FACTORS INFLUENCING LOAN REPAYMENT IN MICRO-FINANCE INSTITUTIONS IN MERU MUNICIPALITY, KENYA

BY

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DECLARATION

This research project report is my original work and has not been presented to any other institution of higher learning for the award of certificate, diploma or degree.

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DEDICATION

This research project report is dedicated to my children; Sasha and Allen.

ACKNOWLEDGEMENT

I owe special gratitude to all who have in any way contributed to the successful completion of this project. I am indebted to my supervisor Dr. Moses Otieno for his dedication and encouragement in seeing me through this work. His guidance has enabled me to tackle the research and develop this project report. I would also wish to thank my close family members, my sister and my husband for their moral support and encouragement. Also my appreciation goes to the respondents who participated in the research and helped me come up with this research project report. May the almighty Lord bless them all.

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ABBREVIATIONS AND ACRONYMS

MFI	-Microfinance institutions
BIMAS	-Business Initiative and Management Assistance Service
KWFT	-Kenya Women Finance Trust
SISDO	-Smallholder Irrigation Schemes Development Organization
SMEP	-Small and Micro Enterprise Programme
ECLOF	-Ecumenical Church Loan Fund
MSME	-Micro, Small and Medium Enterprises
SME	- Small and Medium Enterprises
NGO	-Non-governmental organizations
IMF	- International monetary fund
NCCK	- National Council of Churches of Kenya
MF	- Micro finance
CBK	-Central bank of Kenya

ABSTRACT

This study was carried out to analyze the factors influencing loan repayment in micro-finance institutions. This was after the observation that despite various mechanisms being put in place, the level of loan defaults in mfis was still high thus threatening growth, existence and even their survival. The research covered the mfis within the Meru municipality. Three independent variables were analyzed which were: business characteristics, borrowers' characteristics and lenders characteristics that influence loan repayment. Loan default was discussed as the dependent variable. Descriptive survey was employed with the target population being 39 Loan Officers of registered micro finance institutions and 5280 registered mfi clients from various groups in Meru Municipality. A census of 39 loan officers was targeted and a sample size of 360 respondents from registered group members. The sampling was done using stratified proportionate sampling and simple random sampling methods. Data was collected by use of questionnaires and interviews and analyzed using both descriptive and inferential statistics. Frequency tables were used for presentation of the study findings. The study established that education level, number of dependants, and hobbies were individual characteristics influencing loan repayment. Business characteristics influencing loan repayment were: how long the business had operated, its management and type. The lenders characteristics that influenced loan repayment were: groups handled, period taken to qualify new members and the criteria used to evaluate credit worthiness. The study recommends that the government and other stakeholders in the finance sector should ensure that the borrowers have access to formal education and adequate relevant training in the business area. Furthermore, the mfis should aim at reducing the time it takes to process a loan application and develop models that are more effective in evaluating credit worthiness of their clients

CHAPTER ONE
INTRODUCTION

1.1 Background of the study

A micro finance business is whereby the person conducting the business accepting deposits on a daily basis and provides short term loans to small or micro enterprises or low income household characterized by the use of collateral substitutes. (Kenya gazette supplement no.103, (2006). According to Waithera (2008), Micro Finance is way of supplying loans and small credits to finance small projects to help the poor have an income. It is the provision of credit directly through group lending, where individuals constitute themselves into groups often called solidarity groups and register themselves with the ministry of culture and social services as self help groups or welfare associations.

Mohammed Yunus, an economics professor at Bangladesh University, started making small loans to local villages in the 1970s. Yunus was doing this because around the world, state-run banks had tried to provide loans to low income earners and they failed leaving a legacy of inefficiency and corruption. Today Yunus is recognized as a visionary in a movement that has spread globally claiming over sixty five million customers at the end of 2002 (Morduch 2005).

In the 1970's the main organization providing credit to the informal sector were church based organizations like the NCCK and other smaller church based NGO's. The programs pointed to innovations like group lending contracts as the keys to their success. Group lending mechanism allows a group of individuals often called solidarity to provide collateral or loan guarantee through a group repayment pledge. The repayments are made

daily, weekly, monthly, or after four weeks. Repayments for some loan products are made by one installment. A delayed installment is said to be delinquent and a repayment that has not been made is said to be in default. If one group member defaults the other group members makes up for the re-payment amount.

Although there are good reasons to be excited about the micro finance promise of poverty alleviation, there are also good reasons for caution too. Poverty alleviation through provision of subsidized credit was embraced by many countries in the 1950's through the 1980's, but these experiences were nearly all disasters. Loan repayment rates often dropped well below 50 percent (Dale Adams,). Some observers fear that the rapid proliferation of mfi has outpaced the capacity of developing world governments to implement sensible regulatory measures thus creating a wild environment in which borrowers with limited financial experience may be exploited by incompetent or unscrupulous lenders (Howard et al, 2006).

In 2005, for example, government regulators in Kenya closed Akiba MF on grounds that it had unlawfully taken customers deposits and reneged on payments (Mullei, 1999). In 2006, the Indian governments cracked down on two large MFIs following suicides of at least sixty of their customers who were under pressure to repay loans at prohibitively high interest rates (Fernado et al, 2006).

IMF has found out that, under a group lending scheme, the burden of risk borne by an individual member of a group is higher than it would have been under a limited liability scheme. A default by one borrower affects the credit rating of the group as whole and causes them to default. This threatens the sustainability of members in Micro Finance Institutions since members could

not wish to keep paying or making up for the defaulting member. Dropout from the mfi reduces the group membership hence demand for the loan funds supplied by the micro finance institution. The reduced portfolio reduces the business of the institution and consequently the contribution of the institution to the government in form of taxes. The organization's participation in corporate social responsibility is also reduced and this is a loss to the society.

1.2 Statement of the Problem

In the past few years the Micro-finance sector has grown tremendously. These institutions offer medium amounts of loans mostly to business people who cannot afford collaterals to get loans from the big commercial banks. Despite the recent growth in the Micro-finance sector, it is faced with challenges of loan repayment by clients. There is a generally acceptance of the important role of microfinance institutions and a wide appreciation by many of the need for credit for economic empowerment. Loans are expected to be paid back on time to ensure the recycling of money for the benefits of other individuals. However, credit to the different people may not work smoothly owing to loan delinquency which is a serious problem and challenge to most microfinance institutions. It is in this regard that this study was designed to determine the factors influencing loan repayment by Micro-finance clients within Meru Municipality.

1.3 Purpose of the study

The purpose of this study was to determine the factors influencing loan repayment default in Micro-Finance Institutions within Meru Municipality.

1.4 Objectives of the study

The objectives of the study were to:

i). Investigate the client characteristics that influence loan repayment in Micro-Finance Institutions.

ii). Analyze business characteristics that influence loan repayment in Micro-Finance Institutions.

iii). Establish lender's characteristics that contribute to loan repayment among Micro-Finance Institutions.

1.5 Research questions

The study sought to answer the following research questions

i). What are the client characteristics that influence loan repayment in Micro-Finance Institutions?

ii). What business characteristics that influence loan repayment in Micro-Finance Institutions?

iii). What lender's characteristics that contributes to loan repayment among Micro-Finance Institutions?

1.6 Significance of the study

The significance of this study is to determine the factors that influence loan repayment default in micro finance institutions. This is because with high loan defaults, the objectives of individual mfi to make profits, and the general objective of the government of using these institutions as a tool for poverty eradication are not being met. The study unveils factors that lead to default hence can be managed better by the borrowers and the lenders, as well as the other stake holders such as the government.

1.7 Delimitation of the Study

This study was carried out in Meru Municipality between the months of June 2013 and July 2013 and looked at factors influencing loan repayment in micro finance institutions. It targeted registered microfinance institutions and registered microfinance groups within the Municipality as at December 2012.

1.8 Limitations of the study

The limitations of the study were:

i). Inadequate finances

ii). Limited time scale

iii). Inaccessible terrains outside the municipality

iv). Resistance from the respondents due to suspicion as to the use of the information obtained from this research.

1.9 Assumptions of the study

The researcher assumed that the sample population chosen would voluntarily participate in the study and that respondents would give as accurate, complete and honest responses as possible. It was also assumed that the microfinance institutions in Meru Municipality were similar to others elsewhere in the country and that, the borrowers in the microfinance are self employed.

1.10 Definition of the significant terms

Default: This is the failure of the client to service a loan to a point that it becomes difficult for the loan face value and attributed interest to be recovered.

Group official: This is a committee member of solidarity group who handles group matters on behalf of the other members.

Loan: An arrangement in which a lender gives money or property to a borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point(s) in time.

Loan officer: This is an employee of microfinance institution whose work is to assess customers and appraise loans as well as ensure that all loans are repaid as per the terms of the loans awarded.

Micro Enterprise: This is a business served by micro finance and whose financial services involve small amounts of loans and savings, has less than 10 employees with capital assets often under $1000, uses simple technologies, obtains its raw materials locally, and markets its products locally.

Microfinance: is the provision of financial services to low-income clients, who traditionally could not access banking and related services from commercial banks due to lack of collateral.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews literature related to loan repayment default by clients in microfinance institutions. Both theoretical and empirical literatures are reviewed. The conceptual framework is also discussed.

2.2 Theoretical framework

A theory is a set of interrelated concepts, assumptions and generalizations that systematically describe and explain regularities of behavior. A theory therefore has principles, assumptions, generalizations, basic concepts and application (Corey, 2001). The researcher will adopt Abraham Maslow's Hierarchy of needs because it emphasizes on the uniqueness of every individual needs and their behavior. According to Maslow, motivational needs operate in a hierarchical manner from mere physiological needs to complete development of one self. Maslow developed a triangle of needs for human beings, which is predetermined in order of importance. It is often depicted as a pyramid consisting of five levels as shown below.

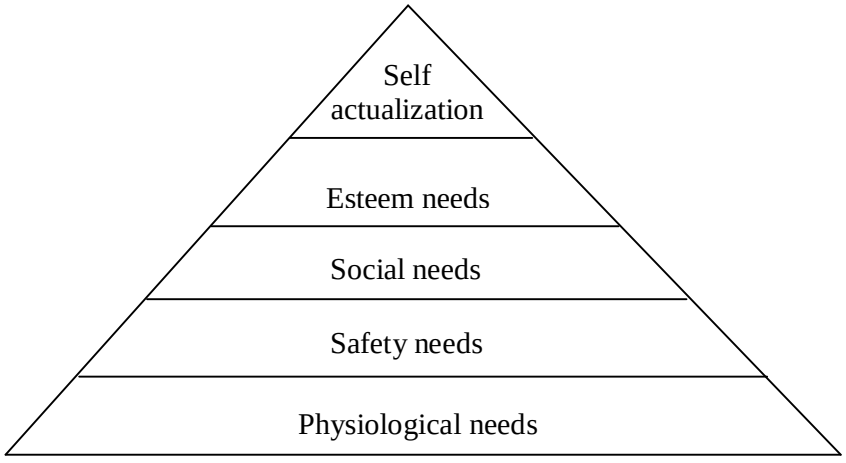

Figure 1 Abraham Maslow's hierarchy of needs (Sagimo, 2002)

Physiological needs are for survival like food, water, oxygen, sleep and sensory satisfaction. Safety needs refer to protection and stability in the physical interpersonal events of daily life (Sagimo, 2002). Entrepreneurs need security that comes from good interaction with group members, their customers and with MFI officers. Social needs refer to love, affection and to receive love, affection and a sense of belonging as one relates with others. If one has had no opportunity to give and receive love, he or she becomes hostile. Esteem needs according to Maslow; refer to needs that are satisfied by respect, prestige, recognition, confidence, competence and appreciation from others. Self actualization refers to the need to fulfill oneself, to grow and to use one's potentialities and abilities to the fullest and in the most creative way (Sagimo, 2002).

The first lower level is associated with physiological needs, while the top levels are termed growth needs. Deficiency needs must be met first. Once these are met, seeking to satisfy growth needs drives personal growth. The higher needs in this hierarchy only come into focus when the lower needs in the pyramid are met. Once an individual has moved upwards to the next level, needs in the lower level will no longer be prioritized. If a lower set of needs is no longer being met, the individual will temporarily re-prioritize those needs by focusing attention on the unfulfilled needs. But will not permanently regress to the lower level (Sagimo, 2002). For instance if a businessman at the esteem level who has cancer will spend a great deal of time concentrating on his health (physiological needs), but will continue to value his work performance (esteem needs) and will likely return to work during periods of remission. Maslow said that human behavior is motivated by the next unmet need.

A major aim of micro finance is to provide funds for investment in micro businesses that lift poor people out of poverty. When the poor gets access to micro credit, if their basic survival needs of food, shelter and clothing are not met then the credit goes to meet these needs first rather than investment. This is according to Maslow's theory of needs that human behavior is motivated by the next unmet needs. As Bayang (2009) put it, at the time of loan disbursal, the poor are pre-occupied with pressing economic problems ranging from food MFI funds, shortage to lack of seeds. Also at whatever stage of growth the business receives if the entrepreneur has unmet lower needs, the funds go to meet the unmet needs.

2.3 Lender's Characteristics that influence loan repayment

The lenders characteristics include their policies, attributes, objectives and work performances that govern the lending criteria. Mfis have come up with various models that govern collection of savings and loaning to the members. They also use what is commonly referred to as the Cs of lending. Lenders are generally cautious in lending money. Regardless of the geographical location, commercial loan decisions are made only after the loan officer and the loan committee does a careful review of the borrower and the financial track record of the business. These decisions are made on both quantifiable information and subjective judgments. Lending is based on character, capacity, capital, collateral and conditions. Past financial statements i.e. the balance sheets and income statements are reviewed in terms of key profitability and credit ratios, inventory turnover, ageing of accounts receivable, the entrepreneur's capital invested and commitment to the business. Future projections on market size, sales and profitability are also evaluated to determine the ability to repay the loan. (Hisrich 1989)

Yunus states that, Micro finance does not use collateral instead it uses the three C's of credit. Character being the first C, refers to how a person has

handled past debt obligations. It can be evaluated from credit history, personal background, honesty and reliability of the borrower. The next one is capacity; this means how much debt a borrower can comfortably handle. Income streams are analyzed and any legal obligations looked into, which could interfere with payments. Finally capital, this means current available assets of the borrower, such as real estate, savings or investment that could be used to repay debt if income should be unavailable (Mwenje, 2006).

Micro finance institutions are using various credit lending models throughout the world. The initial effort to create a credit lending model goes back to 1970s with the grameen bank in India taking the first steps to set up a micro finance. It adopted a methodology where a bank unit was set up with a field manager and a number of bank workers covering about 15 to 22 villages. The managers and the workers started by visiting villages to familiarize themselves with local milieu in which they would operate and identify prospective clientele, as well as explain the purpose, functions and mode of operation of the bank to local population. Groups of five prospective borrowers were formed; in the first stage only two were eligible for, and receive a loan. The group was observed for a month to see if the members were conforming to the rules of the bank and only if the first two borrowers repay the principal plus interest over a period of fifty weeks would other members of the group become eligible for a loan. Because of these restrictions there was substantial group pressure to keep individual records clear. In this sense, collective responsibility of the group served as collateral on the loan (ibid, 2006)

Another wide spread model of micro finance is the “village bank” model. This is whereby banks are run by the clientele, much in the same fashion as cooperative. The banks normally consist of 25 to 50 individuals who organize themselves into operational positions needed to run a bank. Village

banks nearly always rely on an external donation to first acquire money. But in addition they supplement the donation with personal contributions. This model also relies on peer pressure to enforce loan repayment.

Another popular model of micro finance is rotating savings and credit associations (ROSCAS). ROSCAS form groups of individuals who pay into an account on a monthly basis. Each individual then earns an opportunity to receive a relatively large loan for investing. The group decides who receives the loan and the term, often based on rotating schedule. The initial money is either accumulation of the group members' individual deposits or more frequently, by an outside donation. Loan repayment is ensured through peer pressure. Anyone who does not repay the loan amount risks the privilege to borrow in the future. (ibid, 2006)

Another model is the co-operative which is referred to as an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise. Some cooperatives include member financing and savings activities in their mandate. Finally there is the revolving loan fund, any fund that is managed by group of people where members of the group can take money from the fund and then repay it so that other member can borrow from it. The rules of borrowing depend on the group. Some groups charge interest and others do not. The group manages the loan fund. (ibid, 2006)

Other ways of determining credit worthiness of a client involve employing a simple discriminant analysis using more objective methods of differentiating between good and bad customers. For example ,empirical analysis may show that the ratio of earnings before depreciation , interest and taxes (EBDIT) to sales is a significant factor in discriminating good customers

from bad customer. The firm selects a cut-off point and considers granting credit to those customers who have EBDIT to sales ratio above the selected cut-off point. Better still some firms consider two factors to distinguish between good and bad customers. Two ratios which are EBDIT to sales and operating cash flows to sales together are better indicator of a customer's financial health than one ratio alone. A combination of these ratios may be plotted on a graph for paying and non-paying customers. A straight line in the graph should separate the two groups of customers.

A firm may also use the multiple discriminant analysis to reveal, the credit worthiness of a customer which depends on many factors that interact with each other. The technique of multiple discriminant analysis combines many factors according to the importance given to each factors and determines a compact score to differentiate good customers from bad customers. Altman's focusing on financial attributes of firms in the USA, used multiple discriminant analysis to predict bankrupt of firms Altman's discriminant function (Pande, 2004)

According to Batar (2008), loan officers can help determine the appropriate loan amount and how the client should spend it to save time chasing defaulting clients. To achieve this, loan officers need not only financial expertise but also the knowledge and skills that will help them identify target clients ,encourage them to learn about the MFI's financial services ,evaluate their needs ,assess their character and capacity for repayment and interact with them with the appropriate language and cultural nuance

Bayang (2009) says that MFIs fail to meet enterprise goals when it is directly applied to situations without enabling environment. He says that without

adequate preparation, funds are lifted and disbursed to borrowers. Even assessment stage inadequately handled. Rather than sensitize the potential beneficiaries on the need to be enterprising, development agents set their agenda on availability of possible financial assistance. He says that provision of mf support without building the needed entrepreneurial capacity of beneficiaries as a start up option may yield undesired results of deteriorating trends towards further poverty. He says that at the time of fund disbursal, the poor are preoccupied with pressing economic problems ranging from food shortage to lack of seeds. When mf provides financial support, it goes to fill gaps in past borrowing not to start or boost business (Bayang, 1999). There is no sufficient monitoring and reporting to ensure funds are used for the purpose preferred by terms of MFIs. Some borrow from one lender to pay other lenders and repayment of credit isn't an indicator for total success of MFIs hence to achieve preferred goals there is need for shift of both strategy and approach.

2.4 Borrowers characteristics that influence loan repayment

These include the level of education one has attained which will help them have a broader thinking and thus come up with innovative ideas. The dependants who also rely on the support of the borrower and the age of the borrower are some of the other client characteristics. Empirical work by Arene (1993) revealed income, farm size, age of farmers, farming experience and level of education of farmers contributed positively to the credit worthiness of farmers

The Character of a customer is important to analyze his willingness to pay. The financial or credit manager should judge whether the customers will make lowest effort to honour their credit obligations. The moral factor is of considerable importance in credit evaluation in practice (Pandey, 2004).

Although much of the policy for informal sector has focused on access to credit and savings, an important debate remains as to whether entrepreneurial skills can and should be taught. Models of entrepreneurial activity in developing countries treat human capital as fixed, and focus instead on financial constraints and information asymmetries in credit and equity markets. The very origins of the microfinance movement, led by Mohammed Yunus of the Grameen Bank, are based on the presumption that credit constraints alone, not skills, are the obstacle to the entrepreneurial poor.

According to Barnerjee (1993), much of the microfinance industry focuses on the infusion of financial capital into micro enterprises, not human capital, as if the entrepreneurs either already have the necessary human capital. Some development practitioners however, actively pursue strategies to teach adults entrepreneurial skills (Herbert et al, 2006) “I firmly believe that all human beings have an innate skill. The fact that they are alive is clear proof of their ability. They do not need us to teach them how to survive, they already know. So, rather than waste our time teaching new skills, we try to make maximum use of their existing skills. Giving the poor access to credit allows them to immediately put into practice what they already know...” (Yunus, 1999).

Most academic and development policy discussions about entrepreneurs focus on their access to credit and assume their human capital to be fixed. The self employed poor rarely have any formal training in business skills. However a growing number of microfinance institutions are attempting to build the human capital of micro entrepreneurs in order to improve the

livelihood of their clients and help further in their mission of poverty alleviation (Townsend et al, 2004).

Using a randomized control trial, Paulson and Townsend measured the marginal impact of adding business training to a Peruvian group lending program for female micro entrepreneurs. Treatment groups received thirty to sixty minute entrepreneurship training sessions during their normal weekly and monthly banking meeting over a period of one to two years. Control groups remained as they were before, meeting at the same frequency but solely for making loan and savings payments. They found that the treatment led to improved business knowledge, practices and revenues. The program also improved repayment and client retention rates for the microfinance institution. This has important implications for implementing similar market based interventions with a goal of recovering costs. They say that there is evidence that microfinance institutions can improve client outcomes cost effectively by providing entrepreneurial training along with credit. Such skills entail marketing, management, bookkeeping etc.

Competition is viewed by economists as a good thing, and most theoretical models assume that there perfect competition. The immediate problem with competition is that borrowers take multiple loans from different lenders simultaneously. The borrowers then become over indebted paying one lender instalments by taking a loan from another leading to spiral of debt and too often financial peril. As long as borrowers believe that they have multiple options, no single lender will have the power to clamp down and maintain full discipline. Cooperative behaviour among the lenders can help mitigate the problem. Programs would be aided by creation of credit bureaus to better share information on credit access and performance history of borrowers (Morduch, 2005).

According to Nimatallah (2006), the main causes of default are illness and death not lack of skills. He recommended that Micro – enterprise can help people onto the path out of poverty and educate them about how to protect themselves from Aids, TB and malaria can help keep them and their families and communities on that path. (ibid, 2006).

Ade s. Olomola found out that repayment performance is significantly affected by borrowers' characteristics, lender's characteristics and loan characteristics. The marginal effects of each set of characteristics are determined and analyzed. Repayment problems can be in the form of loan delinquency and default. Whatever the form however, the borrowers alone cannot be held responsible wherever problems arise it is important to examine the extent to which both borrowers and leaders comply with the loan contract as well as the nature of the duties, responsibilities and obligations of both parties as reflected in the design of the Credit programme rather than heaping blames only on the borrowers. In his research he further found out that loan repayment default is caused by sickness of the borrower. (ibid, 2006)

2.5 Business characteristics that influence loan repayment

The size of business relates to the amount of income obtained from it. Mpunga (2004) asserts that the level of business income is an important factor that would determine the credit worthiness of a client. At low levels of income, business have little money to save while at higher levels much can be saved and even used to purchase collaterals which can be used as loan securities. Such securities can be sold to repay loans.

According to Horne (2007) the excess of the security pledged over the amount of the loan determines the lender's margin of safety. If the borrower

is unable to meet an obligation, the lender can sell the security to satisfy the claim. If the security is sold for an amount exceeding the amount of the loan and interest owed, the difference is remitted to the borrower. If the security is sold for less, the lender becomes a general, or unsecured, creditor for the amount of the difference.

The levels of incomes can also be used as an indicator to determine the credit worthiness of client. Because secured lenders do not wish to become general creditors, they usually seek security with a market value sufficiently above the amount of the loan to minimize the likelihood of their not being able to sell the security in full satisfaction of the loan. The degree of security protection a lender seeks varies with the credit worthiness of the borrower, the security the borrower has available, and the financial institution making the loan.

Horne also asserts that the value of the collateral to the lender varies according to several factors. Perhaps the most important is the marketability. If collateral can be sold quickly in an active market without depressing the price, the lender is likely to be willing to lend an amount that represents a fairly high percentage of the collateral's stated value. On the other hand, if the collateral is a special purpose machine designed specifically for a company and it has no viable secondary market, the lender may choose to lend nothing at all.

The life of the collateral also matters. If the collateral has a cash flow life that closely parallels the life of the loan, it will be more valuable to the lender than collateral that is much longer term in nature. As the collateral is liquidated into cash, the proceeds may be used to pay down the loan. Still another factor is the riskiness associated with the collateral. The greater the

fluctuation in its market value or the more uncertain the lender is concerning market value, the less desirable the collateral from the stand point of the lender. Thus, marketability, life, and riskiness determine the attractiveness of various types of collateral to a lender and, hence, the amount of financing available to borrower.

2.6 Conceptual Framework

Default on loan repayment research has been conducted by various researchers such as Olomora 2004; Anupam 2004 and Kiiru 2006 which shows existence of default due to individual factors such as ailments, business factors, lender and other external market factors. The conceptual framework shows the relationship between the independent variables: client characteristics, business characteristics, lenders characteristics and the external market factors. This concept will be represented in the figure below.

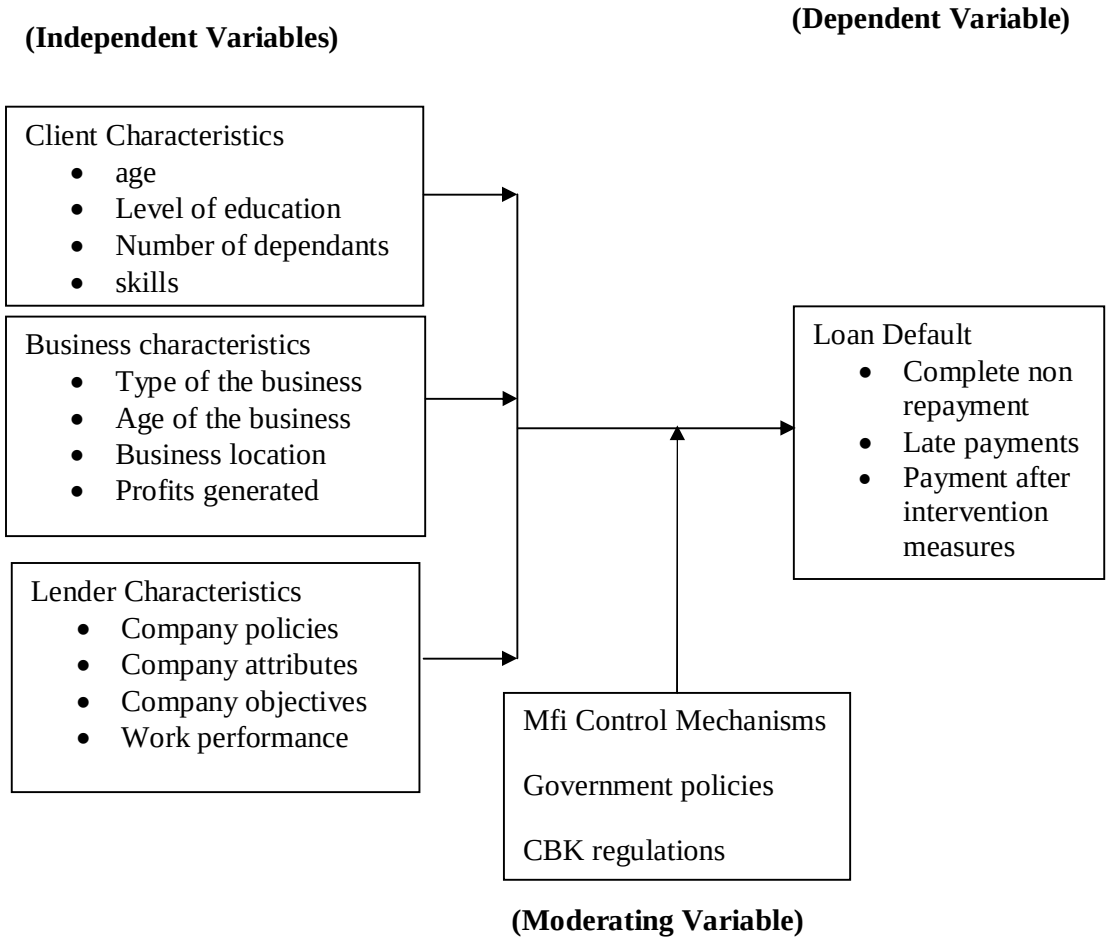

Figure 2: Conceptual Framework (Source: Researcher, 2013)

Client Characteristics are attributes that are related directly to the client such as behaviour, personality and attitude among others. However these are variables that cannot be quantified. Other characteristics like education levels, number of dependants a client support financially, clients hobbies may have either direct or indirect influence to loan repayment default. Business characteristics relate to the business. They include the size and age of the business, location, income and profits generated from the business. For instance at higher levels of income, businesses make some savings and purchase assets which can be used as loan securities. Such securities can be sold to repay loans.

Lenders characteristics are factors attributed to the lender which means loan officer, company attributes, company policies and objectives as well as performance of work. The moderating variable includes the mfi control mechanisms such as proper market analysis, business screening and follow-up; government policy such as initial training is compulsory before lending to the informal sector and central bank regulations. Without effective mechanisms in place loan defaults are inevitable and loan recovery might be a great challenge for microfinance institutions.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the methodologies used in this research to investigate the factors that influence loan repayment in micro finance institutions in Meru Municipality. The research methods are discussed under the following sub headings: research design, study population, sampling procedures and sample size, data collection procedures and instruments, data analysis and presentation, and ethical issues.

3.2 Research Design

A research design is a program to guide the researcher in collecting, analyzing and interpreting observed fact. The research was undertaken by use of descriptive survey. Orotho (2003) defines descriptive survey as a method of collecting information by interviewing or administering a questionnaire to a sample of individuals. The researcher was only interested in what factors influenced loan default other than when where or how. Also in descriptive survey one can use various methods of analyzing data; hence the researcher employed both frequency tables and regression analysis thus increasing the validity of the results.

3.3 Target population

The population of this study was the 39 Loan Officers of registered micro finance institutions and 5280 registered MFI clients from various social (self help) groups within the municipality. The respondents were the MFI clients (self help group members) and loan officers in the microfinance institutions. The total population amounted to 5319 as shown in Table 3.1

Table 3.1: Target Population

Micro Finance Institution	Number of Loan Officers	Registered borrowers	Borrowers with good repayment record	Number of defaulters
Faulu Kenya	10	1422	1357	65
BIMAS	7	744	718	26
Eclof	5	594	561	33
Jamii bora	4	454	434	20
KWFT	8	1231	1196	35
SMEP	2	302	278	24
SISDO	3	533	512	21
Total	**39**	**5280**	**5056**	**224**

The total population therefore was 39+5280=5319

3.4 Sample size and sampling technique

The data available in the micro finance institutions as at December 2012 was used for sampling. The total population under study was 39 loan officers and 5280 clients. The researcher targeted a census of all the 39 loan officers and a sample of 360 registered group members, out of which 185 were loan defaulters; giving a total sample of 399 respondents. Sampling methods for the group members included stratified proportionate sampling and simple random sampling. Also convenience sampling was applied whereby if the respondent was not available to fill the questionnaire or be interviewed, the next available respondent was picked. Each micro finance institution and each self help group was viewed as a stratum.

The researcher therefore stratified a sample of 185 loan defaulters distributed proportionately as follows: Faulu Kenya 54, Bimas 21 Eclof 27 Jamii Bora 17, KWFT 29, SMEP 20 and SISDO 17.

Table 3.2 Sample of the loan defaulters

Institution	Number of loan defaulters	Proportion of the sample of loan defaulters	Sample of loan defaulters
Faulu Kenya	65	65/224*185	54
Bimas	26	26/224*185	21
Eclof	33	33/224*185	27
Jamii bora	20	20/224*185	17
KWFT	35	35/224*185	29
SMEP	24	24/224*185	20
SISDO	21	21/224*185	17
TOTAL	224	N/224*185	185

The borrowers who had a good repayment record were also selected as follows: faulu Kenya 47 Bimas 25, Eclof 19, Jamii Bora 15, KWFT 41, SMEP 10, SISDO 18. The researcher selected randomly a sample of 33 loan officers as respondents as follows: Faulu Kenya 8, Bimas 6, Eclof 4, Jamii Bora 3, Kenya Women Finance Trust 7, SMEP 2 and SISDO 3

Table 3.3 Sample of the good loan payers

Institution	Number of good borrowers	Proportion of the sample of good borrowers	Sample of good borrowers
Faulu Kenya	1357	1357/5056*175	47
Bimas	718	718/5056*175	25
Eclof	561	561/5056*175	19
Jamii bora	434	434/5056*175	15
KWFT	1196	1196/5056*175	41
SMEP	278	278/5056*175	10
SISDO	512	512/5056*175	18
TOTAL	5056	n/5056*175	175

3.5 Data Collection Instrument

Questionnaires were used to obtain primary data from respondents. The questionnaire had two sections whereby section A captured personal details of the respondents, while B answered questions that were relevant to the study. Some of the questions forming part of the questionnaire were open ended; to facilitate the individual opinion and others closed ended type to get specific information. Secondary data was collected from various reports in the micro finance institutions and also from various business premises.

3.5.1 Validity of the instruments

This refers to the extent to which data collected by the instrument is said to be valid for the purpose of making inferences from the data. In order to ensure content validity, questionnaires were composed of carefully constructed questions to avoid ambiguity and facilitate answers to all the research questions.

3.5.2 Reliability of research instrument

Reliability is the extent to which results obtained using the instruments are consistent and accurate representation of the population under study. Both open and close ended questions were used to get the opinion of the respondents and enable analysis of the data collected. The questionnaires were administered on stratified basis to ensure that all the mfis were represented and their views.

3.6 Data collection procedures

The data collection procedures were followed whereby the proposal was developed and then approved by the supervisor and managers of the relevant MFIs. Then contacts and physical addresses of the respondents were collected and appointments made. The researcher administered the questionnaire with the help of two assistants, which took three weeks.

3.7 Data Analysis and Presentation

After data collection, the researcher conducted pre-processing of data to correct any errors in the raw data and elimination of any data not needed for the analysis. The researcher then organized the data thematically as per the research questions and subsequently adopted a coding scheme. The coding scheme facilitated the development of an appropriate data structure which enabled its entry into the computer. Data entry and analysis was done using Statistical Packages of Social Sciences (SPSS) for window version 17.0. Using SPSS, the data was then analyzed using descriptive statistics. The findings of the study were presented in form of frequency tables.

3.8 Ethical issues

The researcher observed ethical issues where information was handled confidentially and only persons who had attained the age of maturity were

issued with the questionnaires. Before an individual became a subject of research, he/she was notified of: the aims, methods, and anticipated benefits, her right to abstain from participation in the research and her right to terminate at any time her participation; and the confidential nature of her replies.

No pressure or inducement of any kind was applied to encourage an individual to become a participant in the research. The identity of individuals from whom information was obtained in the course of the project was kept strictly confidential. At the conclusion of the project no information revealing the identity of any individual was included in the final report. Dissemination of findings was done carefully whereby the presentation and recommendations was based only on the findings of the study.

3.9 Operational definition of variables

Table 3.4 Operationalization table

Objectives	Type of variable	indicators	Measurement scale	Research instrument	Data collection method	Method of data analysis
To investigate client characteristics that influence loan default in MFI	Independent	-age -Level of education -Number of dependants -skills	Ordinal nominal	Questionnaires Interviews	Questionnaires	quantitative
To analyse business characteristics that influence loan default in MFI	Independent	-Type of the business -Age of the business -Business location	Ordinal Nominal	Questionnaires Interviews	Questionnaires	quantitative

		-Profits generated				
To establish lenders characteristics that that contribute to loan default in MFI	independent	-Company policies -Company attributes -Company objectives -Work performance	Ordinal nominal	Questionnaires Interviews	Questionnaires	quantitative

CHAPTER FOUR
DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter focuses on analysis, presentation and interpretation of data collected by the study. The findings of the study are presented by an array of presentation tools that include frequency tables, bar graphs and pie charts. The chapter is broken down into subsections where general characteristics of the respondents such as gender, marital status, age, highest level of education attained and skills among others are discussed. Other factors that are related to loan default in micro finance institutions are well discussed with strong basis on the data collected while implementing standard analytical modalities.

4.2 Response rate

360 questionnaires were used to interview individual loan borrowers and all were filled out since convenience sampling was applied whereby if a respondent was not available or ready for the interview or to fill out questionnaires, the next available respondent was picked. Out of the 39 questionnaires distributed to the Microfinance officers, 30 were accepted for analysis translating to 77% response rate.

4.3 Client Characteristics that Influence Loan Repayment in Micro-Finance Institutions

This study sought to investigate the individual client characteristics that influence loan repayment default in Micro-Finance Institutions in Meru Municipality

4.3.1 Gender of the respondents

Respondents were required to indicate their gender. Table 4.1 presents the findings.

Table 4.1: Gender distribution of the respondents

Gender	Total Frequency	Percentage
Female	179	49.7
Male	181	50.3
Total	**360**	**100.0**

According to table 4.1, the study covered 50.3 % males and 49.7% females. This indicates that microfinance institutions offer equal opportunities in financial services to both males and females. Of the 181 males 100 (55.2%) defaulted in payments while 85 (47.5%) of the 179 females defaulted. This shows that there was no significant difference in loan repayment default between males and females. This further implies that women are now being targeted for such services unlike in the past where access to credit among women was a problem.

Consonant with the concern for financial sustainability, accumulating evidence of women's higher repayment rates has led many programmes to target women. This evidence has been used by gender lobbies within the major aid agencies to justify arguments for female targeting and an emphasis on facilitating women's access to micro-finance programmes (Linda Mayoux, 1999). Increasing women's access to micro-finance is assumed to initiate a series of 'virtuous spirals' of economic empowerment, increased well-being for women and their families and wider social and political empowerment. The underlying assumption is that these mutually reinforcing spirals of empowerment can occur following women's access to micro-finance without

explicit support for women to increase their incomes, to defend their interests within the household or for wider social and political changes in gender or class relations.

4.3.2 Age of respondents

Respondents were required to indicate their age. Table 4.2 presents the findings

Table 4.2: Age of respondents

Age	Frequency	Percentage
18-30	122	33.9
31-40 years	152	42.2
41-50 years	66	18.3
Above 50	20	5.6
Total	**360**	**100**

In terms of age, the majority of respondents, representing 42.2% are aged between 31 and 40 years. This is closely followed at 33.9% by respondents who are aged between 18 and 30. Respondents over 50 years, and those aged between 41-50 represents 5.6% and 18.6% respectively. This is an indication that majority (76.1%) of respondents are of middle age (18-40years). Table 4.3 shows the relationship between age and loan repayment.

Table 4.3: Age and loan repayment default

Age	Frequency	Percentage
18 – 30 Years	75	40.5
31 – 40Years	56	30.3
41– 50Years	39	21.1
Above 50 Years	15	8.1
Total	**185**	**100**

Table 4.3 above shows that, 8.1% aged above 50 years defaulted in loan repayment, 21.1% aged between 41 to 50 years defaulted, 30.3% aged between 31 to 40 defaulted in loan repayment, and 40.5% aged between 18 to 30 defaulted. This indicates that young people were more likely to default than the old. This could be attributed to the fact that young people might lack the skills and experience to run business successful so as to repay their loans. This finding contradicts findings from (Muhammad et al, 2012). In their study, they found age had insignificant impact p=.618 on default in micro finance using ANOVA. Correlation of age with default in loan repayment was found approximately -16%.

4.3.3 Number of persons the respondent supports financially

Respondent were requested to indicate the number of respondents they supported. This number may have an effect on family income and expenditure which could ultimately affect loan repayment among clients. Table 4.4 shows that majority (53.3%) of the respondents supported 1 to 2 persons, 43.1% of the respondents financially supported 3 to 5 dependants and 3.6% of the respondents interviewed supported 6 to 10 persons.

Table 4.4: Number of persons the respondent supported financially

No. of persons	Frequency	Percentage
1 to 2 persons	192	53.3
3 to 5 persons	155	43.1
6 to 10 persons	13	3.6
Total	**185**	**100.0**

In relation to loan repayment default, figure 4.4 show that among respondents supporting 1-2 persons 50.0% of defaulted, among those supporting 3-5 persons 52.3% defaulted and among those supporting 6-10 persons 61.5%

defaulted. This indicates that respondents supporting many dependants were likely to default than those supporting fewer dependants. It might mean that, such respondents may divert loans accorded to them to other activities like supporting the family instead of investing this money into the business. This might reduce profits from the business and hence default in loan repayment.

4.3.4 Highest level of Education

Respondents were requested to indicate their highest level of education. Table 4.5 presents the results

Table 4.5: Highest level of education

Education	Frequency	Percentage
Primary	41	11.4
Secondary	205	56.9
College level	109	30.3
University	5	1.4
Total	**360**	**100**

The study established that majority (56.9%) of the respondents had secondary education. Respondents with college level education made 30.3% of the target population while 1.4% and 11.4% represents the number of university educated and primary level respondents respectively. This implies that majority of the respondents had post primary level of education which could be important in the success of the businesses and could contribute to increased business income and eventually reduce cases of default in loan repayment. Table 4.6 shows the relationship between level of education and loan repayment.

Table 4.6: Level of education and loan repayment default

Education level	Frequency	Frequency of default	Percentage of default
Primary	41	4	9.76
Secondary	205	129	62.93
College	109	52	47.71
University	5	0	0.00
Total	**360**	**185**	

In relation to loan repayment default, 9.76% of those with primary level eduaction defaulted, 62.93% of those with secondary level of education defaulted, 47.71% of those with college level eduation defaulted and 0.0% of those with university level education defaulted. This demostrate that loan repayment default cases were low among people with post secondary education as compared to those who had upto secondary level of education. This finding is similar to findings obtained by Oladeebo (2008) who examined socio-economic factors influencing loan repayment among small scale farmers in Ogbomoso agricultural zone of Oyo State of Nigeria. His results of multiple regression analysis showed that amount of loan obtained by farmers; years of farming experience with credit use and level of education were the major factors that positively and significantly influenced loan repayment.

4.3.5 Attendance of business meetings

Respondents were requested to indicate the frequency of business meetings attendance. Table 4.8 presents the results

Table 4.7: Attendance of business meetings

Attendance	Frequency	Percentage
Once a year	218	60.6
Twice a year	115	31.9
Three time a year	27	7.5
Total	**360**	**100**

From table 4.7, majority (60.6%) of respondents attended a business meeting once per year. The study further established that 31.5% of the respondents attended business meetings twice per year while 7.5% of the respondents attended business meetings thrice per year. This could mean that business skills among respondents could be inadequate and this might negatively affect the performance of their businesses making it difficult to repay their loans.

4.4 Business characteristics that influence loan repayment in Micro-Finance Institutions.

Most of the loans default in microfinance sectors could arise from poor management procedures, loans diversion and unwillingness to repay loans as well as other business related characteristics (Awoke, 2004). This study sought to analyze individual characteristics that influence loan repayment in Micro-Finance Institutions in Meru Municipality. This sub section therefore addresses the business characteristics of individual respondent. It features the type of business run by the respondent, age of the business, location of the premises, management of the business and number of employees among many other factors. The section is relevant to the study as the findings derived from the same indicate how these factors influence loan repayment default in micro finance institutions.

4.4.1 Type of business operated by the respondent

The study sought to establish the effect of type of business on loan repayment. Respondents were therefore required to indicate the type of business they operated. Results are shown in table 4.8

Table 4.8: Type of business operated

Type of business	Frequency	Percentage
Manufacture	28	7.8
Trade	146	40.6
Service	114	31.7
Agriculture	72	20.0
Total	**360**	**100**

According to table 4.8, majority (40.6%) engaged in trade, 31.7% of the respondents operated service businesses while 20.0% engaged in agriculture. The minority (7.8%) of the respondents operated manufacturing business. This demonstrates that trade was the major economic activity amongst the respondents. Table 4.9 shows the relationship between type of business and loan repayment default.

Table 4.9: Relationship between type of business and loan repayment

Business type	Total Count	Frequency of default	Percentage of default
Manufacture	28	19	67.9
Trade	146	51	34.9
Service	114	73	64
Agriculture	72	42	58.3
Total	**360**	**185**	

High cases of default were common (67.9%) in the manufacturing sector. This was followed by the service industry (64.0%) then by the agriculture (58.3%). The table further illustrates that the trade sector recorded the least (34.9%) cases of loan repayment defaults. This could be attributed to the observation that trade industry deals in fast moving products on high demand which could translate into good business performance in increased revenue that accounts for low default cases.

The results are in line with Roslan and Abd Karim (2009) who investigated microcredit loan repayment behaviour in Malaysia. They conducted a study on microcredit loan borrowers from AgroBank Malaysia. AgroBank is a commercial institution specialising in loans to borrowers involved in agricultural business. Apart from giving large-scale loans, it also provides small-scale loans, such as microcredit loans, to borrowers. In their research, they found that borrowers involved in non-production oriented business activities such as in the service or the support sectors who had training in their particular business and who borrowed higher loans had lower probabilities of defaulting.

4.4.2 Age of the business

Respondents were required to indicate the period of time they had been in business or for how long their businesses had been in existence. Findings are shown in Table 4.10.

Table 4.10: Age of the business

Age of business	Frequency	Percentage
Less than 2 years	124	34.4
Between 2 and 5 years	172	47.8
Between 5 and 10 years	56	15.6
More than 10 years	8	2.2
Total	**360**	**100**

The study results show that 47.8% of the respondents had their businesses running for duration of between 2 and 5 years. This is followed at 34.4% by respondents who had operated their business for less than 2 years. Businesses that have been in operation for 5 to 10 years and those that have been operated for more than 10 years make 15.6% and 2.2% respectively. Table 4.11 shows the relationship between age of the business and loan repayment.

Table 4.11: Relationship between age of business and loan repayment

Age of business	Total Count	Frequency of default	Percentage of default
Less than 2 years	124	65	52.4
Between 2 and 5 years	172	76	44.2
Between 5 and 10 years	56	44	78.6
More than 10 years	8	0	0
Total	**360**	**185**	

Among businesses that had been in operation for less than two years 52.4% had defaulted in loan repayment, 44.2% of those that had been in operation

for a period of between two and five years had defaulted. It was noted that the highest (78.6%) default cases were regular in businesses that had been in operation for a period of between five and ten years. The study could not account for such an observation. Loan repayment defaults were rare (0.0%) in business that had survived for more than 10 years. Old businesses have overcome start-up challenges and are now established concentrating on productivity. This increases the business revenue and reduces defaults in loan repayment.

4.4.3 Location of business

Majority (58.9%) of the respondents had their businesses located within the municipality while 41.1% had their business located outside the municipality. Despite the fact that most of the businesses were located within the municipality, high loan repayment default rates (55.7%) were found in this location as compared to business outside municipality out of which 45.3% defaulted.

Table 4.12: Location of the business and loan repayment

Business location	Total Count	Frequency of default	Percentage of default
Within the municipality	212	118	55.7
Outside the municipality	148	67	45.3
Total	**360**	**185**	

4.4.4 Management of the business

Results indicate that 67.5% of respondents managed their own businesses while 32.5% had their businesses managed by the employees. Table 4.13 demonstrates that businesses managed by owners are less (48.1%) likely to default in loan repayment as compared to those managed by employees (58.1%)

Table 4.13: Business management and loan repayment

Business management	Total Count	Frequency of default	Percentage of default
Business owner	243	117	48.1
Employees	117	68	58.1
Total	**360**	**185**	

4.4.5 Approximate profit made per month

Majority (54.4%) of the respondents made profit of below Kshs 10,000 per month. 37.2% of the respondents made profit of between Kshs 11,000 and Kshs 50,000 per month. 6.1% and 2.2% of the respondents made Kshs 50,000 – Kshs 100,000 and over Kshs 100,000 per month respectively as shown in Table 4.14.

Table 4.14: Business profits

Profit	Frequency	Percentage
Below Kshs. 10,000	196	54.4
Kshs. 10,000 to 50,000	134	37.2
Kshs. 51,000 to 100,000	22	6.1
Above Kshs. 100,000	8	2.2
Total	**360**	**100**

The study sought to establish the relationship between business profits and loan repayment. Table 4.15 presents the findings.

Table 4.15: Relationship between business profits and loan repayment

Business profits	Total Count	Frequency of default	Percentage of default
Below Kshs. 10,000	196	123	62.8
Between Kshs. 10,000 and 50,000	134	57	42.5
Between Kshs. 51,000 and 100,000	22	5	22.7
Above Kshs. 100,000	8	0	0
Total	**360**	**185**	

According to 4.15, businesses making monthly profits of below Kshs. 10,000 had the highest cases (62.8%) of loan repayment default followed by those that made profits of between Kshs. 11,000 and Kshs. 50, 000 (42.5%). There were 22.7% cases of loan repayment default among businesses that made profits of between Kshs. 51,000 and Kshs. 100,000. The table further illustrates that it was not common practice to find loan repayment default among businesses that made profits of over 100,000. It is clear from the findings that the more profitable a business is the easier it is for that business to repay loans. Businesses less profitable will struggle between reinvesting the meagre profits back into the business and repaying loans and therefore increasing their likely hood of loan repayment default.

4.4.6 Relationship between amounts received and loan repayment

The study established that majority (72%) of the loan applicants received the total amount applied for while 28% of the respondents did not receive the total amount applied. Those who never received the whole loan applied for had to look for other alternative sources of capital to finance their deficit. Majority (41.4%) of applicants who did not receive the total amount applied for financed the deficit by borrowing from another Micro Finance institution yet another 30.3% of respondents financed the deficit by borrowing from a bank. 14.1% of the applicants with a deficit offset it by using personal savings while the remainder (14.1%) invested the amount granted. Table 4.16 presents findings on relationship between amounts received and loan default.

Table 4.16: Amount received and loan default

Full amount	Total Count	Frequency of default	Percentage of default
Yes	261	130	49.8
No	99	55	55.6
Total	**360**	**185**	

From table 4.16, among those who never receive the whole amount applied for, 55.6% defaulted in loan repayment while for those who received the whole amount 49.8% defaulted in the repayment of the loan.

4.4.7 How the amount received was invested

Table 4.17 below indicates that majority (71%) of the applicants invested the total amount in business while 21% did not.

Table 4.17: Whether that total amount was invested into business.

Response	Frequency	Percentage
Yes	255	70.8
No	105	29.2
Total	**360**	**100**

For those who never invested the whole amount in business, they used this money for other activities. 72.4%, which makes the majority of the applicants used some of the money granted to make other investments while 27.6% of the respondents supported dependents using this money. In the group that did not invest the whole amount in business, loan repayment default was high (81.9%) as compared to those who invested the whole amount where only 38.8% defaulted.

This finding is in line with findings from Okorie (1986) who studied the repayment behaviour in one agricultural corporation in Nigeria. His results from interviews with borrowers showed that the nature of the loan, either cash or in kind (seeds, fertilizer and equipment) could influence the borrowers' repayment behaviour. He found that borrowers who received a loan in kind had higher repayment rates than borrowers who received a cash loan. This was because many borrowers misused the cash, diverting it into personal consumption instead of investing in making their business productive.

4.4.8Financing the unpaid business loan

Some businesses were unable to repay the full amount of the loan in time. These businesses had to source for finances to offset these debts. Table 4.18 illustrates that for the majority (42.2%) the money was recovered from other group members. 17.8% of the respondents sourced for the money to repay the

loans from friends while another 17.8% sourced for the same from other investments. 22.2% represents the cluster of respondents who remained with arrears.

Table 4.18: Financing the unpaid business loan

Repayment financing	Frequency	Percentage
From other investments	33	17.8
From friends	33	17.8
From group members	78	42.2
Amount remained in arrears	41	22.2
Total	**185**	**100.0**

4.4.9 Suggestions on how the Mfi can ease the loan burden

As shown in table 4.19, majority (47.3%) of respondents suggested that to lessen the loan burden, Micro Finance Institutions should increase the repayment period. 40.5% of the respondents suggested that micro financing institutions should consider the option of refinancing to ease the loan burden. A small percentage (12.2%) of respondents suggested that Micro finance institutions should change the monthly instalments for the purpose of easing the loan burden.

Table 4.19: Suggestions on how the Mfi can ease the loan burden

Suggestion	Frequency	Percentage
Increase the repayment period	170	47.3
Refinance	146	40.5
Change to monthly instalments	44	12.2
Total	**360**	**100**

4.5 Lender characteristics that contributes to loan repayment among Micro-Finance Institutions

Studies have reported that large rate of default has been a perennial problem in most microfinance institutions. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans (Awoke, 2004). For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default (pledging of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.). This study sought to establish lenders' characteristics that influence loan repayment in Micro-Finance Institutions.

4.5.1 Duration of Employment Term in the micro finance institution

As shown in Table 4.20 below, ma**j**ority (60%) of the officers have worked in the micro finance institution for less than 5 years. This is followed at 30.0% by officers who worked for between 5 and 10 years and finally (10%) of the officers having worked for over 10 years. Less than 5 years might be a short duration for an officer to have learnt and gained the necessary adequate skills to handle his/her clients. This might increase the likelihood of default

Table 4.20: Duration of employment

Duration of employment	Frequency	Percentage
Below 5 years	18	60.0
5 to 10 years	9	30.0
over 10 years	3	10.0
Total	**30**	**100.0**

4.5.2 Groups handled by the officers

Handling more than five groups had an increased number of cases of loan repayment default 85.7%. Those handling 2-5 groups had 60% default while those officers handling less than two groups had 20% as illustrated in table 4.21 below. More work groups might translate into too much work of the officer hence affecting his/her productivity which might influence loan repayment default

Table 4.21: Relationship between number of groups and loan repayment

Number of groups	Total Count	Frequency.of default	Percentage of default
Below 2 groups	5	1	20
2 – 5 groups	10	6	60
Above 5 groups	21	18	85.7
Total	**30**	**25**	

4.5.3 Time taken for a member to qualify for a loan

Results from the study showed that majority (60%) of the members took 5 to 8 weeks to adequately qualify for a micro finance loan. The remaining 40% of members took less than 4 weeks to qualify for a loan. This clearly indicates that members take a long time to qualify for a micro finance loan. Despite members taking longer before qualifying for loans, cases of default were highest (100%) in those who took shorter period as compared to 66.7% in those who took a longer period. Within a short duration of less than 4 weeks, microfinance officers might have not known their client well enough and this could increase chances of defaulting in loan repayment. Table 4.22 shows the relationship between time taken for a member to qualify for a loan and repayment.

Table 4.22: Time taken for a member to qualify for a loan

Time	Total Count	Frequency of default	Percentage of default
Below 4 weeks	12	12	100
Between 5 – 8 weeks	18	12	66.7
Total	**30**	**24**	

4.5.4 Customer worth evaluation

Table 4.23 shows that 20% of Micro Finance Institutions studied used credit analysis as a method of evaluating the customer's worth. The study further establishes that 20% of Micro Finance Institutions covered in the study checked customers' financial records to evaluate the worth of the latter. 6.7% of the officers used liquidity ratios to determine the worth of a customer. However the majority (53.3%) of the microfinance officers did not apply any strategies/techniques to evaluate the worth of customers. This increases the danger of money being given to customers who might not have the ability to repay and hence increasing chances of loan repayment default.

Table 4.23: Customer worth evaluation

Evaluation	Frequency	Percentage
Check financial records	6	20.0
Credit analysis	6	20.0
Liquidity ratios	2	6.7
N/A	16	53.3
Total	**30**	**100.0**

4.5.5 Whether other assets were considered as collateral

Study results showed that majority (90%) of officers considered customers' other assets as collateral for a loan while a small percentage (10%) of the officers did not. Further the study established that majority 76.7% of the officers considered chattels as collateral for loan while very few 16.7% of the officers considered land as potential collateral as illustrated in table 4.24. The remaining 6.7% represent the portion of officers who did not consider other assets as collateral for loans. This indicates the collateral used against loan qualification was not adequate and this could increase chances of default in loan repayment.

Table 4.24: Assets considered

Assets	Frequency	Percentage
Land	5	16.7
Chattels	23	76.7
N/A	2	6.7
Total	**30**	**100**

4.5.6 Handling of instalments in default

The study reveals that that the majority (40%) of micro finance institutions studied handled instalments in default by tapping into group savings. 30% of the officers made other members to pay for the default while 10% of micro finance institution followed up the customers and seized their property to recover the loans as shown in table 4.25.

Table 4.25: Handling of instalments in default

Handling of instalments	Frequency	Percentage
Tap group saving	12	40.0
Other members pay	9	30.0
Follow up the customer	3	10.0
N/A	6	20.0
Total	**30**	**100.0**

4.5.7 Ways to reduce loan repayment default

The microfinance officers suggested to their micro finance institutions some measures to be put in place in respect to avoiding default. Table 4.26 shows that majority (60%) of the officers were for the opinion that their institutions should consider educating the members on various potential investment opportunities. The remaining 40% suggested that their institutions should consider the option of issuing individual loans.

Table 4.26: Ways to reduce loan repayment default

Suggestion	Frequency	Percentage
Educate members on investment opportunities	18	60.0
Issue individual loans	12	40.0
Total	**30**	**100.0**

4.6 Regression Analysis

Since the probability of an event must lie between 0 and 1, it is impractical to model probabilities with linear regression techniques, because the linear regression model allows the dependent variable to take values greater than 1 or less than 0. The logistic regression model is a type of generalized linear model that extends the linear regression model by linking the range of real

numbers to the 0-1 range. Multinomial Logistic Regression is useful for situations in which you want to be able to classify subjects based on values of a set of predictor variables. This type of regression is more general because the dependent variable is not restricted to two categories. The regression coefficients are estimated through an iterative maximum likelihood method.

Model Fitting Information

Model	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	479.490			
Final	253.859	225.631	26	.000

This is a likelihood ratio test of your model (Final) against one in which all the parameter coefficients are 0 (Null). The chi-square statistic is the difference in the -2 log-likelihoods between the Null and Final models. If the significance of the test is small (i.e., less than 0.05) then the Final model is outperforming the Null.

Likelihood Ratio Tests

Effect	Model Fitting Criteria	Likelihood Ratio Tests		
	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	253.859(a)	.000	0	.
gender	253.995	.136	1	.712
age	309.828	55.969	3	.000
m_status	323.466	69.607	3	.000
persons	273.378	19.519	2	.000
eduction	270.172	16.313	3	.001
typ_bus	268.885	15.026	3	.002
long	300.976	47.117	3	.000
emplyees	286.277	32.418	3	.000
location	256.207	2.348	1	.125
manager	255.824	1.965	1	.161
source	278.408	24.549	3	.000

The likelihood ratio tests check whether each effect contributes to the model. The -2 log-likelihood is computed for the reduced model, that is, one without the effect. The chi-square is the difference in the -2 log-likelihood between the reduced model and the final model. If the significance of the test is small (i.e., less than 0.05) then the effect contributes to the model.

Parameter Estimates

Was the business able to generate the whole repayment amount for [a]		B	Std. Error	Wald	df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
								Lower Bound	Upper Bound
Yes	Intercept	-8.096	2745.406	.000	1	.998			
	[gender=1]	-.179	.483	.137	1	.711	.836	.325	2.155
	[gender=2]	0[b]	.	.	0	.	.	.	.
	[age=1]	3.966	.921	18.541	1	.000	52.781	8.678	321.009
	[age=2]	6.397	1.090	34.433	1	.000	600.233	70.848	5085.240
	[age=3]	6.183	1.200	26.564	1	.000	484.293	46.133	5083.999
	[age=4]	0[b]	.	.	0	.	.	.	.
	[m_status=1]	18.763	.752	623.034	1	.000	1E+008	32282706.63	614748429.0
	[m_status=2]	22.563	.000	.	1	.	6E+009	6294142707	6294142707
	[m_status=3]	2.152	4486.877	.000	1	1.000	8.600	.000	.[c]
	[m_status=4]	0[b]	.	.	0	.	.	.	.
	[persons=1]	3.898	.961	16.437	1	.000	49.281	7.488	324.326
	[persons=2]	3.317	1.041	10.150	1	.001	27.571	3.583	212.145
	[persons=3]	0[b]	.	.	0	.	.	.	.
	[eduction=1]	-19.227	.831	535.409	1	.000	4.46E-009	8.76E-010	2.28E-008
	[eduction=2]	-20.052	.429	2183.909	1	.000	1.96E-009	8.44E-010	4.54E-009
	[eduction=3]	-20.245	.000	.	1	.	1.61E-009	1.61E-009	1.61E-009
	[eduction=4]	0[b]	.	.	0	.	.	.	.
	[typ_bus=1]	-.208	.797	.068	1	.794	.812	.170	3.869
	[typ_bus=2]	1.656	.537	9.518	1	.002	5.237	1.829	14.995
	[typ_bus=3]	1.421	.639	4.949	1	.026	4.141	1.184	14.480
	[typ_bus=4]	0[b]	.	.	0	.	.	.	.
	[long=1]	-17.697	2745.405	.000	1	.995	2.06E-008	.000	.[c]
	[long=2]	-16.138	2745.405	.000	1	.995	9.81E-008	.000	.[c]
	[long=3]	-21.263	2745.405	.000	1	.994	5.83E-010	.000	.[c]
	[long=4]	0[b]	.	.	0	.	.	.	.
	[emplyees=1]	16.538	.865	365.312	1	.000	2E+007	2790399.162	82920484.35
	[emplyees=2]	13.382	.000	.	1	.	648266.5	648266.465	648266.465
	[emplyees=3]	-4.353	4486.877	.000	1	.999	.013	.000	.[c]
	[emplyees=4]	0[b]	.	.	0	.	.	.	.
	[location=1]	.710	.466	2.321	1	.128	2.034	.816	5.069
	[location=2]	0[b]	.	.	0	.	.	.	.
	[manager=1]	-.660	.474	1.938	1	.164	.517	.204	1.309
	[manager=2]	0[b]	.	.	0	.	.	.	.
	[source=1]	-.938	.536	3.063	1	.080	.391	.137	1.119
	[source=2]	.142	.915	.024	1	.877	1.152	.192	6.926
	[source=3]	-2.991	.706	17.955	1	.000	.050	.013	.200
	[source=4]	0[b]	.	.	0	.	.	.	.

Parameter estimates, their standard errors, significance tests, and confidence intervals are provided for all model parameters. The Wald statistic is the square of the ratio of the parameter estimate to its standard deviation. If the significance of the statistic is small (i.e., less than 0.05) then the parameter is useful to the model.

Logistic regression was used to investigate the factors influencing loan repayment problem among borrowers in microfinance institutions in Meru

Municipality. The maximum likelihood estimation technique was used. The significant positive sign on the gender variable indicated that the probability of a loan repayment problem was higher for males than for females. The business type variable was positive and significant at the 5% level of significance. This implied that borrowers involved in agriculture, such as farming, animal husbandry and fisheries, were more likely to have a problem repaying the microcredit loan than borrowers involved in a small business activity. The reliance of agriculture on the weather caused fluctuations in production that were beyond the control of the farmers. Hence, since borrowers involved in agricultural activities have a greater problem repaying their loan, Microfinance institutions need to consider giving flexibility in loan repayments to borrowers who receive income irregularly caused by drought or flood.

In relation to individual characteristics, the table above indicates that gender of the respondent was not an important predictor of loan repayment default while age, marital status, number of dependants and education levels of the respondents were useful parameters in the prediction of loan repayment default.

In relation to business characteristics, how long a business has been in existence, management, location of the business and the source of the initial capital seem not to be useful parameters in the prediction of default. On the other hand, the number of employees and the type of the business run appear to be useful parameters in the prediction of loan default.

Lender characteristics

Parameter Estimates

Have you experienced any cases of exit from the group[a]		B	Std. Error	Wald	df	Sig.	Exp(B)	95% Confidence Interval for Exp(B)	
								Lower Bound	Upper Bound
Yes	Intercept	-18.613	4891.469	.000	1	.997			
	[work=1]	-18.613	7367.171	.000	1	.998	8.25E-009	.000	.[b]
	[work=2]	.000	5150.000	.000	1	1.000	1.000	.000	.[b]
	[work=3]	0[c]	.	.	0	.	.	.	.
	[no_grps=2]	-18.432	4891.469	.000	1	.997	9.89E-009	.000	.[b]
	[no_grps=3]	0[c]	.	.	0	.	.	.	.
	[lonqulfy=1]	.000	4552.000	.000	1	1.000	1.000	.000	.[b]
	[lonqulfy=2]	0[c]	.	.	0	.	.	.	.
	[worth=1]	.000	1.732	.000	1	1.000	1.000	.034	29.807
	[worth=2]	.000	5584.379	.000	1	1.000	1.000	.000	.[b]
	[worth=3]	.000	7621.188	.000	1	1.000	1.000	.000	.[b]
	[worth=5]	0[c]	.	.	0	.	.	.	.
	[colaterl=1]	37.045	.000	.	1	.	1E+016	1.226E+01	1.226E+01
	[colaterl=2]	0[c]	.	.	0	.	.	.	.

a. The reference category is: No.

b. Floating point overflow occurred while computing this statistic. Its value is therefore set to system missing.

c. This parameter is set to zero because it is redundant.

In relation to lender characteristics, how long an officer has worked for the microfinance institution, the number of groups an officer handles, how long an individual takes before is given a loan, how the worth of a customer is evaluated and consideration for collateral seem not to be useful parameters in the prediction of loan default by group members since these parameters have significance levels below 0.05.

CHAPTER FIVE:
SUMMARY OF FINDINGS, DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the main findings, study conclusions and gives recommendations. The main objective of this study was to investigate on factors influencing loan repayment default in Micro-Finance Institutions in Meru Municipality. Specifically, the study sought to investigate the individual client characteristics that encourage loan repayment default in Micro-Finance Institutions, to examine individual business characteristics that encourage loan repayment default in Micro-Finance Institutions, to establish lender's characteristics that contributes to default in loan repayment among Micro-Finance Institutions and to give relevant recommendations from the above objectives.

5.2 Summary of the main findings

Study findings reveal that (51.4%) of group members defaulted in loan repayment. In addition 80% of the microfinance officers at one time had experienced loan default by members, further evidence of the magnitude of the problem. Young people were more likely to default than the old in loan repayment. Findings show that 8.1% aged above 47 years defaulted in loan repayment, 21.1% aged 38-47 defaulted, 30.3% aged 28-37 defaulted in loan repayment, and 40.5% aged between 18-27 defaulted.

Results indicate that among respondents supporting 1-2 persons 50.0% of defaulted, among those supporting 3-5 persons 52.3% defaulted and among those supporting 6-10 persons 61.5% defaulted. This demonstrates that respondents supporting many dependants were likely to default than those supporting fewer dependants. Loan repayment default cases were low among

people with post secondary education as compared to those who had upto secondary level of education. Results show that 9.8% of those with primary level eduaction defaulted, 62.9% of those with secondary level of education defaulted, 47.7% of those with college level eduation defaulted and 0.0% of those with university level education defaulted.

Loan repayment default was highest in those individuals whose hobbies were watching movies (100%), and readers (66.7%) as compared to those who travelled. Among those who travelled, 43.3% defaulted in loan repayment. Travellers mainly travelled to do business hence increase in income accounting for low default rates.High cases of default of loan repayment were common (67.9%) in the manufacturing sector with the trade sector recording the least (34.9%) cases of loan repayment defaults. Loan repayment defaults were rare (0.0%) in business that had survived for more than 10 years. High loan repayment default rates (55.7%) were found in businesses located within the municipality as compared to business outside municipality out of which 45.3% defaulted.

Businesses managed by owners were less (48.1%) likely default in loan repayment as compared to those managed by employees (58.1%). Businesses making monthly profits of below Kshs. 10,000 had the highest cases (62.8%) of loan repayment default followed by those that made profits of between Kshs. 11,000 and Kshs. 50, 000 (42.5%). It was not common practice to find loan repayment default among businesses that made profits of over 100,000. It is clear from the findings that the more profitable a business is the easier it is for that business to repay loans.

Majority (41.4%) of applicants who did not receive the total amount applied for financed the deficit by borrowing from another Micro Finance institution

yet another 30.3% of respondents financed the deficit by borrowing from a bank. 14.1% of the applicants with a deficit offset it by using personal savings while the remainder (14.1%) invested the amount granted. For those who never received the whole amount applied for, 55.6% defaulted in loan repayment while for those who received the whole amount 49.8% defaulted in the repayment of the loan. Study results indicate that majority (71%) of the applicants invested the total amount in business while 21% did not. For those who never invested the whole amount in business, loan repayment default was high (81.9%) as compared to those who invested the whole amount where only 38.8% defaulted.

Study findings reveal that 70% of the officers handled above 5 groups while 30% of the officers handled 2 to 5 groups. Handling more than five groups had an increased number of cases of loan repayment default (85.7%) as compared to those officers handling less than five groups (66.7%). Cases of default were highest (100%) in those new members who took shorter period to qualify for a loan as compared to 66.7% in those who took a longer period. 40% of the officers had the opinion that default in loan payment was largely caused by multi borrowing on the side of the members. This was followed at 20% by officers who were of the opinion that members defaulted in paying off the loans due to a large number of financial dependants. 10% of officers were of the opinion that the member failed to honour their loan payments due to business failure and disappearance of customers. 40% of micro finance institutions handled instalments in default by tapping into group savings. 30% of the officers made other members to pay for the default while 10% of micro finance institution followed up the customers and seized their property to recover the loans.

5.3 Discussion

There are various policies that an organization should put in place to ensure that credit administration is done effectively. one of these policies is a collection policy which is needed because all customers do not pay the firms bills in time some customers are slow payers of which some are non-payers. The collection effort should, therefore aim at accelerating collections from slow payers and reducing bad debt losses. A collection policy should ensure prompt and regular collection is needed for fast turnover of working capital keeping collection costs and bad debts within limits and maintaining collection efficiency . Regulating in collections keeps debts alert and they tend to pay their dues promptly. The collection policy should lay down clear-cut collection procedures. The collection procedures for past dues or delinquent accounts should also be established in unambiguous terms. The slow paying customers should be handled very tactfully.

Though collection procedure should be firmly established , individual cases should be dealt with on their own merits. Some customers may be temporary in tight financial position and in spite of their best intentions may be due to recessionary considerations. The collection procedure against them should be initiated only after they have overcome their financial difficulties and do not intend to pay promptly. The other policy should be analysis of business and business management. Besides appraising the financial strength of the applicant, the firm should also consider the quality of management and nature of the customers business. The firm should conduct a management audit to identify the management weakness of the customers business .an over centralized structure of the

customers business without proper management systems can degenerate into mismanagement over trading and business failure.

If the nature of the customers business is highly fluctuating or he has financially weak buyers or his business depends on a few buyers, then it is relatively risky to extend credit to him. The implications of these aspects should be fully understood before extending credit to customers. Credit Limit should be serious policy which should be observed as per the strength of the customer. A credit limit is a maximum amount of credit which the firm will extend at a point in time. It indicates the extent of risk takes by the firm by extend it credit to a customer. At times a customer may ask for the amount of credit in excess of his limit credit and credit period must be received periodically and only extended only if returns are high as compared to costs involved in monitoring.

There are various methods which can be employed to analyze Credit Worthiness. The debt capacity of the applicant is reflected in cash flow projection, forming the basis for the decision on the loan conditions and the payment plan .His willingness to pay is assessed either on the basis of his credit history or, if there is none , using statement of suppliers, neighbours on his reputation and how promptly he paid bills in the past.

A variety of factors influence a customer's credit worthiness. This makes credit investigation a difficult task. A firm can use numerical credit scoring to appraise credit applications when it is dealing with a large number of small customers. The firm based on its past experience or empirical study , may rely on both financial and non-financial attributes that measure the credit standing of a customer. A firm may also develop its own ad hoc approach of numerical credit scoring to determine the credit

worthiness of customers. The attributes identified by the firm may be assigned weights depending on their importance and be combined to create an overall- score.

5.4 Conclusions

Microfinance institutions in Kenya are a potential alternative to bank credit for micro-businesses that cannot receive bank finance. Microfinance institutions are essential to the Government's encouragement of an enterprise culture. Generally in spite of the importance of loan in micro-businesses, its acquisition and repayment are fraught with a number of problems especially repayment default. The study evaluated the factors influencing default in loan repayment in microfinance institutions in Meru Municipality.

Arising from the findings of this study, it concludes that (51.4%) of group members defaulted in loan repayment. In addition 80% of the microfinance officers at one time had experienced loan default by members, further evidence of the magnitude of the problem. The respondents cite various reasons that contribute to their default in loan repayment, business idea does not work out, cash flow problems, failure in the business, lack of liquidity, inadequate sales and undercapitalization.

The study therefore concludes that there are various factors influencing non-repayment of loans which are: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would be repaid; the characteristics of the lending institution and suitability of the loan product to the borrower which make it unlikely that the loan would be repaid; systematic risk, in the form of external factors, such as the economic, political and business environment in which the borrower operates.

5.5 Recommendations

Lending to small businesses in deprived areas requires a specialized approach. This latter can be achieved if the lending institution carefully tailors the services they provide to the needs of the borrowers. In order that microfinance institutions may achieve their objectives of supporting micro-businesses and ultimately creating jobs, they need to be able to get back the loans they provide.

The study recommends that the government and other stakeholders in the finance sector should ensure that the borrowers have access to formal education and adequate relevant training in the business area since findings from the study have shown that educational level of borrowers significantly influence default in loan repayment. Such training and advice should preferably be obtained from a different provider (e.g. the enterprise agencies) other than the financial institution providing the loan. The current link between training and advice for entrepreneurs in the deprived communities and loan granting is under-utilized and should be strengthened. Also the micro-finance institutions in the study area should be encouraged to issue individual loans as opposed to group loans

The government and other stakeholders should put mechanisms in place to check if a borrower has another loan in another financial institution he/she is servicing before they are awarded loans. This will contribute in discouraging multi-borrowing which could encourage loan repayment default. The microfinance institutions should aim at reducing the time it takes to process a loan application since this could make the borrower lose interest or be overtaken by the intended purpose, such that by the time they receive the loan it is directed to the wrong purpose.

Finally, microfinance institutions, must adapt flexible polices that allow lending effectively to small businesses in deprived communities. One way of introducing flexibility is in the way credit assessments are conducted, as the study noted that the microfinance officials did not do a thorough assessment of the clients before giving loans.

5.6 Area of further research

Credit scoring is fast becoming an important aspect of all credit assessments and microfinance institutions can benefit from it. It has been argued that credit scoring can be discriminatory; however it is objective and the extent to which it can be discriminatory depends on the factors that are included in the scoring model and the cut-off score. All borrowers are not homogenous. Small, micro and social businesses in deprived areas have different characteristics, so it stands to reason that a scoring model specifically designed for them, may be less discriminatory for them.

A credit scoring model for microfinance institutions above all things needs to reflect the social benefits of the businesses being supported to the wider community. Microfinance institutions need to collect data on the effects of a credit scoring model on loan repayment and apply it if the results are positive. This information can be used to build a generic scorecard, which the sector can use. The cut off score can be adjusted to cater for the individual characteristics of any particular group. This is an area that needs further detailed research.

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APPENDICES

Appendix I: Letter of Transmittal

FLORENCE ANGAINE
UNIVERSITY OF NAIROBI
EXTRA MURAL STUDIES
1ST July 2013

THE MANAGER,
(NAME OF IMF)
MERU.
Dear sir/madam,
Re: request for assistance in research project

I am a student at university of Nairobi, department of extra mural studies .I am doing a research project on factors leading to loan default in microfinance institutions in Meru municipality. This is in partial fulfillment of masters' degree in project planning and management of university of Nairobi.

I have chosen your reputable institution to be part of my study and I am requesting your assistance in the study. All information obtained will be solely for academic purpose and will remain strictly confidential. A copy of final report will be made available to you on request.

Your cooperation will be highly appreciated.

Yours (Sign)……..

Florence Angaine

M.A student extra mural studies

Appendix II: Questionnaire for Individual Clients

SECTION A: PERSONAL PROFILE

1. What is your gender
   a) Male
   b) Female
2. What age group are you in?
   a) 18-30 years
   b) 31-40 years
   c) 41-50 years
   d) Above 50
3. What is your highest level of education?
   a) Primary school and below
   b) Secondary school
   c) College level
   d) university
4. What is your marital status
   a) Married
   b) Single
   c) Divorced

SECTION B

5. How many people do you financially support
   a) 1 to 2 persons
   b) 3 to 5 persons
   c) 6 to 10 persons
6. What are your hobbies?
   a) Sporting
   b) Travelling

c) Shopping

d) Others, (specify)_____

7. What type of a business are you operating?

a) Manufacture e.g. wood workshop

b) Trade such as food store

c) Service e.g. barbershop

d) Agriculture e.g. poultry

8. How long have you been running the business?

a) Less than 2 years

b) Between 2 and 5 years

c) Between 5 and 10 years

d) More than 10 years

9. How many times do you attend a business meeting?

a) Once per year

b) Twice a year

c) Three times and above

10. Where is your business located?

a) Within municipality

b) Outside municipality

11. Who manages your enterprise?

a) Owner(s)

b) Employees

12. Have you or any member of your group (chama) ever been denied credit by the microfinance institution?

a) Yes

b) No

If yes, what reason was given for the loan decline?

…….

……

……

13. When you borrowed a loan from the mfi, did you invest the total loan amount in your business?
    a) Yes
    b) No
14. If your answer to question 13 is (b), how else did you use the amount.
    a) Supported dependants
    b) Other investments (specify)
15. Was the business able to generate the whole repayment amount for each repayment period?
    a) Yes
    b) No
16. If your answer for question 15 is (b), how do you finance the repayment amount?
    a) From other investments
    b) From friends
    c) From group members
    d) Amount remained in arrears
17. How much profit do you generate in a month?
    a) Below 10,000
    b) Between 10,000 and 50,000
    c) Between 51,000 and 100,000
    d) Above 100,000
18. What would you like the MFI to do to ease your burden?
    a) Increase the repayment period (reschedule)
    b) Refinance
    c) Change to monthly instalments
    d) Other specify……

Appendix III: Interview Schedule for Micro Finance Officers/Staff

This interview schedule attempts to find out the group characteristics that encourage default. The information given in this questionnaire will be used for the research purpose only and will be confidential.

1. Gender composition

   Males ……..

   Females……..

2. Which microfinance institution do you work for?.....

3. How long have you worked for the micro finance institution?

   (a) Below 5years

   (b) 5 to 10 years

   (c) Above 10 years

4. How many groups do you handle?

   a) Below 2 groups

   b) 2 to 5 groups

   c) Above 5 groups

5. How long does a new member take before he can qualify for a loan?

   (a) Below 4 weeks

   (b) 5 to 8 weeks

   (c) Above 8 weeks

6. How do you evaluate the worth of a customer?

   (a) Check financial records

   (b) Credit analysis

   (c) Liquidity ratios

   (d) Business failure prediction

7. Do you consider other assets as collateral for the loan?

   (a) Yes

   (b) No

   If yes, what do you consider?

   (a) Land

   (b) Chattels

   (c) Other (specify)……

8. Have you experienced any cases of default on loan repayment by members?

   (a) Yes

   (b) No

   If yes, what to your opinion would cause such default?

   (a) Member has many dependants

   (b) Business failure

   (c) Customer disappeared

   (d) Other (specify)

9. How do you handle the instalments in default?

   (a) Tap group saving

   (b) Other members pay

   (c) Follow up the customer

   (d) Do nothing

10. Have you experienced any case(s) of exit from the group?

   (a) Yes

   (b) No

   If yes what to your opinion caused the exit?

   (a) Payment of defaulter loan

   (b) Bank loan facilities

   (c) Other (specify)

11. How would you advise your institution on how to avoid default?

(a) Educate members on investment opportunities

(b) Issue individual loans

(c) Other (specify)

If your answer to question 8 is no, what are the preventive measures that you have employed?

……

……..…