Mediation Model for Resolving Unpaid Debt Conflicts in Rural Areas Microfinance Institutions

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Abstract: Conflicts whether financial or personal are an unavoidable part of any organization. These tensions can pop up for all sorts of reasons, whether it's disagreements over money, tricky interpersonal dynamics, or clashes around management decisions. This study aims to introduce a mediation model to tackle conflicts specifically tied to unpaid debts. The data comes from 180 participants who were surveyed using questionnaires and interviews, with participants selected through purposive sampling and snowballing techniques. A whopping 63% of participants had experienced credit-related conflicts, while 37% hadn't run into any. The top reasons for disputes included non-repayment (48%), late payments (36%), and disagreements over repayment terms (16%). In these situations, the mediator's role is to keep the conversation on track, acting as an unbiased facilitator to help both sides pinpoint their needs and work toward a solution everyone can live with. This study also puts forward a 9 step mediation model a practical, step-by-step framework to resolve unpaid debt conflicts in a structured and progressive way.

Keywords: *Model, Mediation, Conflicts, IMF, Unpaid Debts.*

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I. INTRODUCTION

The management of conflicts, often perceived as a complex and demanding process, frequently requires the involvement of both internal and external actors within organizations, as observed in microfinance institutions (MFIs) (Marsan, 2005). Conflicts, whether economic or interpersonal, are an inevitable reality in any organization and can arise in various contexts (Schermerhorn et al., 2002). When unresolved effectively, these disputes risk negatively impacting the performance and sustainability of the affected structures. This underscores the importance of adopting a thoughtful and suitable approach to conflict management (Marsan, 2005).

In this context, various tools can be employed to resolve conflicts constructively. Among them, mediation stands out as a particularly effective and appropriate approach. Mediation provides individuals in conflict with greater freedom through a voluntary, flexible, and informal process that allows parties to express their needs. The mediator plays a facilitative role, encouraging dialogue while maintaining neutrality and adhering to principles of responsibility and confidentiality (Ben Mrad, 2006).

Mediation aligns with a democratic logic, recognizing the right of each individual-citizen to shape their future through consensus and dialogue (Gasseau, 2010). It is seen as a mechanism for managing social relations that is gradually being integrated into fields such as urban policies, family affairs, justice, and education (Ben Mrad, 1998). This relational framework aims to restore, through the intervention of a third party, communication conducive to mutual understanding and the de-escalation of unsatisfactory situations (Ben Mrad, 2004).

The mediator facilitates the interaction between conflicting parties, ensuring an equitable distribution of exchanges to reach a balanced agreement for all involved (Tourrilhes, 2008). Mediation is defined as an ethical communication process based on the responsibility and autonomy of participants. It involves the intervention of an impartial third party, devoid of decision-making or advisory power, whose sole authority is granted by the parties themselves (Lesœurs et al., 2009).

Ultimately, mediation represents a process of creating and restoring social bonds, aimed at conflict resolution. It is characterized by the voluntary participation of the parties and the mediator's independence, neutrality, and impartiality (Plivard, 2010).

Microfinance institutions (MFIs) play a vital role in promoting financial inclusion, particularly by facilitating access to credit for vulnerable populations. However, MFIs frequently face challenges related to payment defaults, which

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weaken their economic stability and limit their ability to effectively fulfill their mission. Such situations often lead to tensions and conflicts between MFIs and borrowers, jeopardizing the trust essential to their operations (Houngnon and Montcho, 2024).

In the communes of Allada and Toffo in southern Benin, these issues are particularly evident. MFIs in these areas face recurring cases of loan defaults, fostering an atmosphere of mistrust and misunderstanding. This situation highlights the urgent need to establish an effective and structured mediation model. Such a framework would help defuse tensions, foster constructive dialogue, and restore mutual trust.

Faced with these challenges, the question arises: What is the appropriate mediation model for resolving conflicts related to payment defaults?

To address this question, this study proposes a mediation model for resolving conflicts related to payment defaults.

II. MATERIALS AND METHODS

A. Research Area

This study took place in the communes of Allada and Toffo, located in southern Benin. Allada spans 381 km², bordered by Toffo to the north, Tori-Bossito to the south, Zè to the east, and Kpomassè and Bopa to the west. It comprises 12 districts and 84 villages. As of 2013, its population was estimated at 127,512, with the districts of Sékou, Allada, Agbanou, and Lissègazoun accounting for 50.20% of the total population. The main ethnic groups include the Aïzo (83%), the Fon (10%), and the Yoruba (5.6%), while traditional beliefs, Christianity, and Islam dominate the religious landscape.

Toffo lies just north of Allada in the Atlantic Department, covering 492 km². In 2006, the population was estimated at 318,150, with an average density of 122 people per km². Toffo is made up of 10 districts and 54 villages, with its administrative hub, Toffo-Centre, located 81 km from Cotonou. The area experiences a sub-equatorial climate with four distinct seasons. Annual rainfall averages around 1,100 mm during the main rainy season and 800 mm during the shorter one. Its waterways include the Couffo River to the west and Lake Hlan to the east.

Socio culturally, Toffo is home to a mix of ethnic groups, including the Aïzo of Colli, known for their unique traditions. For instance, the newborn outing ceremony involves drinking runoff water to boost immunity a custom that clashes with campaigns advocating the use of safe drinking water.

B. Sampling and Database.

This study focused on capturing a wide range of opinions, applying the triangulation principle to ensure diverse perspectives (Ramos, 2015). Identifying MFI clients with unpaid debts posed a challenge since these individuals were not easily identifiable. To address this, participants were selected based on recommendations from MFI managers. The snowball sampling method was employed, where each respondent or key informant referred others who met the study's criteria (Sauvayre, 2014).

This approach, which relied on intermediaries, proved highly effective in engaging participants, especially in the absence of a pre-existing list of the study population. The sample was built progressively, with input from MFI staff and the respondents themselves. The survey concluded once data saturation was achieved that is, when additional information no longer offered new insights.

Rather than striving for representativeness, the study prioritized diversity of perspectives. To ensure rigor, the sample was carefully diversified. A total of 180 individuals participated, all of whom provided informed consent. The sample breakdown is detailed below.

Table 1: Sample The table addresses sampling techniques and target groups.

Target	Sampling Technique	Size
MFI clients	Purposeful	150
MFI staff	Snowball	30
TOTAL		**180**

Source: Field Survey, 2024

C. Data Collection Method

To achieve the study's objectives, an in-depth qualitative approach was adopted. Semi-structured interviews were conducted using a carefully designed interview guide. Two main groups were targeted: MFI agents and managers, as well as MFI users.

Alongside the interviews, participant observation played a key role. The research team attended client file review sessions and observed governance practices within the MFIs. This hands-on approach helped capture participants' actions, emotions, and viewpoints in real time. Sampling combined purposeful selection and snowball techniques, ensuring the sample accurately reflected the population under study.

D. Data Analysis Method

After data collection, descriptive statistics were used to analyze the information gathered from the field. This involved frequency analysis for qualitative variables and perception variables with closed-ended questions, as well as the analysis of means, maximums, and minimums for quantitative variables. The SPSS software was used for this analysis, while text processing was done with Microsoft Word 2013.

A modeling scheme was proposed and tested in the context of conflict resolution in the study area.

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III. RESULTS

A. *Sociodemographic and Economic Characteristics of Respondents*

Table 2: Socio Demographic and Economic Characteristics of Respondents

Variables	**Modalities**	**Absolute Frequencies (%)**
Sex	Men	28
	Women	72
Education Level	None	44
	Primary	19
	Secondary	25
	University	12
Marital Status	Married	74
	Widowed	02
	Single	24
Variables	Mean	Standard Deviation
Number of Children	6	4
Age	32.75	8.03

Source: Field Survey Analysis Results, 2024

B. *Analysis of the Causes of Credit Conflicts Within Microfinance Institutions in the Study Area*

Table 3: Causes of Credit-related Conflicts

Variables	Modalities	Absolute Frequencies (%)
Level of involvement in a credit conflict with an MFI	Yes	63.00
No	37.00	
Main cause of conflict	Late repayment	36.00
Non-repayment	48.00	
Repayment conditions	16.00	

Source: Survey Analysis Results, 2024

The data in Table 3 sheds light on the underlying causes of credit-related conflicts within MFIs. Notably, 63% of respondents have encountered credit disputes, pointing to significant challenges with loan repayment or interactions with MFIs. However, 37% of participants report no conflicts, showing that a substantial portion of clients successfully manage their loans without major issues.

Among those who have faced conflicts, non-repayment emerges as the leading cause, affecting 48% of respondents. This highlights the serious difficulties some borrowers face in meeting their financial commitments. Late repayment is the second most common issue, cited by 36% of respondents, underlining the struggle to stick to repayment deadlines. Additionally, 16% of participants attribute conflicts to disagreements over repayment terms, suggesting that some clients view the loan conditions as unfair or unworkable.

C. *Proposal for the Appointment of a Mediator in Resolving Disputes Related to Unpaid Debts*

To address disputes related to unpaid debts, appointing a mediator could provide an effective solution. The mediator's primary role would be to foster open communication and facilitate constructive dialogue between the parties involved, aiming to reach an amicable, win-win outcome. Acting as a neutral third party, the mediator would help both sides clarify their concerns, understand each other's perspectives, and explore potential solutions.

➢ *Key Responsibilities of the Mediator would Include:*

- Encouraging clear and honest communication;
- Helping each party understand the other's point of view;
- Building trust by showing empathy for the concerns raised;
- Identifying the root causes of the conflict and prioritizing the issues to address;
- Objectively evaluating the available options for resolution;
- Introducing breaks during negotiations when discussions become heated or reach a deadlock;
- Promoting creative and flexible approaches to problem-solving, focusing on win-win outcomes;
- Steering discussions away from blame and toward solutions;
- Organizing one-on-one meetings with each party if group discussions stall;
- Proposing practical, balanced solutions that align with the core interests of both sides.

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This mediation process relies on collaboration and aims to achieve outcomes that satisfy both the client and the MFI while preserving a sense of fairness.

D. Proposal for a Mediation Model in Conflict Resolution

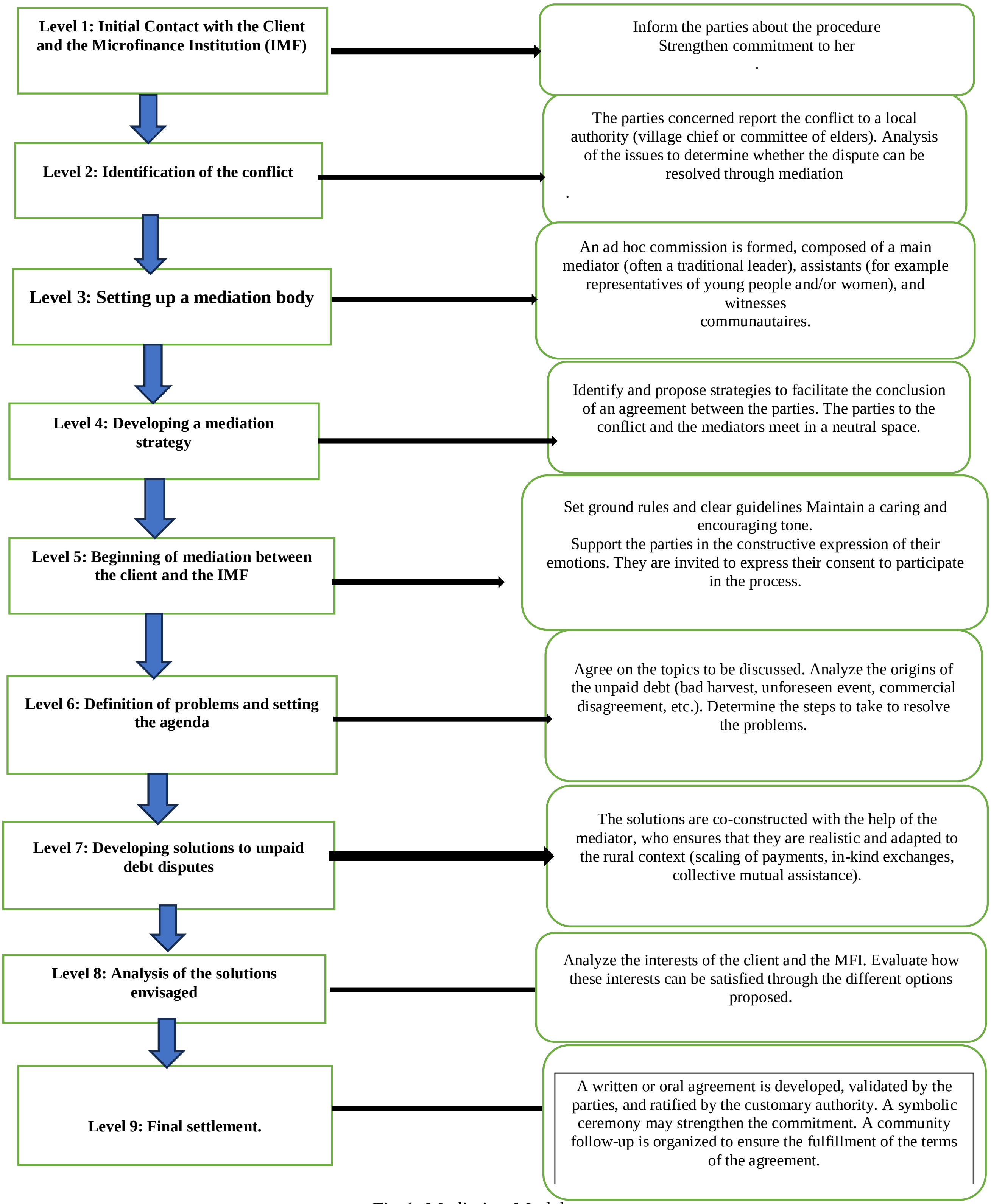

Fig 1: Mediation Model
Source: Field Survey Results, 2024

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This nine-step mediation model provides a clear, structured, and systematic approach to resolving conflicts related to unpaid debts. The process follows a logical progression, guiding the parties from the initial contact through to implementing a final agreement. Each stage plays a specific and complementary role, fostering an environment that encourages open, respectful, and productive communication.

One of the model's standout features is its ability to maintain and even strengthen relationships between the conflicting parties. By promoting active listening, allowing for emotional expression, and encouraging the search for common ground, the model helps the parties move beyond rigid stances to find fair and satisfying solutions. It ensures that the key interests of both sides are acknowledged and addressed.

Another significant strength is its preventive approach. By digging into not just the immediate causes of disputes but also the underlying factors that could spark future tensions, the model helps foster a culture of dialogue and cooperation. This proactive focus can stop minor disagreements from escalating into major conflicts.

The model doesn’t just aim to resolve disputes temporarily it’s a strategic tool for fostering sustainable relationship management. By creating a dynamic of trust and collaboration, it helps prevent future issues while addressing the current ones. Its flexibility and adaptability make it highly effective across different contexts, enhancing its utility in tackling credit-related conflicts.

IV. DISCUSSION

Conflicts over unpaid debts are a pressing issue in many economic and social settings. These disputes arise when individuals, businesses, or financial institutions fail to meet agreed financial obligations, disrupting the contractual relationship. This study's analysis highlights key aspects of credit-related conflicts in microfinance institutions (MFIs). A significant proportion of respondents (63%) reported experiencing such conflicts, pointing to repayment challenges or strained interactions with MFIs. However, 37% of clients managed their loans without encountering any major problems.

Non-repayment emerged as the leading cause of disputes (48%), underlining the difficulties borrowers face in meeting their commitments. Late repayments (36%) were another major source of tension, highlighting struggles to stick to payment schedules. Finally, disagreements over repayment terms (16%) revealed that some borrowers perceive loan conditions as unfair or unworkable, adding to the friction.

These findings align with earlier research by Morduch (1999) and Rodman (2012), who identified misunderstandings and unrealistic expectations on both sides-as critical triggers for tension. They emphasized that unclear loan terms and poor communication between MFIs and clients often lead to confusion about repayment obligations and the consequences of defaulting.

Resolving these conflicts is essential to maintain social cohesion and ensure the smooth functioning of microfinance systems. Left unchecked, these disputes can erode trust between borrowers and MFIs, undermining the cooperative foundation on which microfinance relies.

The role of a financial mediator is pivotal in this context. Acting as a neutral facilitator, the mediator creates a space for constructive dialogue, helping both parties pinpoint their needs, clarify their interests, and work toward mutually beneficial solutions. This role mirrors the findings of Bercovitch (1996) and Demoulin (2004), who stressed that successful mediation hinges on strong emotional and communication skills. Demoulin particularly emphasized the importance of managing perceptions, as misunderstandings and misjudgments can intensify conflicts. Active listening, empathy, and fostering trust are essential for creating an environment where parties feel safe to express themselves and collaborate on viable solutions.

This study proposes a nine-step mediation model designed to guide parties through a structured process. From initial contact to final resolution, each stage emphasizes open communication, trust-building, and finding sustainable solutions. This approach aligns with frameworks like the Canadian government’s conflict mediation model (2020) and resonates with the work of Friedman and Himmelstein (2008), Omar Shaikh et al. (2023), and Yukiko Kato (2023). These researchers similarly advocate for methods rooted in mutual understanding, collaboration, and transparent communication.

Integrating mediation into credit management processes offers a strategic way to improve debt management while rebuilding trust between MFIs and their clients. In regions where loan repayment conflicts are common, a well-designed mediation framework can defuse tensions, identify practical solutions, and promote cooperative relationships.

For mediation to succeed, it’s crucial to establish a clear and transparent framework. This includes accessible procedures and impartial mediators who can facilitate fair negotiations. Such a system would not only speed up conflict resolution but also ensure rigorous monitoring of agreements, reducing the risk of future defaults.

A structured mediation framework could also lower default rates. Borrowers, reassured by the availability of mediation, might feel more inclined to resolve their financial issues, knowing they have a platform to explain their difficulties and negotiate new repayment terms. In the long run, this collaborative approach would strengthen trust, improve debt recovery, and enhance the sustainability of MFI-client relationships.

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V. CONCLUSION

Addressing unpaid debt conflicts is a complex yet vital challenge in managing relationships between MFIs and their clients. This study found that 63% of respondents faced credit-related disputes, with non-repayment (48%) and payment delays (36%) as the leading causes. Disagreements over repayment terms (16%) further compounded the tensions.

The proposed nine-step mediation model provides a structured approach to conflict resolution, focusing on trust-building, open communication, and mutually beneficial solutions. The role of the mediator, as a neutral facilitator, is crucial in fostering dialogue, understanding, and collaboration.

While the model offers a solid theoretical framework, its practical application requires further exploration. Future research could involve case studies to assess the real-world effectiveness of mediation in resolving conflicts and improving relationships between MFIs and borrowers. Expanding the study to other regions and testing the model across varied contexts would also help refine its scope and adaptability.

In the long term, embedding mediation into MFI practices could significantly reduce tensions, improve repayment rates, and foster trust and cooperation. By prioritizing dialogue and collaboration, MFIs can enhance their impact and build stronger, more sustainable relationships with their clients.

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