

**NETWORK FOR SOCIOECONOMIC
RESEARCH AND ADVANCEMENT**

WORKING PAPER

August, 2014

NESRA

nesra/wp/14/001

Addiction to Microcredit: An Obstacle to Social and Financial Mobility

James Atta Peprah
Email: jpeprah@ucc.edu.gh

Isaac Koomson
Email: koomsonisaac@gmail.com

ADDICTION TO MICROCREDIT: AN OBSTACLE TO SOCIAL AND FINANCIAL MOBILITY

James Atta, PEPRAH
Department of Economics
University of Cape Coast
Cape Coast
Mobile: 0244718204
Email: jpeprah@ucc.edu.gh

Isaac, KOOMSON
Department of Economics
University of Cape Coast
Cape Coast
Mobile: 0246643536
Email: koomsonisaac@gmail.com

Abstract

Contrary to the confidence in the ability of microfinance to uplift the poor on the social structure so that upon reaching a higher echelon, the poor (clients) will be able to save and borrow from formal financial institutions (FFIs), most of the poor and socially vulnerable have now become addicted to micro-credit due to demand and supply-side factors. What could be the possible causes of this micro-credit addiction? The objective of this paper was to unravel the causes of what we call “microcredit addiction” and provide recommendations that will enable the addicted clients to break away from this craving. The paper reviews literature on social and financial impact of microfinance and finds that failure of microfinance in the delivery of its core mandate of poverty reduction results in clients’ addiction to micro-credit and, eventually, inhibits their social and financial mobility. The upscaling intentions of MFIs, compulsory savings, high interest rates and transactions costs, multiple borrowing, client’s inability to save for the future and, surprisingly, clients’ satisfaction with MFIs’ products and services are among the factors that make clients get addicted to micro-credit.

JEL Classification: A14, G21, O16

Key words: addiction, microfinance, financial mobility, over-indebtedness

Introduction and motivation

Microfinance has been generally accepted to provide financial services to low-income households that lack access to banking and high quality financial services such as credit, savings, insurance and fund transfers. It has also been described as an effective way of helping poor people and improving financial system efficiency in developing countries. Microfinance institutions (MFIs) have both financial and social roles in the development process and to date, MFIs have had an important impact on women, employment growth/opportunities and poverty alleviation (Shaw & Vassallo, 2011). Again, microfinance has been accepted universally as being able to help the poor to access credit without collateral and to generate near full recovery rates through what has been described as the win-win proposition. The win-win proposition's concept of provision of sustainable financial services at market rates has also been termed as 'financial system' approach or 'commercial microfinance'. The progress report submitted by Microcredit Summit Campaign indicates that as of 2012, the outreach (overall clients) and effectiveness of MFIs on a global scale continued to increase to 204 million. In the same year, there was a reduction in the number of poorest clients from 138 million in 2010 to 116 million (Reed, Marsden, Ortega, Rivera & Rogers, 2014). Microfinance comes in varied forms including aid programmes.

Aid programmes that take the form of microfinance have come to help those who were hitherto not having access to the formal financial system due to lack of collateral. For example, United Nations Capital Development Fund (UNCDF) has been working in the field of microfinance for the last 20 years as one of its two main pillars of development cooperation. By supporting MFIs that provide services to marginalized communities, particularly poor women who traditionally lack access to financial services, the UNCDF has long been involved in the struggle to close the gender gap (UNCDF, 2002). This backs the core function of microfinance, that is, to propel the agency of those who have been excluded from formal market economies. This is to say that a small loan, made typically to the poor and vulnerable, should aim at allowing the loan taker to become an active member of the local economy by starting his or her own small business and to lift them onto higher rungs of the social ladder. Joining a higher echelon of the social structure also means that these people, who were hitherto vulnerable, will now be able to save and borrow from formal financial institutions (FFIs). If the former can be considered as social mobility, then the latter can also be termed "financial mobility"¹. Among the success stories of microfinance include its contribution to poverty reduction (Dunford, 2006) and financial development (Shaw & Vassallo, 2011); improvement in the social and economic situation of women (Littlefield et al 2003), empowering women and reduction in the incidence of domestic violence (Peprah & Koomson, 2014); giving and improving self-respect and dignity (Chowdhury, 2009) and many others.

Contrary to the expectations above, research has shown that advancing loans to the poorest of the poor could cause more harm than good as the accumulated debt that must be repaid would lead this already-poor people into further impoverishment, creating a possible cycle

¹ This is a new concept in the finance literature indicating an upward transition of an individual, beginning from informal financial institutions through semi-formal financial institutions to formal financial institutions.

of debt (Yang & Stanley, 2012) and over-indebtedness (Alam, 2012). Maurer and Pytkowska (2010) showed that by taking microcredit, 17 percent borrowers are over-indebted and 11 percent of borrowers are at a risk of becoming over-indebted in Bosnia and Herzegovina. Spannuth and Pytkowska (2011) demonstrated that seven percent borrowers are insolvent, four percent borrowers are in critical position and 14 percent are at risk of becoming over-indebted in Kosovo. Schicks (2011) also displayed that 30 percent of borrowers are over-indebted in Ghana. Korth, Stewart, Rooyen and Wet (2012) concluded their systematic review with the sentiment that caution must be taken with regard to micro-credit, stating, “As with all credit products, there is a need for caution given the potential for both good and harm to clients. In particular, because micro-credit makes some people poorer and not richer, there is an imperative to be particularly cautious when serving the poorest of the poor”. Evidence from India has revealed possible debt crisis that can plague the MFI sector and the resultant negative effects. Government officials in India stated that individuals and entities presenting themselves as MFIs and giving loans at very high or exorbitant rates of interest and their use of inhuman and coercive methods for recovery of the loans resulted in suicides by many rural poor who had obtained loans from such individuals or entities. They showed a direct link between suicides and the harsh practices of MFIs (Ulrike, Simon, Gustav & Nolwenn, 2001).

It is also believed that participation in micro-credit can have negative effects on human capital development despite the several positive outcomes. For example, Cameron and Ananga (2013) showed negative effects of microfinance on education: in Malawi, micro-credit significantly decreased primary school attendance among borrowers’ children and in Uganda, clients of a combined microcredit and micro-savings programme were more likely to be unable to pay school charges for at least one term during the previous two years, resulting in children dropping out of school. According to Lehman (2010), policies that encourage women’s entrepreneurial activity, and by extension, increase female labour supply, may have the unintended negative externality of increasing child labour thereby reducing school attendance.

The original idea of microfinance intervention aimed at assisting low income households to nurture their businesses as it was assumed that such businesses are small and require micro-capital from MFIs. As these businesses grow with time, the expectation is that such businesses will no longer need micro-loans to satisfy their larger capital requirements. Also, as these businesses become larger one would expect that they will be introduced to commercial banks where larger loan sizes will be obtained for businesses expansion. Unfortunately, most clients seem to stay with MFIs throughout their lifetime, demanding micro-credit. This is what we refer to as addiction to microcredit and which represents another dimension of the negative impact that microfinance produces on its clients. There seem to be no study that tries to find out why microfinance clients stay longer and in some cases remain forever with MFIs and continue to demand micro-loans. Two questions may be posed – one from the demand side and another, from the supply side. From the demand side we ask, why do microfinance clients always demand microcredit? From the supply side we also ask, why do MFIs retain clients whose businesses have grown instead of allowing them to graduate and become clients of commercial banks?

With the sharp contrast between the positive and very promising remarks of microfinance and the negative outcomes that microfinance has been cited to have had on loan beneficiaries, can we say that the win-win proposition holds? If it does not, what actually serves as a motivation for poor households’ continuous dealings with MFIs? In spite of all the promises that microfinance claims to offer, why are clients still in need of micro-credit? Are the poor addicted to microfinance? This study seeks to find out the possible causes of micro-credit addiction and

the issue of MFI clients' inability to realize social and financial mobility. The rest of the paper is structured as follows: the next section covers the literature review and conceptual framework followed by section 3 which examines the causes of microcredit addiction. In section 4 we conclude and provide recommendation.

Theoretical issues

The theory of addiction

Credit is a normal good that is consumed like any other physical commodity. Therefore, the theory of addiction can be applied to the analysis of why poor households become addicted to micro-loans. Gordon and Sun (2013) explored the detailed dynamic behaviour of the consumption of addictive goods, and pointed out that a consumer's stock of addiction depends on his/her previous consumption and tends to affect his/her current marginal utility of consumption. The satisfaction derived from the addictive good wanes over time and is restored by means of current consumption.

The refined food addiction model explains addiction as emanating from high concentrations of caffeine, sugar, fats, carbohydrates, flour, salt and others. Individuals consume foods that contain these ingredients and combinations of them. One interesting thing to also consider is that similar to drugs, the potential addictive powers of such goods are enhanced after they have been extracted and concentrated by modern industrial processes (Corsica & Pelchat, 2010). Relating microcredit addiction to the refined food addiction model helps to tentatively state that interest rates and specific loan packages may be the cause of loan beneficiaries' addiction to microcredit. Again, we can add that just as modern industrial and extractive processes enhance the potential addictive powers of goods, so does the recent developments and profit seeking tendencies of MFIs have the potency of making clients more addicted to microcredit.

The Win-Win Proposition

According to Van Gool, Baesens, Sercu, and Verbeke (2009), the win-win proposition was championed by Robinson in 2001 with the idea that social impact could go hand in hand with financial sustainability or even profit-making. This proposition was also promoted by the Consultative Group to Assist the Poor (CGAP) and United States Agency for International Development (USAID) through publications, workshops and many other activities. According to Morduch (2000), this proposition further indicates that MFIs that follow the principles of good banking will also be those that alleviate the most poverty. By eventually doing away with subsidies and attaining financial sustainability, MFIs will be able to grow without the constraints imposed by donor budgets. In the end, these institutions will be able to serve more poor people than can be served by programs fueled by subsidies. A fundamental ideology, then, is that poor households demand access to credit, not "cheap" credit. Thus, microcredit programs can charge high interest rates without compromising outreach. Kiiru (2007) states that, by assumption, the poor's repayment ability serves as a good indicator that any form of investment that the loans go into, generate profit. Also, from the assumed stance that microfinance benefits the poor, the "win-win" proposition further assumes that the amount of household poverty reduced is directly proportional to the number of households reached with microfinance. This has made MFIs profit-seeking, thereby, deviating from their core mandate (mission drift).

Contrary to the argument that there are poor households that can pay high interest rates, the findings of many subsidized programs, however, have shown that there are also many borrowers who cannot pay these high interest rates (especially in Asia). It has been shown that the ability to pay high interest rates is an empirical issue, dependent on the amount of capital being used, as well as the amount of all other inputs available. It cannot, then, be concluded that because one group of poor households can pay high interest rates, even poorer households can pay those interest rates as well (Morduch, 2000). This shows, by further inference, that poor people's inability to pay higher interest rates results in their continuous impoverishment and persistent craving/addiction to microcredit since they would still have consumption smoothing desires to cater for. Faced with this challenge, we can say that the win-win proposal does not hold for this group of people who cannot afford loans that come with high interest rates.

Addiction to microcredit can be described in the context of social and financial mobility. The core mandate of microfinance is to reduce poverty. In order to achieve this, MFIs, through their operations, should be able to move clients up the social and financial ladder. How microfinance interplays with social and financial mobility is presented in the next section.

Social and Financial Mobility

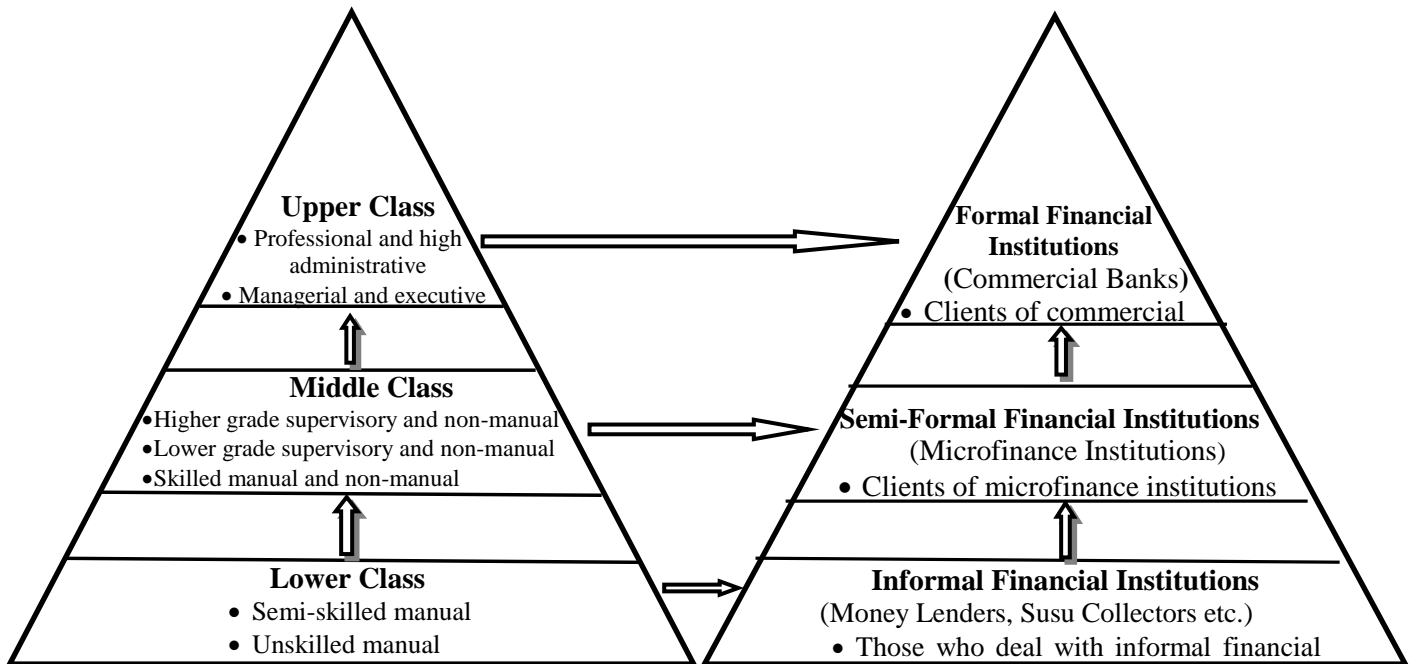


Figure 1a: Social Mobility
Source: Prais (1955)

Figure 1b: Financial Mobility
Source: Authors' Construct (2014)

Social mobility is the "transition of an individual or social object or value from one social position to another" (Sorokin, 1927). This concept develops out of social stratification which is regarded here as the differential ranking of individuals who compose a given social system and their treatment as superior and inferior relative to one another in certain socially important respects (Parsons, 1940). In all these, one of the assumptions of social class is that people subscribe to the ideology of upward mobility that is, become wealthier than they are in their current situation (Schor, 2000). The method used in social mobility was to define social class

mainly in terms of occupation (Prais, 1955) and that is what is depicted in Figure 1a. It can be explained that microfinance provides unskilled and semi-skilled people, who borrow from informal financial institutions, with credit and skills to work and improve their lives and become part of the middle class. From the middle class, increased profit and further loans result in increase in incomes and social status until such individuals graduate to the upper class and no more deal with MFIs but borrow from the traditional commercial banks.

The legitimate question is to ask if that is what the poor in society are experiencing as a result of their coming into contact with MFIs. The pyramid nature of Figure 1a depicts the number of people found in each social class and those that are able to socially upgrade due to their benefitting from microcredit. Microfinance has been cited as being very key in economic empowerment and social mobility. According to Meissner (2005), microfinance has the ability to reduce poverty and result in greater social stature or social mobility due to increased income. In a study conducted in Pakistan, Hamdani and Naeem (2012) showed that a significantly positive relationship existed between microfinance and social mobility. Their results also showed that the financial opportunities and enhancement in living standards provided by microfinance helps to uplift people on the social ladder. It can be deduced that failure on the part of microfinance to provide these benefits to poor people will, in effect, result in their inability to move up the social ladder (vertical social mobility).

Like social mobility, **financial mobility** is the transition of an individual from one financial structure to another. The transition can be vertical, horizontal or diagonal but this study focuses on vertical mobility (see Figure 1b). This is where individuals move financially upward or graduate from informal financial institutions through MFIs to formal financial institutions. It is expected that individuals who borrow from informal financial institutions at one point in time will be able to realize profits on these loans and graduate to become clients of MFIs. As everyone strives for an upward financial mobility (become wealthier than they currently are), these clients are again expected to move on (with huge portfolios) to become clients of formal financial institutions. Any financial system's inability to provide the fundamental structure for such movements and graduations is tantamount to stagnation and hence results in poor people being stuck at either the lower or middle level of the financial structure. This is what we term as financial addiction and in this study, addiction to microfinance since clients of microfinance institutions are seen as failing to graduate. Addiction to microcredit makes the situation look like the *caste system* (in India for example) where there is no mobility within the social structure. The pyramid (Figure 1b) exhibits the number of financial institutions that are found in each level and the number of individuals that are able to move up the financial structure.

Getting to find out what is accounting for this stagnation at one financial class (semi-formal institutions – MFIs) and at one social class (either at the lower or middle level) has been the motivation behind this paper. The causes could be both demand-side and supply-side factors which are explained in the subsequent paragraphs.

Supply Side Causes of Addiction

Upscaling Intentions of MFIs

Upscaling is the development in the microfinance sector where non-governmental organisations upgrade their status from NGO to bank or non-bank financial institution to be able to make use of different sources of funding (e.g. take deposits) and distribute profits. This was first evidenced when Bancosol in Bolivia upscaled in 1992 (Lutzenkirchen, Weistroffer, Speyer &

AG, 2012). In Ghana one route to upscaling is where an institution starts as a microfinance company, moves to savings and loans and finally becomes a universal or commercial bank. This is dependent upon meeting the minimum capital requirement by the Bank of Ghana. Once an MFI intends to upscale, it does all it can to retain its clients so that they move to the next scale with them, rather than starting all over to look for new clients. In a focus group discussion, some Ghanaian microfinance practitioners had this to say:

We picked these very poor people who had barely any assets (business skills and education) needed for business growth. We gave them financial training and all that they needed to make their businesses flourish. So if their businesses have grown and for that matter result in their depositing bigger sums with us to increase our loanable funds and money creating process, why must we let them go?

One implication of this situation is that the MFIs grow bigger, reduce their operation cost but charge very high interest rates on loans advanced to their retained clients. Another implication is that until the MFIs achieve their aims of upscaling, the individual loan beneficiaries would also not realize their dream of financial mobility. In a further interview, the practitioners added that:

We can serve our clients no matter the loan amount they need so why should we let them go and join commercial banks when we intend to become commercial banks in future?

This also means that MFIs who were largely serving micro and small scaled enterprises and leaving the credit needs of the medium and large scale enterprises to be served by the commercial banks, are now playing the role of the commercial banks. Based on the continuum of MFI and client growth framework (Figure 2), the credit services provided by the MFIs are supposed to end with the small scale enterprises. But due to the commercialization and the dynamism in the microfinance sector, the MFIs are now able to meet the larger capital requirements of the medium and large scale enterprises which, in effect, provide the basis for the clients to stay with MFIs longer than it should be.

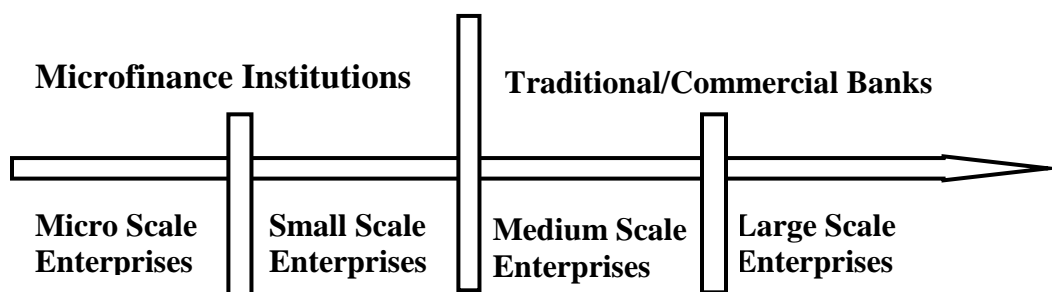


Figure 2: Continuum of MFI and Client Growth

Unhealthy Competition among MFIs

In microeconomic theory, increased competition drives prices downward but this is not the situation in all microfinance sectors and especially when the microfinance sector reaches the consolidation phase in its growth and expansion (Porteous, 2006). According to Srinivasan (2009), intense competition among MFIs is considered among the root causes of poor people's

addiction to microcredit, especially the kind of competition which lowers borrower selection standards, weakens relationships with customers and leads to multiple loan-taking and high defaults. For instance, 25 percent of borrowers in India were reported as taking loans from six or more different MFIs. At the end of July 2009, an estimated 8.8 million Euros (Rs 600 million) worth of the portfolio of microfinance institutions (MFIs) that operated in Kolar (a town in Karnataka District of India) was reportedly involved in defaults. An increase in the number of defaulters implies that such clients must, in their future quest to get out of default, stay with MFIs which amounts to both a social and financial immobility.

Microfinance institutions have been criticized on the grounds of shallow depth of outreach. For instance, Woller (2002) asserts that many MFIs do not explicitly target the poor. These institutions frequently do not employ specific targeting strategies to reach the poor but, on the contrary, employ ineffective targeting strategies. Thus, MFIs tend to rely on design characteristics such as low initial loan sizes, stepped loans, standardized and inflexible loan products and loan terms, high interest rates, forced savings, group loans with joint liability, and weekly meetings. Low initial loans and stepped loans themselves act as inhibiting factors to quick loan turnover rates and slow beneficiaries' upward transition through the social and financial classes.

Group lending

Lending to groups has both positive and negative impact on loan beneficiaries. On the positive side, especially on women, members of a group develop social ties, have joint liability and learn the skills of other group members. In Ghana, women jointly attend social gatherings (such as funerals, marriage and naming ceremonies) which gives them a sense of belonging. In Kenya, results from loan repayments of joint liability borrowers is reported to be well above 97 percent (Kiiru, 2007). According to Velasco and Marconi (2004), group lending provides members with the benefits of social learning, group reproduction and gender solidarity when they become a pressure group to pursue a political objective. With all of these benefits accruing to group members, loan beneficiaries are likely to stay longer than usual so as to benefit more from their groups and also more loans from the MFIs. This is tantamount to microcredit addiction. From this, although there could be some bits of social mobility, their continuous stay with MFIs alone is an indication of their not realizing financial mobility.

According to Meissner (2005), South Asia Poverty Alleviation Programme (SAPAP) beneficiaries reported an improvement in their living conditions and experienced greater access to credit and income generation means. With regard to Grameen, clients experienced an improvement in self-worth, health, education, and family life. Meissner goes on to say that joining a group leads to the development of social ties and networks that foster continued togetherness and increased access to larger loans. Once this happens and inures to their benefit, group members continue to stay with MFIs for a very long period.

Compulsory Savings

According to Rosenberg, Gonzalez and Narain (2010), some MFIs require borrowers to make compulsory deposits before they can benefit from a loan; usually, borrowers must maintain these deposits during the life of the loan. The interest rates borrowers receive on these deposits are well below the rates borrowers pay on their loans. The effect of such deposit requirements is a reduction in the net additional cash borrowers realize from their loans and, thus, increase the effective cost of the loan to them. About one-third of the sustainable MFIs reporting to MIX for

2006 required such savings deposits, and on average these MFIs are smaller than the ones that do not use compulsory savings.

In Ghana, for instance, Adjei, Arun, and Hossain, (2009) studied the Sinapi Aba Trust (SAT) and found a positive relationship between loan amount and savings deposits. Thus, all members of SAT who had benefited from loan facilities from the programme must have had at least 10 percent of such loan amount in the form of savings deposits prior to the disbursement of their loans. This condition of compulsory savings puts a strain on the poor who seek loans to work, make returns on such loans and uplift themselves on both the social and financial ladder. Low income people are characterized as having very low savings ability so asking them to first save is, in itself, a push factor that compels them to borrow from family and friends just to satisfy a loan disbursement requirement. This then does not depict the poor's ability to save and increase domestic savings but, rather, an increase in the debt burden of poor people at any one time period. The worsening debt problem gets them stuck to MFIs and are not able to experience both social and financial mobility.

High Interest Rates and Transactions Costs

It is important to keep the interest and fees paid to the MFI in context: they are only part of borrowers' total loan costs. Transaction costs can be substantial including, for instance, the time borrowers have to spend away from their businesses, their transportation expenses, and the negative impact of delays in receiving loan funds. More time away from business leads to a dent in business profit and growth of firm size. Once firms do not grow, it calls for a continuous need for microcredit and hence constrains owners' of such firms in ascending both on the social and financial ladder. Because interest charges can be quantified easily, they tend to receive much more attention than borrowers' transaction costs. In fact, these transaction costs often represent a greater expense for the borrower than the interest being charged on the loan (Adams, Graham & Von Pischke, 1984; Robinson 2001).

As regards interest rates, some MFIs are alleged to charge usurious interest rates and engage in forced loan recovery practices which are considered unethical (Shylendra, 2006). In the case of Andhra Pradesh in India, MFIs are believed to be turning out to be worse than moneylenders by charging interest rates in excess of 20 percent (The Hindu, 2006). Rosenberg et al. go on to say that administrative costs have been inevitably higher for micro-lending than for normal bank lending. The example given is that lending \$100,000 in 1,000 loans of \$100 each will obviously require a lot more in staff salaries than making a single loan of \$100,000. Consequently, interest rates in sustainable microfinance institutions (MFIs) have to be substantially higher than the rates charged on normal bank loans. As a result, MFIs that claim to be helping poor people, nevertheless, have, in the midst of competition, resorted to charging poor people interest rates that are considerably above the rates richer borrowers pay at banks. This means that the win-win proposition is in doubt since it does not inure to the benefit of MFI clients, apart from the high profits realized by MFIs. High interest rates impoverish MFI clients and cause them to even descend if not stagnate on the social and financial ladder.

Demand side causes of addiction

Clients' Inability to Save for the Future

A myriad of studies have been carried out to indicate the many positive effects of microcredit on clients' income and savings (see for example Meissner, 2005; Goldberg, 2005). But in Ghana, Stewart et al. (2013) stated that the relationship between microcredit and income is positive in some areas and negative in others. For some areas, in particular, it became evident that those who had borrowed for longer periods had lower incomes. Those who experience these negative effects will also experience decreased savings. According to Armendariz and Morduch (2010), despite the higher transaction costs associated with more frequent repayment, borrowers who lack savings options may actually prefer microfinance loans when they are in need of money. This then increases the "addiction" of clients to microcredit, thereby getting them stuck at a particular level on the social and financial ladder. Clients are "addicted" to microcredit due to their (clients) inability to save for the future. This may particularly relate to women who have difficulty in keeping funds away from spouses or individuals who face repeated requests for assistance from family and friends.

Multiple Borrowing

Multiple borrowing and affiliation stitches clients to MFIs for a longer period of time. Multiple borrowing refers to a situation where clients borrow from different institutions at the same time or at regular interval and has the potency of keeping the clients with the MFI for quite some time. Multiple affiliations on the other hand describe the situation where clients become members of several MFIs without necessarily taking loans from these MFIs. Multiple borrowers were as high as 40 percent in Morocco which, coupled with other factors, eventually led to "repayment crisis" in the microfinance industry in late 2008 (Chen et al., 2010). Access to credit is likely to lure many poor households into a debt trap. They cannot resist the temptation and may use the credit to purchase a fridge or a TV set or they may spend the borrowed money on social celebrations. It may be a smooth affair for a while but trouble starts when an emergency like sickness or lack of employment arises. An additional loan can then expose the household to over-indebtedness. Multiple borrowings to repay the past loans or rescheduling of loans to adjust the over-dues do not overcome the problem; the poor borrowers just get some reprieve (Alam, 2012). Over-indebtedness results in staying with the MFIs to make sure loans are repaid in full. The conditions explained above puts clients in a situation of vicious cycle of repeated borrowing (Figure 3).

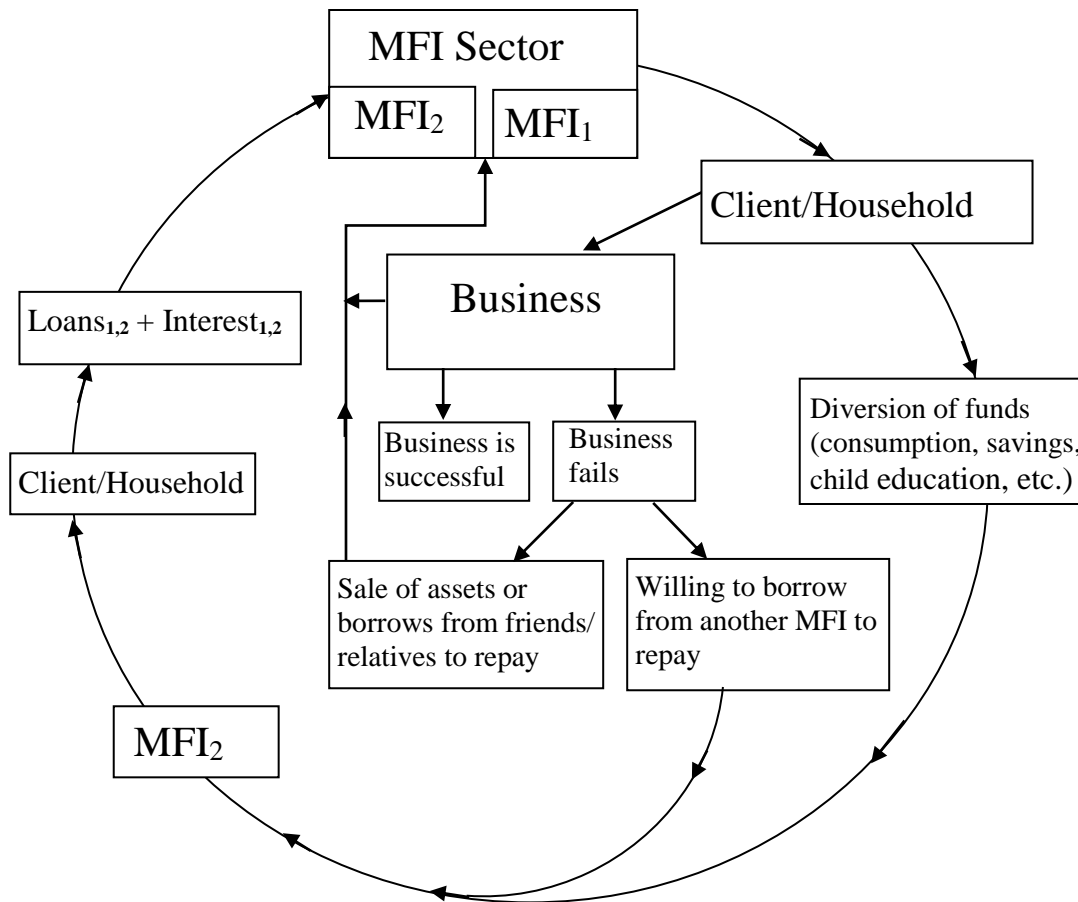


Figure 3: Vicious Cycle of Repeated Borrowing
Authors' Construct, 2013

Figure 3 shows that a client has three options in terms of the usage of microcredit. The Client can do business with the loan, divert the fund (i.e. for other activities or other investment) or split the loan in to two (part for business and divert the other). The business entity can succeed or fail. If the business succeeds, the assumption is that the client is able to repay the loan and when it fails it has to find means of repaying the loan. The failed entrepreneur has two options at his/her disposal: either to sell off assets or borrow from friends/relatives to repay or to borrow from another MFI to repay the loan just like others who diverted the funds. Those who decide to borrow together with others who divert the funds go to MFI_2 for loans. MFI_2 also gives the loans to the client/household that now owes loans and interests to MFI_1 and MFI_2 . Amounts to be paid to MFI_1 and MFI_2 will end up with the MFI sector in general. This means that the desire of the household to borrow to solve financial problem(s) rather cause them to engage in multiple borrowing hence, the vicious cycle of multiple borrowing. According to Yang and Stanley (2012), the poorest of the poor use loans advanced to them to meet basic needs first and do not invest into self-employment that has the potency to increase their income levels and haul them

out of poverty. In this instance, loan repayments are not a guarantee of poverty reduction but rather a plunging of the poor into further debt with another creditor (Yang & Stanley, 2012). In this instance, loans given to the poor could cause more harm than good since debts that have been accumulated by the poor lead the already-poor to be more impoverished and creates a possible vicious cycle of multiple borrowing.

Clients' Satisfaction with MFI Products and Services

When an MFI's product and services do not meet clients' needs, it results in high dropout rate (Wright, 2001). This indicates that MFIs that are able to provide taylor-made services to meet the needs of their clients will have their clients being very satisfied. Also, MFIs with the aim of reducing loan default, in the absence of collateral, credit histories and restrictive agreements put in place positive incentives such as guaranteed access to larger loans with better terms for one-time repayments. This also entices clients to stay longer than usual so as to access relatively larger loans that come with better terms so long as they are able to properly service the previous debt. It is worthy to note that MFI clients benefit from loan rescheduling when they default or delay in repaying their loans. These unique characteristics of microfinance and microfinance products make microcredit tantamount to food that has high concentration of sugar, salt or fats which cause clients to crave for more microloans.

Conclusion

This study sought to explore the reasons why clients become addicted to microcredit. From the literature it became evident that the reasons for this addiction could emanate from both supply and demand sides. From all indications, it will be very difficult to disentangle poor households from microfinance loans. In the face of this situation, we advocate that as microfinance institutions scale up and reduce their cost of operations, they should have the welfare of clients and their businesses in mind. This can be done by helping them to grow their business through the provision of affordable credit in the midst of commercialization.

Again, we observed that multiple borrowing result in over-indebtedness which result in clients' addiction to microcredit. In this regard, MFIs in a particular region or district, can publish and disseminate names of clients among themselves. This way, a client seen appearing on the list of two or more MFIs is monitored closely and made to choose one MFI after paying his/her loans (the approach of Vision Finance Company (VFC) and Urwego Opportunity Bank (UOB) in Rwanda). Also MFIs must also be admonished not to engage in client poaching since this entices clients to engage in multiple borrowing.

High interest rates have also been found to impoverish clients, cause microcredit addiction and militate against social and financial mobility. Based on this, we advocate that governments, instead of introducing interest rate ceilings, can play a part in the reduction of microcredit interest rates by being economically prudent and keeping inflationary rates low. This is because higher rates of inflation wear down lenders equity and force them to resort to high interest rates. On the flip side, economic mismanagement that results in high cost of transport and office supplies, high rent, and utility charges also result in high interest rates as MFIs aim at sustainability.

Poor people's low savings ability was also noticed to be a contributory factor to clients' addiction to microcredit. This is because, their inability to save and grow their businesses makes them continue to crave for small loans, hence becoming socially and financially immobile. In the light of this, we suggest that MFIs provide a range of high quality and low-cost financial

products and services to the poor so that it entices them to save. Barriers to savings such as minimum opening deposit and minimum balance requirements could be removed so that poor people find these packages very attractive.

This study is not without limitations. Even though the findings unearth virgin area(s) in the microfinance research, further empirical study could be carried out to support the above theoretical foundation(s).

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