflation rate has been in double digits in recent years. At the same time, the economic growth rate and employment in urban centers where microfinance is largely concentrated, have been on the decline. Pakistan's real GDP growth rate plummeted from six percent in the financial year [FY] 2005 to 2.7% [estimated] in FY10, productivity fell sharply[1], and average annual inflation[2] rose from 4.8% in FY05 to 14.2% in FY10[3] [**FIGURE 1**]. For the average Pakistani, this meant a decline in real income due to decreases in household productivity and the purchasing power of the Pakistani rupee [PKR].

FIGURE 1: MICROFINANCE GROWTH IN THE MACROECONOMIC CONTEXT [2005–2010]



Meanwhile, microfinance outreach in Pakistan expanded 26 fold from approximately 76,000 active borrowers at yearend 2000 to 1.98 million active borrowers in June 2010. However, the real value of the average outstanding loan balance declined by more than 25% during the same period.[4]

The microfinance sector's failure to maintain its average loan balance has raised fears with regards to the ability of the average microcredit to meet the borrower's enterprise needs effectively. It is felt that this inadequacy of the average microcredit may spur clients to borrow from multiple microfinance providers [MFPs] to patch loans to meet their cash flow needs. Coupled with declining productivity and a fall in the disposal income of households, this inadequacy may lead to the diversion of the standard group-based lending [GBL] enterprise loan to unplanned/non-enterprise-related use.

This paper is the result of quantitative and qualitative research aimed at addressing the following questions stemming from the macroeconomic and microfinance sector trends described above:

1. In light of the declining purchasing power of an average loan, are microcredit borrowers utilizing loans for production purposes? To what extent are loans being diverted to undeclared/unplanned purposes?

2. Does the need for larger loans encourage multiple borrowing or the patching of multiple loans?

3. Do borrowers of multiple loans use borrowed cash for production purposes or for consumption?

[1] Large-scale manufacturing growth rate, 8.3% in 2005, decelerated to - 5.4% in 2008.
[2] Measured by consumer price index [CPI].
[3] Source: State Bank of Pakistan. www.sbp.gov.pk.
[4] Pakistan Microfinance Network. 2009.

1.1. Paper Structure

The methodology used is described below. **SECTION 2** describes the key findings, and **SECTION 3** concludes the report with a summary of the key findings and recommendations for microfinance providers, sponsors of the sector [donor organizations and social investors], and public sector regulators and policymakers.

1.2. Methodology

An attempt to ascertain how borrowers used their loans and whether or not they had taken multiple loans initially appeared to be a highly impractical task. There was a high risk that respondents would be hesitant in admitting to multiple borrowing or using loans for purposes other than officially stated.

The research team countered this problem by using both qualitative and quantitative tools and questions designed to cross-verify initial responses. The research was based primarily on a quantitative survey but was validated by focus-group discussions [FGDs].

The survey avoided putting respondents in a position where they would have to admit to parallel borrowing. Instead, questions asked borrowers to estimate the percentage of borrowers in their peer group who had taken multiple loans. Borrowers tend to know the borrowing and loan-use practices within their peer groups because the majority of microfinance borrowers in Pakistan borrow under the GBL methodology. Thus, the survey attempted to make a proxy estimate of the incidence of multiple borrowing amongst sampled MFPs and districts. The survey also asked MFP staff to opine whether or not the respondent in question had taken multiple loans. Furthermore, to assess a borrower's propensity for multiple borrowing [given access to multiple loans], the survey asked respondents whether or not they had ever felt the need for multiple loans and if they would recommend taking multiple loans.

A similar indirect approach was used to assess the reasons for multiple borrowing and for discerning how income-generating loans are diverted across various needs.

The group loan methodology [GLM] accounts for approximately 88% of total active borrowers in Pakistan's microfinance sector[5]. The GBL borrowers were also selected because the risk of loan-size inadequacy, mis-utilization of loans, and multiple borrowing, tend to be greater for GBL loans. This is because GBL loans are generally standard-sized regardless of the loan need, and because the responsibility of borrower monitoring [and in some cases, borrower selection] is shared by borrower groups to some extent.

The research was based on a survey of 116 respondents and four FGDs. Four MFPs participated in the research: one Rural Support Program [RSP], two NGO-MFPs, and one microfinance bank [MFB]. The research was conducted in the districts of Lahore, Bahawalpur, and Rawalpindi.

Borrowers must have access to more than one MFP in order to take out multiple loans. The primary criteria for selecting geographic locations from which to select respondents was thus the existence of two or more MFPs operating in the area. Microfinance operations are largely concentrated in urban areas, and locations where more than one MFP operates tend to be urban. The borrowers in the research sample therefore belonged to urban localities.

TABLE 1 presents an overview of the sample structure of the quantitative survey.

[5] Pakistan Microfinance Network. 2010.

TABLE 1: SAMPLE STRUCTURE OF ACCEPTED RESPONDENTS

Ref. No.	MFP	MFP Type	Survey Resp. from Dist. LHR	Survey Resp. from Dist. BHP	Survey Resp. from Dist. RWP	Total Resp.
1	MFP A	RSP	-	-	24	24
2	MFP B	NGO-MFP	30	-	-	30
3	MFP C	NGO-MFP	31	-	-	31
4	MFP D	MFB	-	31	-	31
Total Respondents			61	31	24	116

Term:
Resp. - Respondents
Dist. - District

District:
LHR - Lahore
BHP - Bahawalpur
RWP - Rawalpindi

The research sample consisted primarily of mature borrowers [with more than two loans from the participating MFP] to capture trends in loan-size graduation and loan use over time for each respondent [**TABLE 2**].

TABLE 2: RESPONDENTS BY LOAN CYCLE WITHIN THE RESPECTIVE PARTICIPATING MFP [% OF RESPONDENTS BY MFP/TOTAL]

MFP	1st Loan Cycle	2nd Loan Cycle	3rd Loan Cycle	4th Loan Cycle	Greater Than Four Loan Cycles
MFP A	6	7	3	0	5
MFP B	0	2	6	9	9
MFP C	0	9	16	2	0
MFP D	6	21	0	0	0
Total [% of Total Resp.]	12	38	25	11	14

Term:
Resp. - Respondents

2. Findings

The survey data suggests that Pakistan's microfinance sector has not been able to maintain the purchasing power of credit disbursed. Although the average loan size of the first loan cycle increased, an average first loan from an MFP in 2010 had only 68% of the purchasing power of an average first loan from an MFP in 2004.

Nevertheless, the survey also suggests that microcredit is adding to households' income-earning capacity. More than four in every five borrowers declared using their loans for enterprise purposes. In addition, more than 70% of borrowers declared an increase in household income as a result of deploying microcredit in enterprise.

However, the increase in households' income-earning capacity may not match the pace at which costs of living have increased. Approximately one in every three borrowers felt they were left with no savings after meeting household and business expenses despite the increase in incomes due to investing microcredit in business.

Furthermore, many borrowers felt the need for patching loans due to the declining purchasing power of the average microcredit and the rising cost of living. Thus, 23% of the borrowers surveyed admitted the need to borrow from multiple sources because the current loan size from any one MFP did not meet their business needs. Of those admitting the need for multiple loans, more than two-thirds were amenable to taking out multiple loans themselves.

Borrowers estimated that, on average, approximately two in every five microfinance borrowers had taken multiple loans. The estimated incidence was considerably higher for district Lahore, the most concentrated microfinance market in Pakistan[6]. The incidence of multiple borrowing estimated by borrowers and MFP staff tended to vary by MFP and by location in terms of districts and different areas within the district.

The loan-use data of borrowers identified by MFP staff as multiple-borrowers shows that the majority of multiple-borrowers declared utilizing their loans for business needs. However, the data also showed that these multiple-borrowers used a greater proportion of the total value of their loans for non-enterprise use than the borrowers who did not take multiple loans.

The survey data also showed that multiple-borrowers may pose a greater lending-risk than borrowers without multiple loans. A larger proportion of multiple-borrowers declared greater profits from the use of their loans compared with single-loan borrowers. However, a larger percentage of multiple-borrowers had also declared losses and/or no profits after investing their loans in their businesses, compared to borrowers without multiple loans.

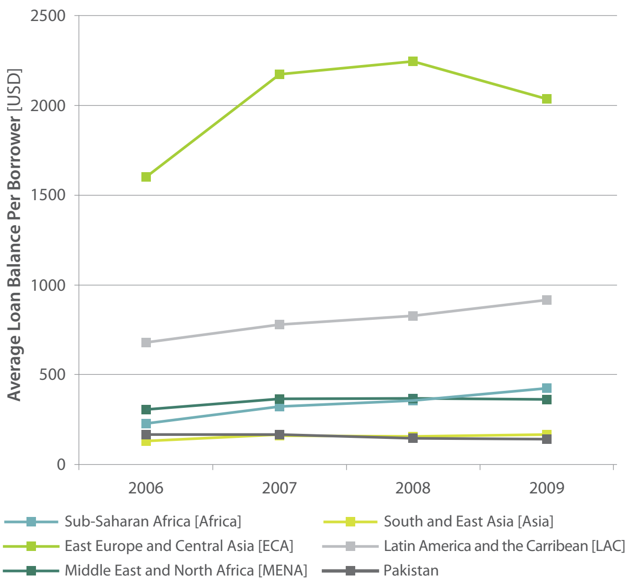
The remainder of this section will provide each of the key findings mentioned above in greater detail. The next section will delve into conclusions and recommendations for various stakeholders.

[6] Burki, Hussan-Bano and Shah, Mehr. 2006. "The Dynamics of Microfinance Expansion in Lahore – Pakistan." Pakistan Microfinance Network.

2.1. Pakistan's Microfinance Sector has not been Able to Maintain the Purchasing Power of the Credit Disbursed

In the global microfinance sphere, microcredit can range from USD 25 to USD 5,000. The average outstanding loan-balance per borrower [a proxy of average loan size] is the lowest in the South and East Asia Regions. The average loan balance per borrower in Pakistan is even lower than the regional average for South and East Asia. In fact, it has been declining consistently over the 2006–2010 period.

FIGURE 2: REGIONAL BENCHMARKING OF THE AVERAGE LOAN BALANCE PER BORROWER [2006–2009][7]

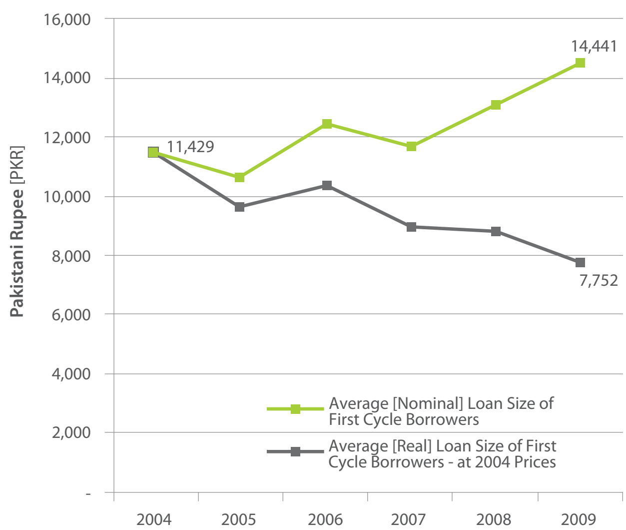


Average loan size and average loan balance outstanding per borrower are popularly used as proxies for the depth of microfinance outreach - the lower the average, the poorer the microfinance clientele. However, the declining averages [in terms of USD value] in Pakistan do not necessarily signify a deeper outreach towards the poorer market segment.

Firstly, the declining purchasing power of the Pakistani rupee [due to accelerating inflation] reduced the USD value of the average micro-loan outstanding in Pakistan. Secondly, the survey data showed that mature borrowers do not graduate out of the GBL system which typically has a loan-size cap of about PKR 35,000 [USD 412]. Instead, many mature borrowers continue to borrow smaller amounts from GBL programs in the absence of the opportunity to graduate to larger loan sizes. The declining USD value of the average loan outstanding in Pakistan can therefore be attributed to the depreciation of the Pakistani rupee with respect to the US dollar, and to revolving smaller-sized loans to the existing pool of microfinance borrowers, especially when existing microfinance borrowers begin patronizing multiple MFPs simultaneously.

Loan size data from the survey showed that the average loan size of the first cycle loan in 2009 had a lower purchasing power than the average size of a first-cycle loan in 2004 [**FIGURE 3**].

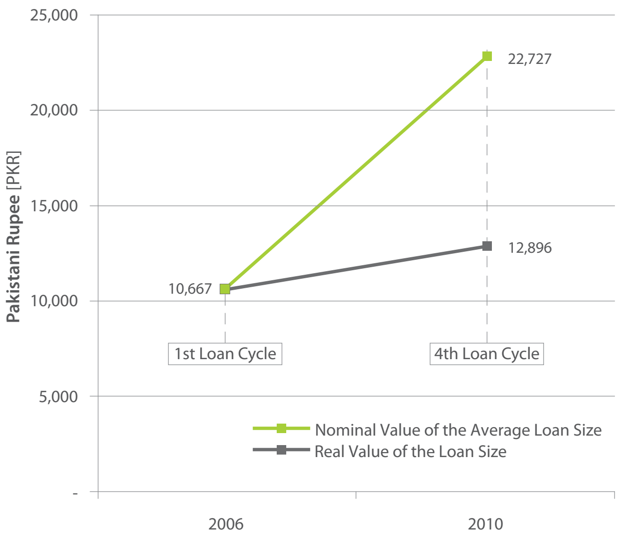
FIGURE 3: DECLINING REAL PURCHASING POWER OF AN AVERAGE FIRST LOAN CYCLE CREDIT FROM AN MFP



[7] Source: Microfinance Information Exchange (MIX). 2009. Benchmarks: MIX MicroBanking Bulletin: 2006-2008 Benchmarks.

The data also pointed to marginal loan size increments [in nominal terms] as typical borrowers graduated to higher loan-cycles. An average borrower had to be in the fourth loan cycle with a given MFP to receive one-fifth of the first loan's "real" value as an increment over four years of borrowing [**FIGURE 4**]. It is difficult to comment on Pakistan's performance in this regard because of the lack of international/ regional benchmarks on average real or nominal increments between loan cycles. However, given the steep decline in real productivity [**FIGURE 1**] and household incomes, and the increasing cost of living and doing business, the smaller the real value of the increments between loan cycles, the greater the pressure on GBL borrowers to look for additional sources of funds to meet their credit needs.

FIGURE 4: AVERAGE CHANGE IN THE PURCHASING POWER [AT 2006 PRICES] OF THE FOURTH CYCLE GBL COMPARED WITH THE FIRST CYCLE



Source: *Survey data*

BOX 1: KEY SURVEY STATISTICS - LOAN SIZE

1. An average first loan from a given MFP in 2010 had only 68% of the purchasing power of an average first loan taken in 2004.
2. After borrowing from a given MFP for four consecutive years, a client in the fourth loan cycle received a 21% increase in the real loan value over her first cycle loan.

The declining purchasing power of an average GBL loan in Pakistan points towards two possible lacunae:

1. *The absence of opportunities for borrowers to graduate from GBL programs [typically with a loan-size cap of PKR 35,000 (USD 412)] to lending programs offering larger business loans [such as individual lending programs] on the basis of a more thorough analysis of borrowers' repayment capacities.*

Thus, businesses that have successfully expanded under the GBL program and now have needs beyond what the GBL limits allow, need to graduate to higher business loans. Higher business loans under the GBL may increase lending risk given the nature of client assessment and selection under GBL in general. Therefore, as loan-size needs become larger, MFPs will need to move towards more comprehensive assessments of the repayment ability of borrowers seeking loans larger than the maximum amount viable under the GBL methodology. Borrowers with expanding businesses will have two options in the event that MFPs are unable to graduate borrowers out of the GBL to meet higher loan requirements through larger loan sizes:

a) Patch finances from various sources [including multiple MFPs] to meet financing needs.

b) Forego the potential for expansion.

Interviews with borrowers suggested that many mature [larger loan-cycle] borrowers may be in a position to graduate out of the maximum loan accessible through any GBL program. These borrowers typically have businesses with potentially high stock turnover – usually retail businesses including shops, supply of embellished cloth, etc.

***2.** The need for Pakistan's microfinance sector to determine the new equilibrium between loan size, lending risk, and the extent to which the average GBL covers borrowers' needs.*

A sweeping umbrella increase in GBL loan sizes may increase lending risk given depressed economic growth and increasing living costs. However, the failure to adjust loan sizes to cover a reasonable proportion of a borrower's credit may decrease the utility of credit to the borrower. Or, this too may increase the pressure on borrowers to either patch loans from different sources or forego their business and personal needs.

BOX 2: CASE STUDY - A BUSINESS CASE FOR A LARGER LOAN

Rukhsana buys cloth, embellishes it with hand embroidery from Bahawalpur, and then sells her stock in Islamabad, Lahore, and Karachi.

She has been borrowing from MFP X for the past three years. The last loan she received was PKR 35,000 in 2010.

For Rukhsana, the average cost of production of one unstitched suit is approximately PKR 3,500 while the average selling price is PKR 4,500. The average return fare and transportation cost of selling in one urban center is approximately PKR 4,500.

Given prevailing costs and the selling price, the PKR 35,000 loan will allow her to prepare a stock of approximately eight suits and sell them in one urban center for a gross profit of PKR 8,000, leaving her with net profit of only PKR 1,000 after completely servicing her debt at a flat annual interest rate of 20%.

On the other hand, if she can access PKR 70,000 [double her current loan], she can earn PKR 18,000 from one sale trip to the urban center. This will increase her net savings by 300% to PKR 4000 after complete debt servicing at the end of the year.

Source: *Focus Group Discussion, Bahawalpur. 2010.*

2.2. Many Borrowers Feel the Need to Take Multiple Loans to Meet their Increasing Business and Consumption Expenditures

The increasing cost of living and goods puts a strain on an average household's budget, if not offset by economic growth in general. It also creates an environment of incentives for microcredit borrowers to take multiple loans to meet their widening income and expenditure deficit. The pressure to patch loans to fulfill the credit need becomes even greater when any single loan accessible to the borrower does not cover the borrower's requirements adequately.

BOX 3: KEY SURVEY STATISTICS - MULTIPLE BORROWING

1. Forty-four percent of overall borrowers take multiple loans, according to surveyed borrowers.

2. Borrowers in Lahore estimate the average incidence of multiple borrowings in the district to be 57%.

3. There appeared to be a consensus on the estimate of the incidence of multiple borrowing within each peer group. The average variance in the estimates was only nine percent.

4. Over 30% of borrowers surveyed recommended multiple borrowing or would be amenable to taking multiple loans.

5. Almost 60% of borrowers surveyed felt that those who take multiple loans do so to meet their business needs.

Survey data suggested that approximately two of every five[8] borrowers may have taken multiple loans from different MFPs to meet their business and personal needs.

The survey data indicated that the percentage of borrowers taking multiple loans was higher in areas where multiple MFPs exist and target the same market segment. The opportunity for multiple borrowing is also created where MFPs have weak underwriting practices and relaxed attitudes towards multiple borrowing. The survey data also showed that MFPs competing in the same geographic location could have significantly varying incidences of multiple borrowing, depending on the MFP's internal lending practices and tolerance towards multiple borrowing [**TABLE 3**].

TABLE 3: ESTIMATE OF PERCENTAGE OF BORROWERS ENGAGED IN MULTIPLE BORROWING [% OF RESPONDENTS BY LOCATION/MFP/TOTAL]

	Number of MFPs recalled by borrowers in FGDs	Perceived Incidence of Multiple Borrowing [%]			
		Average	Maximum	Minimum	Variance
Dist. LHR	9	57	90	0	7
MFP B	9	73	90	12	4
MFP C	4	40	80	0	6
Dist. RWP	3	33	100	0	10
MFP A	3	33	100	0	10
Dist. BHP	4	24	70	0	4
MFP D	4	24	70	0	4
Total		44	100	0	9

Term:
Dist. - District

District:
LHR - Lahore
BHP - Bahawalpur
RWP - Rawalpindi

Discussions with MFP staff and borrowers revealed some of the following dynamics with respect to multiple borrowing [**TABLE 4**]:

1. Approximately one-third of total borrowers feel the need for simultaneous multiple loans. Given the opportunity, approximately the same percentage would recommend or are amenable to taking multiple loans.

2. The incidence of multiple borrowing [as indicated by MFP borrowers and staff] is the highest for district Lahore, but the proportion of borrowers who feel the need for multiple borrowing is the highest in district Rawalpindi. In Lahore, the average borrower recalled four to six MFPs operating locally. In Rawalpindi, borrowers recalled no more than three MFPs. Other than their current MFP, none were even physically close to their area. This means that if competing MFPs overlap their operations in Rawalpindi, the chances that multiple borrowing will increase in the district are high: up to 46% of borrowers in the district felt the need for multiple loans [**TABLE 4, *COLUMN 4***] while approximately 33% of the borrowers were amenable to taking multiple loans [**TABLE 4, *COLUMN 5***].

3. Approximately one of every three multiple-borrowers in district Lahore did not recommend multiple borrowing. In their view, multiple borrowing increased the transaction cost of managing and repaying multiple loans under GBL programs disproportionately, and added to the burden of repayment.

4. Internal and external factors impact the incidence level of multiple borrowing for each MFP regardless of the location and average loan size. The research team observed that staff members in some MFPs [MFP B] were more tolerant of multiple borrowing than staff members in other sampled MFPs. Approximately 80% of the staff interviewed at MFP B stated that its main concern was to sign new borrowers and get

[8] To arrive at this estimate, the survey asked each respondent to assess the percentage of borrowers in their respective peer groups [mainly neighbourhood] who had taken multiple loans. The estimate can be a reasonable proxy for the actual incidence of multiple borrowing because borrowers in GBL programs tend to be aware of each other's borrowing habits.

repayments on time. As long as the borrower was repaying on time, the MFP B staff was not concerned about whether the borrower had taken multiple loans or not. Interestingly, more than two-thirds of the borrowers of this MFP were amenable to multiple borrowing.

Attitudes towards multiple borrowing were different at MFP D. This MFP used the State Bank of Pakistan's [SBP] credit bureau to verify whether or not a borrower had an active loan with any other bank. Borrowers interviewed spoke of incidents where applicants with outstanding debt from other MFPs were refused loans by MFP D till their outstanding debt with the other organizations was repaid. Such actions were sending strong signals to borrowers that MFP D conducted rigorous background checks. The strong culture of intolerance by MFP D towards multiple borrowing was reflected by the fact that many of its borrowers were hesitant in admitting the need for or amenability towards multiple borrowing.

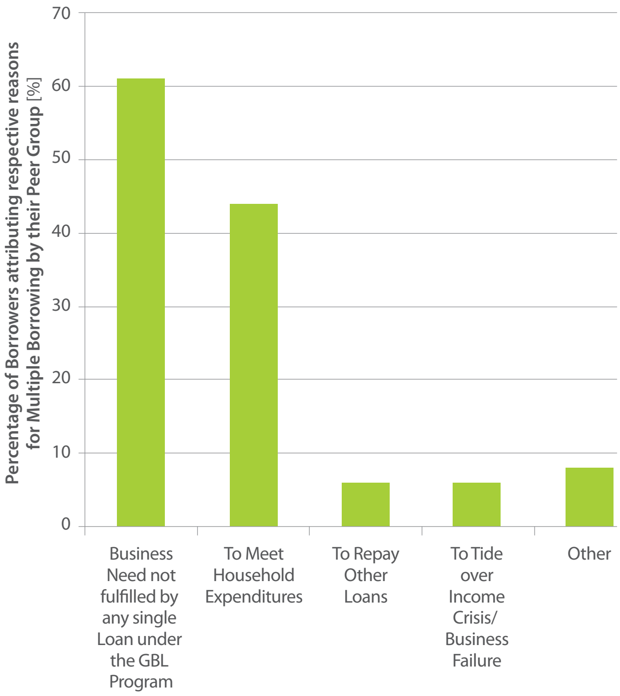
5. The survey also showed that borrowers' "groups" could be a strong factor encouraging multiple borrowing. **TABLE 4, *COLUMN 7*** shows that on average, one-third of the borrowers had been approached and encouraged by their group members to take multiple loans.

6. Borrowers take multiple loans to meet business needs that any one GBL loan cannot meet [**FIGURE 5**]. However, a significant proportion of borrowers felt that borrowers take multiple loans for consumption purposes as well, especially to meet the increasing cost of living and for bridging gaps in household expenditures.

TABLE 4: THE DYNAMICS OF MULTIPLE BORROWING

	Borrowers' Average Estimate of % of Peer Group Borrowers Taking Multiple Loans (by district/ MFP/total)	% of Respondent Borrowers That MFP Staff Think have Taken Multiple Loans	% of Respondents (by district/ MFP/total) Who Feel the Need for Multiple Loans	% of Respondents (by district/ MFP/total) Who Would Recommend Multiple Borrowing	% of Respondents (by district/MFP/total) to Whom Competitor MFP Staff Members Recommended Multiple Borrowing	% of Respondents (by district/MFP/ total) to Whom Group Members Recommended Taking Multiple Loans
Lahore	57	39	33	36	38	41
MFP B	73	80	53	57	7	67
MFP C	40	0	13	16	68	16
Rawalpindi	33	13	46	33	0	25
MFP A	33	13	46	33	0	25
Bahawalpur	24	3	19	26	29	26
MFP D	24	3	19	26	29	26
Total Respondents	44	24	32	33	28	34

FIGURE 5: REASONS FOR MULTIPLE BORROWING CITED BY BORROWERS [PERCENTAGE OF RESPONDENTS BY DISTRICT/MFP/TOTAL]



2.3. Borrowers Predominantly Use Loans for Business Needs, but are Increasingly Using Credit for Household Consumption

The survey information highlights two critical aspects of borrowers' behavior:

1. The majority of GBL program borrowers borrowed for the purpose of investing in their businesses for income generation. Although the proportion of borrowers who borrowed with the intention of non-income generation purposes was relatively small, a higher proportion of borrowers ended up using at least some proportion of their loans for unplanned, non-income generation purposes.

2. More borrowers diverted at least some proportion of their current loan amounts to consumption purposes, than the number of borrowers who used at least some proportion of their first loan on non-enterprise needs. Research avers that enterprise and household budgets [income and expenditures] are rarely managed separately by microfinance households. Therefore, cash is easily fungible between household and enterprise needs. A greater proportion of current loans than of first loans were diverted to cover household expenses. This may suggest greater pressure than before on borrowers to use their enterprise loans to cover household expenses.

BOX 4: KEY SURVEY STATISTICS - DIVERSION IN LOAN USE

1. More than 91% of borrowers declared borrowing for business investment.

2. Approximately one of every three borrowers ended up using at least some proportion of their loan on unplanned consumption needs.

3. Twelve percent of borrowers used at least some proportion of their first loan on unplanned consumption purposes. However, 28% of borrowers used at least part of their current loan on unplanned consumption.

4. Borrowers who used at least a proportion of their current loan value on unplanned consumption, used approximately four-fifths of their total aggregate loan value on non-enterprise use.

5. Eighty percent of borrowers who borrowed with the intention of using the GBL enterprise loan for non-enterprise use, had taken multiple loans from various MFPs.

Borrowers in this survey were asked to provide breakdowns of the use of their first loans and then of their current loans. A significant proportion of the borrowers declared that they used both their first and current loans for income generation [**TABLE 5**[9]]. The

[9] The percentages in Table 5 add up to more than 100% because respondents declared the allocation of their respective loan amounts to multiple uses including multiple businesses, in some cases.

responses also showed that borrowers predominantly used their first loans to set up enterprises, and subsequent loans to maintain or expand the established enterprise.

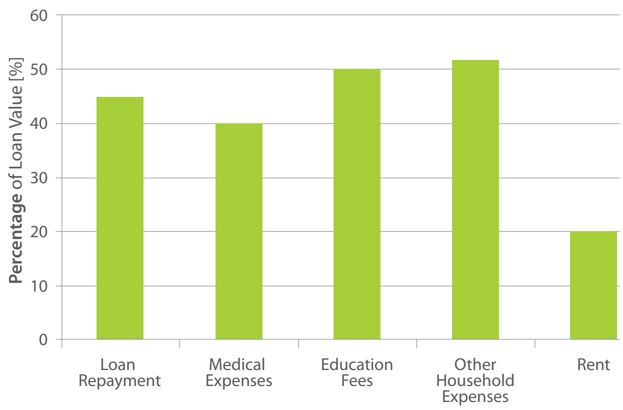
TABLE 5: LOAN USE FOR BUSINESS SET-UP VS. THE EXPANSION/ MAINTENANCE OF EXISTING BUSINESSES [% OF RESPONDENTS]

	% of Borrowers who Borrowed Intending to Start a Business [for respective loan]	% of Borrowers who Borrowed Intending to Expand/ Maintain Existing Businesses [for respective loan]	% of Borrowers who Borrowed for Non-enterprise Purposes [for respective loan]	% of Borrowers who Used Loans for Unplanned, Non-income Generating Needs [for respective loan]
First Loan Usage	53	42	6	12
Current Loan Usage[10]	18	64	7	25

The majority of loans diverted to unplanned consumption were used on household needs ranging from day-to-day expenses to house floor repairs. On average, 52% of loan amounts were spent on consumption and the rest on enterprise. The second major unplanned use was unexpected medical expenses. On average, 40% of loan amounts were diverted to covering medical expenses [**FIGURE 6**].

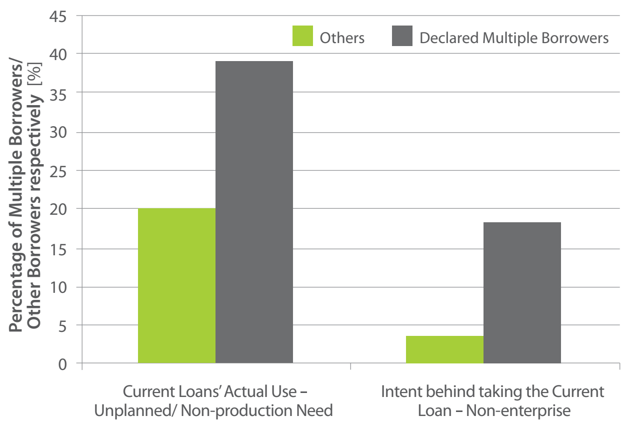
The survey indicates that borrowers with multiple parallel loans[11] were more likely to take loans with the intent to use them for non-income generation purposes, than borrowers accessing single loans were [**FIGURE 7**]. In addition, a greater proportion of multiple-borrowers were more likely to use at least some of their loan value for unplanned consumption needs. This suggests that borrowers patch their loans to meet both consumption and business needs. It also indicates that some borrowers may be taking multiple

FIGURE 6: THE AVERAGE PROPORTION OF A LOAN DIVERTED TO COVER UNPLANNED CONSUMPTION NEEDS



loans beyond their needs, simply because they can. Up to approximately 67% of the borrowers were approached by their GBL group members to take multiple loans. This indicates external peer-group pressures to take multiple loans, and points to potential lending risk as borrowers take multiple loans regardless of their needs or ability to repay.

FIGURE 7: NON-INCOME GENERATING LOAN INTENT AND USE AMONGST MULTIPLE-BORROWERS AND SINGLE-LOAN BORROWERS



10 The data in this row excludes respondent borrowers in the First Loan-cycle.
11 As declared by their respective MFP staff.

2.4. Yet, Borrowers Claim Greater Profitability on the Use of their Current Loans

Had the borrowers in the survey not been able to access their loans, the majority of them would not have been able to avail income generation opportunities either by setting up a new business or by maintaining/ expanding their current businesses [**TABLE 6**].

TABLE 6: WHAT IF THE BORROWER HAD NOT BEEN ABLE TO ACCESS THE LOAN? [% OF TOTAL RESPONDENTS]

	Would not Have Started A Business	Business not Expanded/ Sustained	Totals
First Loan	33	19	52%
Current Loan	10	38	48%
Total	43	57	

More borrowers diverted their current loans to non-enterprise purposes than they did their first loans. Yet, more borrowers claimed greater profit margins after utilizing their current loans than they did with respect to their first loans [**FIGURE 8**].

This may indicate that:

1. The aggregate rate of return on first loans was low due to start-up business failures resulting from the borrower's inexperience. Another reason is borrowers have fewer resources for working capital to generate greater sales in the short term because most of the loan amount is spent on capital expenditure like machines, fixtures, and furniture.

2. First loans in the GBL program are typically smaller than subsequent loans. Therefore, the greater the working capital for larger stock, the higher the profits, given available demand for the business's products/ services.

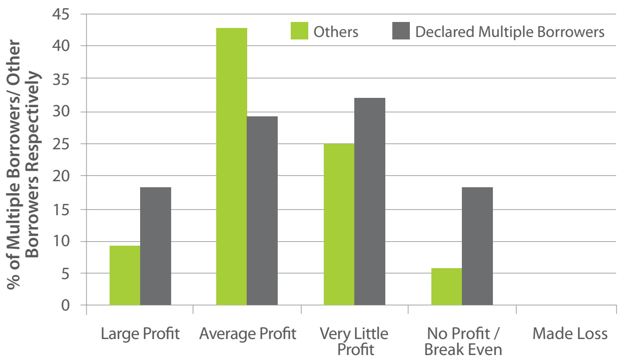
FIGURE 8: LOAN USE OUTCOME IN TERMS OF BUSINESS PROFITABILITY [BORROWER PERCEPTION]

Despite the fact that current borrowers declared higher profit levels from their current loans compared to their first loans, two in every five borrowers felt that they either made very little profit or just broke even.

Furthermore, one in every three borrowers felt that there were no savings from their profits after household and business expenses were met.

The survey data allowed a comparison of profitability as declared by borrowers of multiple loans against the profitability declared by single-loan borrowers. Analysis indicated that although a greater proportion of multiple-borrowers declared larger profit margins, a slightly smaller percentage of multiple-borrowers declared acceptable levels of profits [ranging from average to high] [**FIGURE 9**]. This was partially due to the fact that more multiple-borrowers used their loans for non-income generation purposes. The comparative analysis points to a correlation between higher lending-risk and multiple-borrowers, however, with current data, we can only conjecture that multiple lending and over-indebtedness may result in greater business risk. On the other hand, the analysis may only be pointing towards an inherent risk-taking behavior in borrowers who take multiple loans.

FIGURE 9: LOAN-USE PROFITABILITY COMPARISONS BETWEEN MULTIPLE BORROWERS AND SINGLE-LOAN BORROWERS



Regardless, the relationship between higher lending-risk due to larger business-risk and multiple-borrowers seems apparent.

3. Conclusions and Recommendations

The cost of living for an average household in Pakistan has been on the rise for the last two to three years. Microfinance borrowers are under greater pressure to increase their cash flow/income sources to meet their business and household needs. Borrowers declare using their loan amounts predominantly for investment in enterprise, but some proportion of the loan is diverted to consumption. Borrowers have diverted a greater proportion of their current loans to non-enterprise expenditures than they did their first loan. This may reflect that mature borrowers can better "afford" to divert their larger loans than they could their smaller first loans to non-enterprise use. However, this may also be an indication of an increasing pressure on borrowers to meet and maintain their consumption and business financing needs through loaned cash flows.

Nevertheless, given the current loan size available from a typical MFP, a significant proportion of borrowers feel the need to patch loans from multiple MFPs and are also amenable to doing so. Borrowers with multiple loans are using the loans for both enterprise and household expenditures. However, a greater proportion of multiple-borrowers declared using their loan amounts on consumption than the proportion of borrowers who were not declared multiple-borrowers "at least without doubt" by their respective MFP staff.

While the cost of goods and the cost of living has increased and continues to increase at a double-digit rate, incomes and income-earning opportunities may not be increasing equally for all borrowers. Thus, the majority of borrowers [except for those in district Lahore] feel that they do not have the capacity to absorb larger debt and meet still larger repayment obligations. These borrowers do not recommend larger loan or multiple borrowing.

The survey data revealed that multiple borrowing is a result of the need for larger loans, the overlap of MFP operations, and access to multiple loans in terms of MFPs' internal tolerance towards multiple borrowing and their lending practices.

It was observed that multiple borrowing by microfinance clients may pose a risk for MFPs. Survey data also showed a larger variance in the profit margins declared by multiple-borrowers than that declared by borrowers of single loans.

Given the findings and some of the conclusions presented above; MFPs, regulators and donors may want to consider the recommendations below. It is to note that most of these recommendations are not new for the PMN or its stakeholders. Similarly recommendations on product and market diversification, strengthening of MFPs internal controls and underwriting practices, averting overlapping etc. have been put forth in various previous research based reports published by the PMN[12].

[12] Burki, Hussan-Bano and Shah, Mehr. 2006. "The Dynamics of Microfinance Expansion in Lahore – Pakistan" – Pakistan Microfinance Network.
Burki, Hussan-Bano. 2009. "Unraveling the Delinquency Problem [2008/2009] in Punjab – Pakistan" – Pakistan Microfinance Network.

3.1. Recommendations for MFPs

1. Explore a new equilibrium between GBL loan size, loan-size adequacy, and lending risk, but graduate eligible borrowers out of the traditional GBL so that they can meet their larger loan needs.

The answer to the soaring cost of goods/living and the plummeting real value of average GBL credit should not lead to significant increase in nominal loan sizes across the board. However, this is not to say that MFPs should not increase their loan sizes at all. The survey suggested that the first loans had been successful in supporting borrowers in setting up new businesses and increasing their income-generating capabilities. Unless the initial loan size meets borrowers' financing needs adequately, they may not be able to invest their loans usefully to start enterprises. Therefore, MFPs need to strike a balance between meeting the financing needs of borrowers' enterprises more effectively, and maintaining an acceptable level of lending risk.

MFPs need to be able to graduate more thriving businesses with larger loan needs out of the typical GBL approach and towards a more intensive assessment of the borrower's debt absorption capacity.

Some borrower households may be able to absorb higher debt than others as their business earnings respond strongly to the injection of additional cash flow from larger loans. Other households' income capacities do not respond so favorably. This is because the business has a high income[13] elasticity/price elasticity of demand [e.g. beauty salon services] and/ or a lower stock-turnover rate [e.g. gold jewelry retailers].

For businesses that respond strongly to larger loans [e.g. cloth retail, grocery shops, and food carts], there may be a strong incentive for, and amenability towards multiple borrowing if the borrower cannot obtain the amount required from a single MFP. However, lending the required larger loan under the GBL approach may increase the risk of default unless the business is appraised more closely for its debt capacity. Doing so will tend to increase the administrative costs of an average loan. However, not doing so will increase the potential risk for the MFP when the borrower patches loans from different MFPs without any of the MFPs realizing or assessing the borrower's true debt absorption capacity.

2. Overlapping MFPs' operations geographically will potentially increase the access of GBL borrowers to multiple loans. This will increase lending risk for those MFPs whose internal control systems do not screen out multiple-borrowers, or those whose internal culture is more tolerant of multiple borrowing.

Hence, MFPs may want to consider not locating their new operations where a competitor already operates. Rather, they should expand into less saturated potential markets elsewhere.

Microfinance providers need to strengthen their internal controls given that a significant proportion of borrowers across the districts sampled felt a need for multiple borrowing and an equally significant proportion of borrowers were amenable to multiple borrowing. For MFPs who have an internal culture [at least at the field staff-level] of tolerance towards multiple borrowing, an unlearning of that culture and re-training of the field staff needs to be planned along with better monitoring and internal auditing of compliance with prudent lending practices.

3. There appears to be a strong under-serviced market for diversified loan products, including products for consumption. These include home improvement loans, education loans, and personal loans. Microfinance providers are servicing this market to some extent by offering emergency and home improvement loans, but this market is largely serviced by a cookie cutter/standard loan referred to as the traditional "enterprise loan". Barring funding constraints, MFPs can

[13] Income elasticity of demand may be relevant assuming that declining real GDP has decreased the real disposable income available to an average household in the country.

expand and tap into this un-serviced market and also reduce lending risk by designing and offering use-appropriate loans.

4. Microfinance providers may want to explore collaborative lending to microenterprises that have larger financing needs and are positioned to graduate out of their GBL loan. In the case of multiple-borrowers, MFPs are already collaborating, albeit unwittingly or unknowingly. Explicit collaboration may at least allow each MFP to assess the debt capacity of small and medium enterprises [SME] more accurately, and in doing so, reduce lending risk in general.

5. Some MFPs may need to strengthen their lending practices and re-engineer their internal staff's attitude to avoid lending to multiple-borrowers. Discussions with MFPs that appear to have successfully avoided lending to borrowers with multiple loans, suggest that the effective use of the Microfinance Credit Information Bureau [MF-CIB][14] and training loan officers to use the MF-CIB properly, have been instrumental in screening out multiple-borrowers.

3.2. Recommendations for Regulators and Policymakers

1. Supporting the expansion of the Microfinance Credit Bureau beyond its pilot stage [currently only in district Lahore] should be a priority.

The pressure for multiple borrowing is reasonably strong under the GBL approach given prevailing economic conditions. The Credit Bureau is becoming increasingly important in screening out potential multiple-borrowers at the time of application, and also for sending a message to borrowers that their declarations regarding their status as multiple-borrowers can be verified. Several borrowers, both in the districts of Lahore and Bahawalpur, referred to the the MF-CIB as a factor that detracts their peers from trying to access multiple loans from MFPs who access the services of the Credit Bureau for verifying loan applications.

2. The regulator needs to monitor how the MFP network is expanding. Overlapping will increase systemic risk while many potential geographic markets remain subserviced. The regulator can directly influence the geographic expansion of the MFP branch network in cases where the regulator has the responsibility to approve branch locations of an MFP.

3.3. Recommendations for Donors and Social Investors

The research suggests several areas where donor focus can strengthen Pakistan's microfinance sector as it stands currently, and also expand financial services access to under-served areas and markets. Donors may consider the following:

1. Support the expansion of the MF-CIB beyond district Lahore. The need for multiple borrowing is ubiquitous. As MFP concentration in any area increases, more borrowers will have potential access to multiple loans. In the presence of a will to take multiple loans as well as the opportunity, the MF-CIB will be a significant tool for MFPs to verify loan applications and deter their staff from condoning multiple borrowing amongst their clients.

2. Support technical assistance for MFPs to upscale from GBL programs to individual enterprise-based lending for those businesses that should graduate out of the GBL to access larger loans for business financing. Similarly, support banks in downscaling, enabling them to lend to small enterprises that are eligible for being lent to without collateral. Technical assistance for both up-scaling and downscaling is significant as both

[14] The MF-CIB is a joint venture of the PMN, the UK's Department for International Development [DFID], Citi-Foundation, and the SBP. It is currently being piloted in district Lahore. With 11 MFPs participating, the MF-CIB is designed to report microfinance borrowers' credit history. The pilot credit bureau in Lahore will serve as a centralized database to store the past and present credit transactions of individuals who have been declared defaulters. Currently, MFBs regulated by the State Bank have access to the central bank's e-CIB. However, a large number of microfinance clients [approximately 50%] are served by non-regulated microfinance institutions with no credit history of their customers either at the State Bank or a private CIB.

require a change in the standard operating procedures and support systems [human resource management systems, management information systems] that MFPs/banks are currently used to.

3. The research also indicates a need for the diversification of loan products to meet various consumption and business needs. This, however, could potentially increase average loan administrative costs to MFPs, initially. Therefore, MFPs that are not yet operationally or financially self-sustainable may not be able to offer the required diversification. Diversity Challenge Grants that are given to MFPs to support a winning business case for fulfilling an under-served need of the market, can be one way to support the winning MFPs to diversify their loan products to increase financial services access. Credit Guarantee Funds can also encourage MFPs and banks to initiate access into subserviced markets.

4. Donors can also influence the decisions of MFP branch location if the branch is partially or completely funded by the donor. Donors can prevent MFP overlapping to some extent by prioritizing the funding for microfinance expansion to under-served markets.

3.4. Recommendations for the PMN

The PMN has been consistently following up on the need for diversification of markets and products since 2006. It has also been flagging the risk of the unhealthy overlap of microfinance operations and of weak underwriting practices that are prevalent in some markets.

In following up, the PMN has supported a credit bureau for microfinance and should continue to support the credit bureau's rapid expansion beyond Lahore district.

As a mirror to the Pakistan's microfinance sector, PMN's research and the dissemination of periodic indicators is a powerful tool not only to measure progress of the sector but to also highlight key risks as well as achievements. Following are some possible periodic indicators that the PMN may want to consider to report on to measure the progress of microfinance growth in Pakistan in terms of loan use, multiple borrowing, and real growth in outreach [increase in first time access to credit].

Ref. No.	Indicator	Source of Data	Frequency of Collection
1	Percentage value of enterprise loans used for non-enterprise purpose	Mini Survey	Annual
2	Percentage of microfinance clients [by district] with more than one loan outstanding at any given time	Microfinance Credit Bureau	Quarterly
3	Number of first time borrowers	MFP data, Microfinance Credit Bureau	Quarterly
4	Branch mapping	MFP data on the GPS coordinates of current and each new branch	Six Monthly / Annual

Appendix

Survey Questionnaire

Type of Tool:

Qualitative – Semi-structured Interview

Overview:

The Loan Use Over Time tool seeks to study:

- How microfinance clients used their loans over time
- Why parallel loans were taken
- Why and how production loans are diverted for consumption
- The extent to which the diversion of loan use is due to insufficient loan size
- The extent to which multiple borrowing is a consequence of the need to patch loans for production purposes because existing loan sizes are insufficient to meet the needs for income generating activities

Hypotheses tested by this tool:

H1: Production loans lent for income generation are used for consumption purposes because the loan size is insufficient to be used for income generation.

H2: Borrowers resort to multiple borrowing when the size of the loan from any one MFP is insufficient to meet their total loan needs.

EXISTING INFORMATION TO BE COMPLETED AT THE BRANCH OFFICE

Data Quality Revision:

Form Reviewed by Field Team-leader (date and initials): ____________________

Interviewer Name: ____________________

Interview Date: ______/______/______
dd mm yy

Participating Microfinance Institution:

i. Organization Name: ____________________
ii. Microfinance Person In-charge Name: ____________________
iii. Branch No./name: ____________________
iv. Area: ____________________
v. Key Informant/ Microfinance Institution's Rep: ____________________
vi. Data Location: ____________________
vii. Village Name: ____________________

FILL IN BEFORE MEETING WITH CLIENT

viii. Client Identification No./loan Number/tracking No.: ____________________
ix. Address: ____________________
x. Type Of Borrower: *Individual Loan* ________ *Group Loan* ________ *Other* ________
xi. Location Of Business: *Urban* ________ *Semi-urban* ________ *Rural* ________
xii. Sex (Circle): M or F
xiii. Date Of Joining the MFP (dd/mm/yy): _____ / _____ / _____
xiv. Number Of Program Loans Taken: ____________________
xv. Size Of Last Loan: ____________________
xvi. Any Arrears or Default? ____________________

xvii. Loan statistics:

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5
a. Size (PKR)					
b. Loan repayment period (in months)					
c. Number of installments[15]					
d. Service charge (%)					
e. Installment size/amount (PKR)					
f. Loan utilization					
g. Number of installments paid late					
h. Average number of days late for repayment of installment					
i. The installment payment that took the longest to be repaid was late by how many days?					
j. Default (Yes or No)					
k. Defaulted amount					

xviii. Does the loan officer think the borrower has taken multiple loans?

[__] 1 – Yes

[__] 3 – Most probably

[__] 4 – No

[__] 5 – Most probably not

[__] 6 – Cannot say

15 Lump sum payment is to be written as one (1) installment.

"USE OF LOANS OVER TIME" INTERVIEW GUIDE

Introduction:

- Aslamu-alaikum, Thank you for taking some time to talk to us.
- I am from the PMN, which is an organization that does not provide credit, but it advises the organizations that do provide small loans on how to improve their service to the borrowers.
- If you are willing, I would like to take approximately 45 minutes of your time to understand your loan needs and how the loans could be improved.
- We requested MFI ______________ to help us get in touch with you because you have been their client. However we do not work for MFI______________ and anything you say will remain confidential.

A. Can you please tell me about the loans you have taken from an organization?

Where did you take these loans from?

	First Loan	Second Loan	Loan Before Last	Last Loan
When (which year)?				
What was the size of the loan?				
From whom did you get it?				
How often did you have to repay the installments? When (which year)?				
From whom?				
Interest rate and fee				

(Use one form for each loan (first, intermediate, and the current or the last loan) and reproduce it in a format that provides ample space to write answers)

1. First Loan

Client ID Code: ____________________ Loan #: ____________________ Loan Amount: ____________________

Date Received: ____________________ Repayment Period (loan terms): ______________________________

1.1 What did you think or hope to do with the loan money when you first asked the MFP for this loan?

1.2 What did you do with your loan money? What expenses did you use it on?

[__]-Business 1: Rupees ________________________
Explain (what business, who is it run by, business partners, etc)

[__]-Business 2: Rupees ________________________
Explain (what business, who is it run by, business partners, etc)

[__]-Reserved for repayment and emergencies: Rupees ________________________
Explain (how much, what emergencies)

[__]-Other **(describe what and how much)**

1.3 Who advised you to use the money that way?

1.4 Do you think the money could have been put to better use? Explain.

[__] – Yes

[__] – No

[__] – Maybe

[__] – Don't know

Explain:

1.5 In your opinion, did any changes take place as a result of spending your loan money in these ways?

DO NOT READ OPTIONS BELOW OUT LOUD. LET THE RESPONDENT EXPLAIN THE CHANGES. ONCE THE RESPONDENT HAS EXPLAINED THE CHANGES, THEN PROBE FOR EACH IF NOT ALREADY COVERED. ASK THE RESPONDENT TO EXPLAIN EACH AND RECORD THE EXPLANATION.

[__] 1 – Business/ Household Income

[__] 2 – Health Of Household/ Household Member

[__] 3 – Education/ Literacy

[__] 4 – Lifestyle

Explain:

1.6 After fully paying your loan and paying all business/household expenses, did you have any profit left? If so, approximately how much?

[__] 1 – Large profit

[__] 2 – Average profit

[__] 3 – Very little profit

[__] 4 – No profit, just recovered expenses

[__] 5 – Loss

Explain:

1.7 If there was a surplus, what did you do with it?

1.8 What would you have done if you had not taken this loan?

[__] 1 – I would not have been able to start a business

[__] 2 – I would not have been able to expand my business

[__] 3 – I would have had a lower household income

[__] 4 – I could not have afforded medical care **(IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for medical care)**

[__] 5 – I could not have educated my child/children (**IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for education/fee)**

[__] 6 – I could not have afforded a wedding **(IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for a wedding)**

[__] 7 – I would have borrowed money from someone else **(ASK WHO)**

[__] 8 – Nothing

[__] 9 – Other ____________________

Explainations:

____

____

1.9 Have you experienced a crisis during this loan cycle? If yes, did you use your loan to help cope with the crisis? How?

____

____

____

2. Current Loan

Client ID Code: ____________ Loan #: ____________ Loan Amount: ____________

Date Received: ____________ Repayment Period (loan terms): ____________

2.1 What did you think or hope to do with the loan money when you first asked the MFP for this loan?

____

____

____

2.2 What did you do with your loan money? What expenses did you use it on?

[__] – Business 1: Rupees
Explain (what business, who is it run by, business partners, etc)

____

____

[__] – Business 2: Rupees
Explain (what business, who is it run by, business partners, etc)

____

____

[__] – Reserved for repayment and emergencies: Rupees
Explain (how much, what emergencies)

____

____

[__] – Other **(describe what and how much)**

____

____

2.3 Who advised you to use the money that way?

____

____

____

2.4 Do you think the money could have been put to better use? Explain.

[__] – Yes

[__] – No

[__] – Maybe

[__] – Don't know

Explain:

2.5 In your opinion, did any changes take place as a result of spending your loan money in these ways?

DO NOT READ OPTIONS BELOW OUT LOUD. LET THE RESPONDENT EXPLAIN THE CHANGES. ONCE THE RESPONDENT HAS EXPLAINED THE CHANGES, THEN PROBE FOR EACH IF NOT ALREADY COVERED. ASK THE RESPONDENT TO EXPLAIN EACH AND RECORD THE EXPLANATION.

[__] 1 – Business/ Household Income

[__] 2 – Health Of Household/ Household Member

[__] 3 – Education/ Literacy

[__] 4 – Lifestyle

Explain:

2.6 After fully paying your loan and paying all business/household expenses, did you have any profit left? If so, approximately how much?

[__] 1 – Large profit

[__] 2 – Average profit

[__] 3 – Very little profit

[__] 4 – No profit, just recovered expenses

[__] 5 – Loss

Explain:

2.7 If there was a surplus, what did you do with it?

2.8 What would you have done if you had not taken this loan?

[__] 1 – I would not have been able to start a business

[__] 2 – I would not have been able to expand my business

[__] 3 – I would have had a lower household income

[__] 4 – I could not have afforded medical care **(IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for medical care)**

[__] 5 – I could not have educated my child/children (**IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for education/fee)**

[__] 6 – I could not have afforded a wedding **(IF YES, THEN ASK FOR EXPLANATION. See if the loan amount was used to pay for a wedding)**

[__] 7 – I would have borrowed money from someone else **(ASK WHO)**

[__] 8 – Nothing

[__] 9 – Other ______________________________

Explainations:

____

____

2.9 Have you experienced a crisis during this loan cycle? If yes, did you use your loan to help cope with the crisis? How?

____

____

____

3. Multiple Borrowing Questions *(to be asked after the individual loan details are completed)*

3.1 Did you think that people in your community who borrow from MFPs generally feel the need to take another loan when they already have an existing loan?

[__] 1 – Most of the Borrowers do do **(Ask, in their opinion how many from 100 borrowers do they think would need to take loans from other MFPs while having an existing loan)**

[__] 2 – Some do **(Ask, in their opinion how many from 100 borrowers do they think would need to take loans from other MFPs while having an existing loan)**

[__] 3 – Very little do **(Ask, in their opinion how many from 100 borrowers do they think would need to take loans from other MFPs while having an existing loan)**

[__] 4 – No one does **(Ask, in their opinion how many from 100 borrowers do they think would need to take loans from other MFPs while having an existing loan)**

3.2 In your opinion, under what circumstances would someone take another loan from another MFP?

____

____

____

3.3 Did anyone encourage you to take another loan while you had an existing loan?

PROBE

[__] 1 – MFP staff

[__] 2 – Group member

[__] 3 – Activist

[__] 4 – Family

Explain/ Comments:

3.4 Have you ever felt the need to take a loan from someone else/another MFP while you still had this loan?

PROBE: Did someone else in your household get a loan while this loan was not paid?

3.5 Do you think the MFPs that give the loan know that the borrower has a loan from another MFP?

[__] 1 – Always

[__] 2 – Most probably

[__] 3 – Only in few cases

[__] 4 – Never

[__] 5 – Don't know

PROBE: Do you think that the MFP staff finds out before giving the loan, at the time of giving loan, or after they have given the loan?

Explain/ Comments:

3.6 Do you think it is okay to borrow from multiple different sources at a time? Why or why not?

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