FACTORS EXPLAINING LOAN DEFAULT AMONG OFF FARM LOAN BORROWERS OF MICROFINANCE PROGRAMMES IN KENYA. A CASE STUDY OF SMALL SCALE ENTERPRISES IN NAIROBI, KENYA.

BY

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DECLARATION

This project is my original work and has not been submitted in any other University for a degree award.

STEPHEN MUIGAI GATHIGE

24/10/2010

THIS PROJECT PAPER HAS BEEN SUBMITTED FOR EXAMINATION WITH MY APPROVAL AS UNIVERSITY SUPERVISOR.

PROFESSOR CASPER ODEGI AWOUNDHO

24/10/2010
I dedicate this project paper to my family members who encourage and motivated me to seek more knowledge.
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In order to successfully complete this project paper, a number of personalities and Institutions really assisted me to a large extent. I would like to express my sincere gratitude to all of them.

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ABSTRACT

This study was about the causes of loan default among off farm loan borrowers of Microfinance programmes in Kenya. The study was meant to establish factors causing default of loan repayment among off farm borrowers. Although Microfinance programmes in Kenya have been recognized and accepted by the Government and development Agencies as effective tools for poverty alleviation, economic development, jobs creation and industrialization, loan default has been a major setback to these programmes. Generally, loan clients’ failure to repay back loans extended to them by Microfinance programmes eventually affects subsequent loan disbursements to the existing and potential loan clients.

Loan default problem has brought down many Microfinance programmes in Kenya. Those programmes which have not collapsed but experiencing loan default problems are unable to grow and develop to be financially sustainable Organizations for their outreach is limited by inadequate loan capital due to defaulted loans. When a Microfinance programme collapses or fails to grow, the efforts of the Government and development promoters to alleviate poverty, economic growth, job creation and hence industrialization are totally affected.

The major concern of this study was to find out the main causes of loan default among off farm loan borrowers in Microfinance programmes with an overall aim of proposing measures that can help in controlling and managing loan default in these Microfinance programmes.

This research investigated a number of possible themes in relation to the causes of loan default among off farm loan borrowers of Microfinance programmes such as:

a) Institutional related factors
b) Borrowers related factors
c) Market related factors
d) Environment related factors.

The study was conducted in Nairobi. A sample size of 114 respondents was drawn using multi-stage cluster sampling procedure and information obtained through the use of interview schedules. Key informants consisting of Microfinance programme loan administrators were also interviewed. The data for the study was obtained from the respondents using interview schedules with both structured and unstructured questionnaires. The collected data was analysed and presented in form of tables, frequencies and percentages.

Regarding the social characteristics of the respondents, the study found that 43% of PAWDEF members were aged between 31 – 40 years, 25% were aged
between 41 - 50 years, 19% were aged between 21 - 30 years, 11% were aged between 51 - 60 years while only 2% were aged 61 and above years. This shows that 68% or majority of PAWDEP members were aged between 31 and 50 years. The study also found that 99% of PAWDEP members were females while only 1% of them were men. The Organization's original specific objective was to reach women only hence reason for high number of women than men. The study also establish that 63.1% of PAWDEP members were married, 29% were single, 4.4% were widowed, 2.6% were divorced while 1% were separated. The study also found that 51.7% of these members had secondary education, 26.3% had college education, and 20.25% had primary education while only 1.8% had university education. The study also found that 78% of these members were in commerce, 15% in service and 7% in manufacturing. The same study found that 32.4% of them had 3 dependants, 23% of them had 4 dependants, 17.5% of them had 5 dependants, 16.6% of them had 2 dependants, 4.4% of them had 8 dependants, 3.5% of them had 1 dependant while 2.6% had 6 dependants. Surprisingly, no member of PAWDED had 7 dependants for reasons the researcher could not tell.

In view of the findings of the study, recommendations were given to each of the identified cause of loan default.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cover Page</td>
<td>I</td>
</tr>
<tr>
<td>Declaration</td>
<td>II</td>
</tr>
<tr>
<td>Dedication</td>
<td>III</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>IV</td>
</tr>
<tr>
<td>Abstract</td>
<td>V</td>
</tr>
<tr>
<td>Table of Contents</td>
<td>VI - XI</td>
</tr>
<tr>
<td>List of Tables</td>
<td>XII</td>
</tr>
<tr>
<td>List of Figures</td>
<td>XIII</td>
</tr>
<tr>
<td>List of Abbreviations and Acronyms</td>
<td>XIV</td>
</tr>
</tbody>
</table>

## CHAPTER ONE - INTRODUCTION

1.1 Background to the Study ----------------------------------------------- 1
1.2 Problem Statement ------------------------------------------------------ 2
1.3 Objectives of the Study ----------------------------------------------- 3
  1.3.1 General Objectives ----------------------------------------------- 3
  1.3.2 Specific Objectives ---------------------------------------------- 4
1.4 Research Questions ---------------------------------------------------- 4
1.5 Significance of the Study --------------------------------------------- 4
1.6 Scope and Limitation of the Study ------------------------------------- 5
1.7 Definition of Terms --------------------------------------------------- 5 - 6
4.2.0 Factors explaining default of loan repayment

4.2.1 Market forces

4.2.2 Loan supervision and follow up

4.2.3 Borrower's ability to invest

4.2.4 Economic and income status of the loan borrowers

4.2.5 Loan diversion

4.2.6 Sickness as the cause of loan default

4.2.7 Loan borrower's attitude

4.2.8 Theft as the cause of loan default

4.2.9 Timeliness of loan issue

4.3.0 Multiple loans as the cause of loan default

4.4.0 Institutional policies

4.5.0 Selection/Recruitment of loan borrowers

4.6.0 Other mentioned causes of loan default

CHAPTER FIVE
SUMMARY, CONCLUSIONS, RECOMMENDATION AND ARISING ISSUES

5.0 Introduction

5.1.0 PART I - SUMMARY

5.1.1 Summary of the findings

5.2.0 PART II

5.2.1 CONCLUSIONS

5.2.1.1 Market forces
5.2.1.2 Lack of loan supervision and follow up
5.2.1.3 Lack investment skills
5.2.1.4 Income and economic status of the borrower
5.2.1.5 Loan diversion
5.2.1.6 Loan borrower’s attitude
5.2.1.7 Multiple loans
5.2.1.8 Timeliness of loan issue
5.2.1.9 Institutional policies
5.2.2.0 Selection/Recruitment of loan borrowers
5.3.0 Other causes of loan default
5.3.1 Sickness as the cause of loan default
5.3.2 Theft as the cause of loan default
5.3.3 Death as the cause of loan default
5.3.4 Lack of business plan as the cause of loan default
5.3.5 Mobility as the cause of loan default
5.3.6 Politics as the cause of loan default
5.3.7 Fire as the cause of loan default
5.4.0 Ranking of the causes of loan default
5.5.0 Recommendations
5.5.1 Marketing forces as the cause of loan default
5.5.2 Loan utilization supervision/follow up as the cause of loan default
5.5.3 Investment skills as the cause of loan default
5.5.4 Income/economic status as the cause of loan default
5.5.5 Loan diversion as the cause of loan default
5.5.6 Sickness as the cause of loan default
5.5.7 Attitude as the cause of loan default
5.5.8 Timeliness of loan issue as the cause of loan default
5.5.9 Multiple loans as the cause of loan default
5.6.0 Institutional policies as the cause of loan default
5.6.1 Death and Theft as the cause of loan default
5.6.2 Business plan as the cause of loan default
5.6.3 Selection/Recruitment as the cause of loan default
5.6.4 Client mobility as the cause of loan default
5.6.5 Politics as the cause of loan default
5.6.7 Fire as the cause of loan default
5.6.8 Family issues as the cause of loan default
5.7.0 Arising issues

Bibliography

Appendix I

Appendix II

Appendix III
LIST OF TABLES

Table 1: Sample frame
Table 2: Age of the respondents
Table 3: Marital status
Table 4: Education
Table 5: Dependents
Table 6: Business category
Table 7: Institutional policies as the cause of loan default
Table 8: Selection/Recruitment as the cause of loan default
Table 9: Timeliness of issue as the cause of loan issue
Table 10: Loan supervision as the cause of loan default
Table 11: Market forces as the cause of loan default
Table 12: Loan diversion as the cause of loan default
Table 13: Borrower's attitude as the cause of loan default
Table 14: Economic and income status as the cause of loan default
Table 15: Investment as the cause of loan default
Table 16: Multiple loans as the cause of loan default
Table 17: Sickness as the cause of loan default
Table 18: Theft as the cause of loan default
LIST OF FIGURES

Figure 1: Conceptualization
Figure 2: Age of the respondents
Figure 4: Marital status of the respondents
Figure 5: Education level of the respondents
Figure 5: Dependents of the respondents
Figure 6: Business categories of the respondents
Figure 7: Market forces
Figure 8: Supervision and follow up
Figure 9: Investments skills
Figure 10: Economic and income status
Figure 11: Loan diversion
Figure 12: Sickness as cause of loan default
Figure 13: Loan borrowers' attitude
Figure 14: Theft as cause of loan default
Figure 15: Timeliness of loan issue
Figure 16: Multiple loans
Figure 17: Institutional policies
Figure 18: Selection/recruitment process
## List of Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AFC</td>
<td>Agriculture finance corporation.</td>
</tr>
<tr>
<td>AMFI</td>
<td>Association of microfinance institutions</td>
</tr>
<tr>
<td>CFGS</td>
<td>Community finance groups</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative group to assists the poor</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>PAWDEP</td>
<td>Pamoja Women Development Programme</td>
</tr>
<tr>
<td>KADT</td>
<td>Kenya advance development Trust</td>
</tr>
<tr>
<td>KIE</td>
<td>Kenya Industrial Estates</td>
</tr>
<tr>
<td>K-RFP</td>
<td>Kenya rural enterprise program</td>
</tr>
<tr>
<td>KWFT</td>
<td>Kenya women finance Trust</td>
</tr>
<tr>
<td>JIBS</td>
<td>Joint loan board scheme</td>
</tr>
<tr>
<td>MFLs</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, small and medium enterprises</td>
</tr>
<tr>
<td>SEFCO</td>
<td>Small enterprise finance company</td>
</tr>
<tr>
<td>SMEP</td>
<td>Small and micro enterprise program</td>
</tr>
<tr>
<td>TANU</td>
<td>Tanzania African national union</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>NGOS</td>
<td>Non governmental organizations</td>
</tr>
</tbody>
</table>
CHAPTER ONE

1.0 INTRODUCTION

1.1 BACKGROUND: In Kenya as in most developing countries, microfinance programs have been recognized and accepted by the government and development agencies as effective tools for poverty alleviation, economic development and industrialization Mullei et al (1999). The targeted beneficiaries of these microfinance programs are the micro, small and medium enterprises (MSMEs). The development of this sector was highlighted in both the sessional paper No. 1 (1996) and the sixth National Development Plan (1989 – 1993) as a primary means of strengthening Kenya’s economy Sessional paper No. 2 (1992).

According to the sixth National Development plan (1989 – 1993), 1.9 million jobs were targeted to be created. Of these, approximately 587,000 jobs i.e. 31% were expected to be created by micro, small and medium enterprises sector Sessional paper No. 2 (1992). The Sessional paper No. 2 (1996) on industrial transformation to the year 2020 focused on the potential of (MSMEs) sector in generating employment opportunities and creating a seedbed for future entrepreneurs. If micro, small and medium enterprises sector has to continue playing a major role in poverty alleviation, job creation, economic development and industrialization, their growth and development is very necessary. This growth and development may be seen in terms of additional business assets, new technology, quality products, new markets, packaging etc. To do this, the small businesses require financial support. Some entrepreneurs can finance such growth and development from their own resources but most of them require financial support in form of credit Kulundu (1990).

Despite the important role played by the micro, small and medium enterprises sector in poverty alleviation, job creation, economic development and industrialization, Kenya’s commercial banking industry, which accounts for almost 10% of the country’s gross domestic product (GDP), remains oblivious to the credit needs of this sector Mullei et al (1999). Although they may not say so, most of them seem to believe that if you must lend to this sector, you would be better off just giving money away as Charity (Mullei et al 1999).

In response to this desperate situation faced by this sector of economy, the government and the development agencies have spent quite substantial funds implementing policies and building micro finance institutions specifically aimed at promoting the sector Sessional Paper No. 2 (1992). The formation of micro finance programmes such as PAWDEP, KIE, JI.BS, SEFCO, K-REP, KWFT, FAULU – KENYA, SMEP, KADET, SUN-LINK etc were such initiatives in promoting this sector.

Microfinance programmes in Kenya generally issue short-term loans i.e. all loans regardless their use takes less than 2 years to repay it back. In most cases, first, second
and third loan cycles takes between 6 and 12 months repayment period. Subsequent loans may take between 6 and 12 months repayment period but depending on the particular loan programme. In general, these loans programs issue loans through group methodology. These groups may be of 5, 10, 15 or 30 members coming together as one cohesive credit finance group (CFG) ready to guarantee each other for loans borrowed from the credit program. This group methodology is borrowed from the Grameen bank (Bangladesh) concept of 40 members group comprising of 8 primary groups each of 5 members. It is important to note that almost all loans issued by the microfinance programs are collateral free Mullei et al (1999). This means that repayment of the loans issued will generally depend on the group pressure which is not 100% guaranteed in most cases.

Despite the important role played by the government and development agencies in promoting microfinance programs as effective tools for poverty alleviation, employment, economic development and industrialization, default of repayment in these programs has been a major setback Kulundu (1990).

1.2 PROBLEM STATEMENT.

Despite of their important role as effective tools of poverty alleviation, economic development and industrialization, microfinance programs are always faced with the risk of loan default on repayment. Their success or failure is generally determined by the loan repayment rate. When the repayment rate is very low, the default rate is very high and vice versa. When default problem occurs in a microfinance programme, the following are the outcome:

❖ The value of loan investment is eroded
❖ Continuous financial services to the existing loanees are undermined
❖ The number of potential loanees to be reached is limited
❖ Savings mobilization by the existing loanees is threatened
❖ Collapse of the microfinance programme.

Although loan recovery is after all the most basic ingredient of long-term sustainability of microfinance programmes, default of repayment in these credit programs has been a concern to the Kenya Government and development agencies. Many of these programs have collapsed due to repayment problem, which could have been cured if it had been detected and dealt with earlier CGAP occasional paper No. 3 (1999). As evidence, in 1990, most of the outstanding loans of KWFT amounting to approximately Ksh 2.0 M were declared bad debts and written off. In actual fact, the operation of KWFT credit program which had been there for the previous 10 years (1981 – 1990) ceased in 1990 Kiiru et al (1997). In 1992, arrears and defaults in the JUHUDI credit scheme of K-rep (as a percentage of outstanding loan portfolio) increased from about 7.5% in 1991 to 18.5% in 1992. Arrears and defaults on NGO/JUHUDI loans approximately doubled from about 14% to about 28% during that period. In 1993, total arrears and defaults in JUHUDI credit scheme amounted to Kshs. 4.4 million which increased to 8.2 million in 1994 and Kshs. 23.6 million in
Microfinance programs work hand in hand with micro, small and medium enterprises in an effort to alleviating poverty, job creation, economic development and industrialization. The success or failure of one of them means the success or failure of the other. In other words, when default problem strikes micro finance programs, all the effort of empowering people economically and industrialization is short changed for default management. Managing default is too expensive in terms of additional funds been used in following up default cases and time wastage in pursuit of unfruitful default legal cases. All the effort of a micro finance program seeking to be sustainable is diverted to this expensive exercise of default management. In extreme cases of bad portfolio performance as a result of default, the program's promoters may withdraw their sponsorship resulting with the collapse of the credit program. In the past, many micro finance programs have attempted to arrest and manage this problem of default by taking strict measures against the defaulters and their guarantors. These are just short term solutions which are expensive, ineffective and un-workable in the long run. Examples of such measures include:

- Withholding continuous loan disbursements to guarantors
- Exiting bad payers
- Seizing borrower's properties
- Taking legal action against defaulters

Considering the fact that financial sustainability of microfinance programs and the growth and development of micro, small and medium enterprises will only take place with continuous accessibility of credit by this sector of the economy and increasing outreach of new enterprises by these credit programs, short term solutions to such a big economic and development problem is not the answer. The root cause of the problem needed to be investigated in order to come up with sound and long-term solutions to this problem of default in loan repayment. In view of the importance of this problem of default in microfinance programs in Kenya. I find it necessary to undertake this study on the causes of loan default with an overall aim of helping these credit programs to enhance their sustainable efforts of alleviating poverty, job creation, economic development and industrialization.

1.3 OBJECTIVES OF THE STUDY

1.3.1 GENERAL OBJECTIVE

The broad objective of this study was to investigate the causes or factors influencing loan default in microfinance programs and suggesting the necessary measures to be instituted for effective operation of microfinance programs.
1.3.2 SPECIFIC OBJECTIVES:

- To find out the organizational factors influencing default of loan repayment
- Determine Borrower's (individual) factors influencing default of loan repayment.
- Examine Environmental/legal framework factors contributing to default of loan repayment
- Evaluate market related factors that influence default of loan repayment
- Determine measures that can help in controlling and managing default of loan repayment in microfinance programs.

1.4 RESEARCH QUESTIONS

1. How do the organizational factors e.g. Organizational policies etc influence default of loan repayment?
2. How do the borrower's (individual) factors such as loan use, investment, economic/income status, attitude etc influence default of loan repayment?
3. How do the environmental/legal framework factors contribute to default of loan repayment?
4. To what extent do the market related factors contribute to default of loan repayment?

1.5 SIGNIFICANCE OF THE STUDY

As mentioned above, microfinance programs play an important role in alleviating poverty, job creation, economic development and industrialization in this country. The success of these credit programs can have far reaching benefits to an economy. If default of loan repayment in microfinance programs operating in this country can have such negative effects on the entire economy, information about the factors that lead to default of loan repayment can be a good solution to this problem.

Previous studies touching on these factors in Kenya have been very shallow and mainly concentrated on agricultural credit. Previous writers like Cabrera (1976), Borton (1966), Mosher (1966), Heiscl (1973 & 1974), Miller (1975), Boakye (1979), Harmsworth (1979), Gaiteshcll (1966), Wainaina (1977), Kulundu (1990) and Muturi (1991) among many others wrote on agricultural credit. As mentioned earlier, many microfinance programs operating in this country are urban based and target off farm business activities. This study attempted to fill this information gap on off farm default of loan repayments by carrying out a more detailed/comprehensive case study on this issue. The findings of this study will be helpful to all microfinance programs operating in this country in the formulation or reformulation of their lending and loan recovery policies to make them effective and sustainable credit programs. The findings of this study will also be useful to all other stakeholders of this industry e.g. association of Microfinance Institutions (AMFI), Government departments. Donors, Learning Institutions like Universities and colleges in acquiring knowledge on this problem for advice to future potential implementers of microfinance programs.
1.6 SCOPE AND LIMITATION OF THE STUDY

- Due to the importance of loan default problem in microfinance industry and considering the fact that there is limited detailed/comprehensive study in this country, this provided the researcher with a wide scope in conducting detailed study on default in microfinance programs.
- Due to high concentration of off farm enterprises in Nairobi, the study area was in Nairobi Province of Kenya.
- The study was specifically limited to microfinance loanees and loan administrators.
- The major limitation in this study was reaching out the implementers of credit programs and defaulters of loan repayment themselves.

1.7 DEFINITION OF TERMS

MICRO FINANCE
Rutherford (2000) defined microfinance as financial services for the poor. In this study, the term was used to mean financial services for the people engaged in micro, small and medium business activities.

DEFAULT OF LOAN REPAYMENT
Kiuru et al (1997) define this term as the failure of the borrower to repay loan which is already considered overdue by the lender. The study applied this term to mean events to which the loan borrowers have failed to repay loans already declared by the lender as overdue.

DEFAULTER
Refer to the person failing to repay a loan borrowed in due time. The term was used in this study to refer to borrowers who have failed to repay their loans in due time.

LOAN/CREDIT
The two terms are synonymous and refer to the amount of money received by the borrower from a loan lending Institution. In this study, the two terms were used interchangeably.

DEVELOPMENT PROMOTERS/AGENCIES
This refers to Institutions supporting the implementation of microfinance programmes. When used in this study; they mean the implementers of microfinance programmes.
MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)
This refers to business enterprises employing between 1-50 workers McCormick (1996). These terms were used in this study to refer to those small enterprises including Jua Kali activities.

JUA KALI
This means “hot sun” in Kiswahili. The term refers to working under the hot sun as many Jua kali artisans lack formal workplace Mullei et al (1999). When used in this study, it meant informal small business activities just like micro, small and medium enterprises.
2.0: LITERATURE REVIEW

2.1 INTRODUCTION:

A number of studies on default of loan repayment have been carried out in Kenya and the rest of the world. However in Kenya, studies on this problem have been focused on Agricultural credit. This is actually understandable considering the fact that after independence (1963) to date, more emphasis has been on agricultural development. From mid 1980’s to date quite substantial credit funds from microfinance programmes have reached many off farm enterprises especially those based in urban centers like Nairobi.

Despite the fact that these microfinance programmes have disbursed millions of credit to urban based enterprises, there are available but not detailed studies on the problem of default of loan repayment by these off farm enterprises. This is actually the existing gap on the problem that this particular study intended to fill. The main issue here was to identify what has been documented, existing gaps, inconsistencies and contradictions on the problem, hence adding value to the available literature for further studies on the issue.

Generally, literature was reviewed in line with the research objectives so that there is consistency and flow of objectives of the study. For the purpose of this study, this literature review was examined under four main themes namely:

a) Institutional related factors
b) Borrower related factors
c) Market related factors.
d) Environmental/legal framework related factor.

2.2. INSTITUTIONAL RELATED FACTORS

A microfinance institution is a broad variable comprising of simpler variables such as institutional policies, culture, structure etc. Some of these variables were suspected to have influence on default of loan repayment but at varying degrees. In order to verify whether these variables caused default of loan repayment and at what level they were investigated. In this case, literature was reviewed with an aim of identifying the available data and existing gaps for further studies on the issue.

According to World Bank Discussion Paper No. 219 (1994:105) on development of rural financial markets in Sub-Saharan Africa, default of loan repayments are caused by factors internal as well as extraneous to the lending institutions. This is just a general conclusion with no empirical data to prove it. Also internal institutional factors are many with varying degrees of influence on default of loan repayment. For this reason, a rigorous study was necessary in order to shed more light on the issue. This was actually the purpose of this study.
Cabrera (1976) points out that misallocation and hence default of loan repayment in the Philippines was a result of conservativeness of the lending institutions. This is just a general statement with no detailed scientific data to support it. Conservatives of an institution may be on policies, culture etc. A detailed study on suspected institutional variables such as policies was necessary to shed more light on the issue. In any institution, several variables are encompassed or rather reflected in the institutional policies. In other words institutional policies may touch on culture, lending methodology, staff efficiency and skills, philosophy, image etc. For this reason, institutional policies as a main variable was considered as a key element of investigation in this study.

2.2.1 Institutional Policies

These are the rules and regulations used by an institution in managing the implementation and operation of a microfinance program. From time to time, existing policies are either amended or deleted and sometimes new policies are introduced for the smooth running of such a loan program. The management style of executing all these changes is the issue for it may cause default of loan repayment.

2.2.2 KEY POLICY RELATED ISSUES

a) SELECTION OF LOANEES
b) TIME TAKEN TO ISSUE A LOAN
c) LOAN SUPERVISION AND FOLLOW UP
d) UN-CLEAR/UN-ACCEPTED/AMBIGIOUS TERMS

2.2.2.1 SELECTION OF LOANEES

Wiesel (1973) on agricultural credit notes that there is need of focusing loans to only those potential loanees who are most likely to repay. In other words, he noted the need to have careful selection of loanees. Wiesel (1974) notes that financial institutions should be assisted in choosing the right loanees i.e. careful selection of loanees. Borton (1966) on small holder credit noted that it is credit worthy projects not credit worthy persons that matters. This means that careful selection of the project to be financed should be observed. Mosher (1966) on farm credit notes that loanees who have offered the land or other property as security for their loans are unlikely to take risk with loan repayment. This shows the need for careful selection of loanees. From the above literature review, there seems to be consensus that poor selection of loanees could lead to default of loan repayment. However, though these suggestions as given by the mentioned analysts are good, they are not detailed. Secondly, all the above studies were focused on farm credit leaving off farm credit out of the whole picture. For this reason, a more rigorous study on off farm credit was needed in order to shed more light on the issue.
2.2.2.2 TIMELINESS OF LOAN ISSUE

Wiesel (1973) on farm credit points out that failure to provide credit on time has an important impact leading to loan delinquencies. Miller (1975) on small-scale farm credit notes that failure to approve loans in time may cause default of loan repayment. Boakye (1979) on farm credit notes that in many cases, credit institutions fail to approve loans in time and in other cases loans fund are disbursed too soon. Okorie (1986) while writing on agricultural credit notes that timeliness of loan disbursement will influence default of loan repayment. Mosher (1966) while writing on farm credit notes that timeliness of credit issue is important to avoid default of loan repayment. Kulundu (1990) on small-scale farm credit points out that time of the loan issue can influence default of loan repayment. He investigated the relationship between loan repayment and timeliness of loan issue specifically on late and on time issue of loans.

From the above literature review, there seems to be consensus that failure to issue loans in time may cause default of loan repayment. However, apart from Kulundu (1990) who based his analysis on scientific data, all the other studies lack empirical evidence to be valid. Though these studies gave good suggestions on the issue, they served as a theoretical base for a more rigorous study. Though Kulundu's study (1990) was scientifically valid, he only studied agricultural credit leaving out off-farm credit. Secondly, time as an issue need to be looked at from three perspectives i.e. "Too fast", "on time", "too late". Kulundu's study touched on two of these perspectives leaving the other one unexplained. This is the gap that this study intended to fill by carrying out a more rigorous study on off-farm credit.

2.2.2.3 LOAN SUPERVISION AND FOLLOWUP

Stickley and Hosseini (1972) on Iranian Agricultural Credit indicate the need of loan administration to avoid loan default. Wiesel (1973) on small-scale farm loans notes that credit education and repayment follow up were necessary for good loan repayment. Pischke (1974) on farm credit indicate that poor loan administration could lead to default. He also notes that poor loan repayments is a function of poor supervision and follow up. Harmsworth (1976) on farm credit notes that an administrative inadequacy is a big element in poor loan repayment. I.cle (1976) on agricultural credit states that poor extension services as a factor in loan administration is a determinant in loan repayment. Wainaina (1977) on small-scale farm credit notes that poor loan supervision could lead to default of loan repayment. David and Wyeth (1978) on farm credit notes that poor loan supervision could lead to default. World Bank Discussion Paper No. 219, 1994 on development of rural financial markets in Sub-Sahara Africa indicates that insufficient monitoring of loans could lead to default of loan repayment. Kulundu (1990) on farm credit notes that loan repayment depends on supervision and provision of extension services. Muturi (1991) on small-scale farm credit notes that lack of institutional loan supervision could lead to default of repayment.
From the above literature, there seems to be consensus that poor or lack of loan supervision/administration and follow up could lead to default of loan repayment. Apart from Pischke, Kulundu, Muturi and Wainaina who based their arguments on empirical data, other analysts have based their arguments on armchair theorizing i.e. lacking scientific data. Though the conclusions of Pischke, Kulundu and Wainaina may be statistically valid, they are weakened by the fact that their investigations were based on farm credit only leaving off-farm credit unexplained. Also the research sample taken by Pischke was too small (12 respondents) for one to conclude the existence of a meaningful relationship. This study intended to fill the gap left by the mentioned analysts.

2.2.2.4 UN-CLEAR/AMBIGUOUS TERMS

Aleke Dondo et al (1992) notes that loan giving agencies have developed costly administrative systems that discriminate against poor and illiterate loanees who cannot meet the lending terms or follow complex procedures. Rutherford Ford (2000) while writing on the poor and their banking notes that “whatever financial services are offered, its terms must be clear to both the customers and the staff involved”. He also observed that “poor villagers might put some savings into a scheme that they do not understand, just to please a patron. However, they will not put in much until they are completely sure of when and how and in what quantities they can get their savings back, whether as withdrawals or as loan”. He concluded by saying “the lesson is, clarity brings learning and learning ushers in beneficial change.” According to him, many institutions suffer from the opposite as he notes that “ambiguous products provoking confusing responses from clients and leading to protracted periods of poor performance” Rutherford (2000). From the above literature, it is clear that there is consensus that un-clear and ambiguous loan terms may lead to default of loan repayment. Though the mentioned studies gave good suggestions on this issue, they lack empirical data. The purpose of this study was to investigate the actual ambiguous policy variables causing default of loan repayment.

2.3.0 BORROWER’S RELATED FACTORS

These are the factors that are contributed by the individual client at the family, group and society level. Key individual related issues include the following:

(a) Diversion or misallocation of loan
(b) Borrower’s attitude
(c) Borrower’s economic and income status.
(d) Borrower’s ability to invest.

2.3.1 DIVERSION OR MISALLOCATION OF A LOAN:

Borton (1966) notes that in Tanganyika, loans given to progressive stockowners in Bukoba were used for the wrong purpose and never paid. Geitshell (1966) on farm credit in Tanganyika notes that beans selected and distributed on credit were traded in
for cash and never planted. He also notes that fertilizer loaned on credit to improve rice production in Philippines was sold to sugarcane producers and never paid. Mosher (1966) on farm credit notes that sometimes farmers go into debt when they borrow agricultural credit but use it to finance consumption. Vashthoff (1968) on AFC loan scheme in Kenya points out that a considerable amount of loan is spent on items other than those intended. Wiesel (1973) on maize credit scheme in Kenya notes that loan repayment problems were caused by diversion to school fees, medical expenses and basic household expenditure. Von Pischke (1974) points out that borrowers may convert part of their loan proceeds to cover other loan related expenses. Cabrera (1976) point out that there are several credit recovery problems in Philippines as credit obtained is used for non-agricultural ventures. Miller (1975) on farm credit in Nigeria notes that loan delinquency result from loan diversion. Pischke (1976) notes that the purpose for which credit is given is not whether given in cash or in kind. Kulundu (1990) on small-scale farm credit found that 38.4% of the total loan funds given to the sample farmers were diverted to other uses. Wainaina (1977) on small-scale farm credit in Githunguri Kiambu notes that diversion of loan funds is a widespread practice among farmers. Harmsworth (1979) on small-scale credit notes that social obligations in terms of school fees payment might have negative effects on loan repayment.

From the above literature, there seems to be consensus that loan diversion or misallocation of loans funds lead to default of loan repayment. However the literature available fails to tell us anything on off farm credit. Secondly, apart from Wainaina, Kulundu and Pischke whose works were scientifically valid, all the rest lack empirical data. The purpose of this study was to find out whether diversion or misallocation of loan funds has any meaningful effect on loan default.

2.3.2 BORROWER'S ATTITUDE

Borton (1966) on farm credit in Philippines note that most of the loans to co-operative provided by (U.S.A) at the time of HUK revolt, were never repaid for they were regarded as government money with foreign element hence reducing that obligation to repay. Msambichoka et al (1974) on agricultural credit in Tanzania notes that in some Ujamaa villages, credit is considered as a present from the ruling party (TANU). World Bank Discussion Paper No. 219, 1994 on development of rural financial markets in Sub-Saharan Africa, indicates that loan defaults may be caused by deliberate acts by the borrowers or willful defaults based on borrowers cynicism, defiance etc. World Bank Sector Paper (1995) notes the effects of sociological factors i.e. Attitude and belief as being explanatory of default. CGAP Occasional Paper No. 3 (1999:1) on measurement of microcredit delinquency notes that as clients watch their peers' default, they lose confidence in the MFIs ability to serve them in future hence resulting with members' indiscipline and dissipation of peer group pressure to repay.

From the above literature there is an agreement among the analysts that borrower attitude may cause default of repayment. However, the literatures available lack
empirical data. Also all the analysts focused their attention on farm credit leaving off-farm credit unexplained. This is the gap that this study intended to fill.

2.3.3. BORROWERS ECONOMIC AND INCOME STATUS

Wiesel (1973) on small scale farm credit notes that all those loans with repayment problems had low income. Harmsworth (1974) attributes poor loan repayment to insufficient farm income, Gunatilleke (1973) on defaulter's survey in Colombo notes that low income was one of the major causes of default. Harmsworth (1974) on million acre settlement schemes in Kenya notes that economic status is the most important factor affecting loan repayments. Jackhade and Bhagat (1976) on Indian crop loan system notes that it is the loanee's needs that lead him/her to consume loans funds.

The above literature reveals that there is consensus that borrowers/family economic and income status may cause default of repayment. However, the literature available lacks empirical data. Secondly the literature available only focused on agricultural credit leaving off farm credit unexplained. This study intended to fill that gap.

BORROWERS ABILITY TO INVEST

Mustafa (2000) notes that limited scope for investment of loan in unproductive scheme and failure to utilize the credit amount by the borrower could cause default of repayment. Borton (1996) notes that in Afghanistan, loans given to landowners to improve production were invested in real estates and never repaid.

This literature shows that there is consensus that failure to invest loan funds properly could lead to default of loan repayments. Though these analysts give good suggestions on this issue they lack empirical data to make them valid. This study intended to fill this gap.

2.3 MARKET RELATED FACTORS

These are the factors contributed by the market itself to the default of loan repayments. Kiiru et al (1997) on microfinance notes that inflation has a negative impact on loan repayment for it prevents clients from replenishing their stocks and forces them to redirect more of their funds to meet household expenses. Mustafa (2000) notes that competition and providing loans to very vulnerable people could lead to default of loan repayment. Mullei et al (1999) on markets and marketing notes that "due to poor market research over the supply, often occasioned by too many enterprises producing too many similar products leads to dead stock and business stagnation. On the other hand, failure to respond to market demand with
the desired products in good time often takes business away from the MSMEs to more established trends." The ends results of such scenario is loan default incase an enterprise has a loan.

From the above literature, there seems to be consensus that market related factors such as customers targeted, competition, inflation, products demand and supply may lead to default of loan repayments. Though the analysts gave good suggestions on this issue, they lack empirical data. This study intended to fill this gap.

2.4 ENVIRONMENTAL RELATED FACTORS
These are the factors contributed by the enterprise environment. Mullei et al (1999) points out that a critical component of the enterprise enabling environment is the legal and regulatory framework. He notes that "In Kenya MSME's are particularly inhibited by cumbersome laws and regulations most of which are out of the tune with current development realities". He also observed that "excessive regulatory constraints inhibit business competitive worldwide. They impose costs and inflexibilities that frustrate enterprises, hamper innovation, deter investment and minimize opportunities for employment creation" Mullei et al (1999). Wiesel (1994) on farm credit in Western Kenya notes that default attitude was reinforced and perpetuated by lack of sanctions on defaulters. Buhran (1970) on small-scale farm credit notes that environmental factors are being responsible for non-repayment of credit. Harmsworth (1974) on farm credit notes that physical environment and farm systems are determinant of credit repayment. Mustafa (2000) notes that natural disasters like flooding, cyclone, draught etc could cause default. He also noted that theft, fire, default in other MFIs, unfavorable communication and competition could affect the credit environment hence causing default of repayment. He also noted that eviction of slum dwellers by the local authorities or government and the political unrest could cause default of repayment. From the above literature, there seems to be consensus among analysts that enterprise environment may have negative effect on the loans repayment. However, these studies lack empirical data to be valid. This was the purpose of this study.

2.6. CONCLUSION:

The literature indicates that there is consensus that poor policies on loan borrowers selection may lead to default of loan repayment. Weisel (1973), Weisel (1974), Borton (1966) and Mosher (1966) all agree with this assertion. However, these analysis lack empirical data for support. The literature also indicates that poor timeless of loan issue policy could lead to default of loan repayment. Mosher (1966), Weisel (1973), Miller (1975), Boakye (1979), Okorie (1986), and Kulundu (1990), all agree with this assertion. However, these analysis lack scientific data for support.
Where the data is available, like in case of Kalundu (1990), it is incomplete for the study focuses on-farm credit leaving off-farm credit unexplained. Secondly, he tested two aspects of timeliness leaving the third one untested. The literature review indicated consensus that poor loan supervision and follow up could lead to default of loan repayment. Stickley and Hosseinl (1972), Weisel (1973), Pischke (1974), Harmsworth (1976), Lele (1976, Wainaina (1977), David and Wyeth (1978), world bank discussion paper No. 219 (1994), Kulundu (1990) and Muturi (1991) all agree with this assertion. However these analysis lack empirical data for support. Where the data is available like in case of Pischke (1974), Muturi (1991), Wainaina (1997) and Kulundu (1990), it is scientifically insufficient. Pischke used a very small research sample (12 respondents) while Muturi, Wainaina, Kalundu and Pischke tested only farm Credit leaving off farm credit untested. Literature indicates that there is consensus that unclear or ambiguous policies could lead to default of loan repayment. Aleke Dondo at al (1992) and Ruther Ford (2000) agree with this assertion. However, they lack empirical data to make their analysis scientifically valid. Literature indicates that there is consensus that diversion of the loan could lead to default of loan repayment. Apart from Borton (1966), Geitshell (1966), Mosher (1966), Vosthoff (1968), Weisel (1973, Pischke (1974 and 1976), Wainaina (1977), Kulundu (1990) analysis, the rest lack empirical data. The analyses with empirical data are weakened by being incomplete. The literature also indicate that there is consensus that borrower’s attitude could cause default of loan repayment. Borton (1966), Mchambichak (1974), World Bank discussion paper No.219 (1994), World Bank sector paper (1995), CGAP occasional paper No.3 (1999), Mustafa (2000), agree with this assertion. However the analysis lacks the empirical data. The literature indicates that there is a consensus that poor loans investment could lead to default of loan repayment. Borton (1966), and Mustafa (2000), agree with this assertion. However the analysis lacks the empirical data. The literature also indicates that there is a consensus that low borrower’s income and hence poor economic status could lead to default of loan repayment. Weisel (1973), Harmsworth (1974), Gunatilleke (1973), Msambichaka (1974), and Jackhade and Bhagat (1977) all agree with this assertion. However, the analysis is incomplete and lack empirical data.

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2.7 THEORETICAL FRAME WORK

This study was grounded on rational choice theory of Adam Smith, John Stuart and others, exchange theories of Peter Blau and George C. Homans and social action theory of Tarcott Parsons.

2.7.1. SOCIAL ACTION THEORY (TARCOTT PARSONS)

This theory sees every action as taking place within a certain norm and value system. The aim of the action is goal achievement for the actor. In other words, no action takes place in the absence of rational decision making. Actions taking place are aimed at maximizing a reward for the actor Cohen (1968). According to Parsons (1968), for action to take place, an actor must be motivated. This motivation in case of loan borrower is through good institutional policies, good repayment by other borrowers (guarantors), friendly market and a conducive working environment. When motivated, the loan borrowers will make good repayment of their loans, develop their own businesses, community finance groups (CFGs), microfinance programs and society at large. In other words, the social action theory sees human actions as a form of interaction that helps shape societal norms.

2.7.2 RATIONAL CHOICE THEORY (ADAM SMITH, JOHN STUART MILL. AND OTHERS)

According to early economics theorists like Adam Smith, John Stuart Mill among others, humans are viewed as rationally seeking to maximize their material benefits or “utility” from transactions or exchanges with others in a free and competitive market place Turner (1991). In other words humans as rational units in a free market place, access to all necessary information, can consider all available alternatives rationally in selecting the cause of action that will maximize material benefit. This means that while entering into their rational considerations, there are calculations of cost involved in pursuing various alternatives.

In this study, the loan borrowers are always faced with various alternatives after borrowing a loan e.g.

(i) Repay back the borrowed loans so as to get other bigger loans with the possibility of losing savings through regular tapings of savings in order to pay for the defaulters in the community finance groups (CFG). This is exactly what happens when you have severally guarantee other members in a group.

(ii) Fail to repay back the borrowed loans resulting with bad relationship with guarantors and microfinance program ending with no future loans for the business.
2.7.3. EXCHANGE THEORY (PETER BLAU).

In developing the exchange theory, Blau combined social behaviorism and social factism Turner (1991). According to him, human behavior is directed by the process of exchange which dictates the kind of relationships existing amongst individuals and groups Ritzer (1992). Blau argues that exchange occurs only between relationships in which rewards are expected and received from others. He employs the concepts of rewards, costs and profits but limiting their applications to relations with others from whom rewards are expected and received.

This exchange is a particular type of social association that involves actions contingent on rewarding reactions from others and that stops when the expected reactions are not forthcoming Turner (1991). In this study, there exists a social relationship amongst the borrowers, the community finance groups (CFGs) and microfinance programs. Exchange of loans and loans repayment which takes place in this relationship dictates the kind of relationship amongst the said actors. Delivery of good loans services to the loan borrowers results with good loan repayment. The opposite will happen if the expected reactions are not forthcoming. This means that the financier or the microfinance program will stop providing loans and the borrower will stop repaying back their loans. Those loan borrowers who pay back their loans do so according to their own rules disregarding the laid down loan conditions and hence defaulting in loan repayment.

2.7.4 EXCHANGE THEORY (GEORGE HOMANS)

George c. Homans developed exchange theory called behavioral psychology. He argued that people continue to do what they have found rewarding in the past while they cease to do what has proved to be costly in the past. He argues that behavior is a result of its consequences and is strengthened and maintained because of the reinforcers who follow it. Behavior is weakened by consequent punishment or incurred costs Hormans (1961). According to Homans, people do interacts in the exchange of rewards and costs. These interactions are likely to continue when there is exchange of rewards but will cease to continue if they are costly to one or both parties. According to Homans (1974), the more often a particular action of person is rewarded, the more likely the person is to perform that action (success proposition). If the rewards offered to others are considered valuable, then, the actors are more likely to perform the desired behavior than if the rewards are not valuable (value proposition) Homans (1974). If the person continues to be rewarded with a particular reward so often, the reward ceases to be valuable to that person (satiation proposition) Homans (1974). According to Homans, punishment is an ineffective way of getting people to change their behavior. When a person's action does not receive the reward he expected, or receive punishment he did not expect, he will be angry,
frustrated and perform aggressive behavior (Homans, 1974). In this study, the actors are loan borrowers, community finance groups (CFGs) and microfinance programs. Rewards in exchange in this study include loans and good loan repayment. Costs in this study include valuable time wasted in waiting for business loans by the borrowers and lost savings in order to repay for the guarantors. In most cases, loan guarantors are heavily taped of their savings in order to pay for the defaulted loans in a community finance group. In other words, tapping of savings from guarantors is a cost to them and punishment from the financier. These costs incurred by the borrower make him/her angry and frustrated hence changing the normal behavior by not paying back the borrowed loan. On the other hand, the financier incurred costs in terms of default management and defaulted finances. Microfinance programs reacts to these situations by stopping further loan disbursements to the potential loan borrowers in the community finance groups.

As the actors continues to punish one another, the end result is the negative counter effect on the operation of the whole system of loan borrowing by the business owners and loan lending by the microfinance programme.

THEORETICAL CONCEPTUALIZATION

In this study, there is a social relationship between the loan borrowers, community finance groups and the microfinance programme. Interactions between loan borrowers and microfinance programme will continue to take place so long there is an exchange of good rewards. These interactions will cease to take place if costs to one or both parties are unbearable. Costs calculations by the loan borrower are based on institutional policies, market forces, working environment and repayment culture while costs calculations by the financier are based on default management and defaulted funds. The loan borrower as a key actor in this social relationship is generally motivated by good institutional policies, a friendly market, good repayment culture and a conducive environment. The microfinance programme as the other key actor in this relationship is motivated by good loan repayments. Mutual sustenance of this motivation will sustain delivery of loans to borrowers and repayments of loans to the lenders.
CHAPTER 3

RESEARCH METHODOLOGY

3.0 INTRODUCTION:

This chapter covers site selection and description, target population, unit of analysis, sources of data, sampling procedures, data collection techniques and data analysis. In this study, both qualitative and quantitative approaches of data analysis were applied.

3.1 SITE SELECTION/DESCRIPTION

This study was carried out in Nairobi. This is the capital city of Kenya with a population of more than 3 million people and population density of 4609 persons per Kilometer Square. This indicates that the city is densely populated with people of diverse cultural backgrounds attributable to its cosmopolitan status. Majority of Nairobi people are self-employed entrepreneurs with micro, small and medium enterprises (MSMEs). These enterprises are completely off farm establishments. The city is also the base of many microfinance programmes in Kenya e.g. PAWDEP, K-REP, KWFT, SMFP, FAULU KENYA, KADET, SUNLINK, etc.

3.2 SAMPLING DESIGN:

According to Singleton et al (1988), this is the part of research plan that indicates how the cases were selected for observation. The quality of the sample selected was determined by the Sampling design or procedures applied. In real sense, the sample obtained was a real representative of the target population since it provided a close approximation of certain characteristics of that target population. Considering the fact that the study main features were those of a survey design, this study used survey research as its design. The study combined both probability sampling techniques and non probability sampling techniques. Non probability sampling design was used in selection of the Microfinance Programme and community Finance groups while probability sampling technique was used in selection of individual borrowers and loan administrators.

3.3 TARGET POPULATION

In this study, the target population consisted of 15,000 off farm micro and small enterprise operators with borrowed funds from Pamoja Women Development programme (PAWDEP) in Nairobi. These clients saves and borrow loans from the Microfinance program. The defined target population according to the researcher was more homogeneous with respect to the variables being studied hence qualifying a sample of one case satisfactorily representing the entire population. After the target
population was clearly defined, the next step was to make it operational by constructing a sampling frame that denotes the set of all cases from which the sample was selected.

3.4 SAMPLING:

After the researcher had carefully defined the target population, obtained a good sampling frame and finally came up with an appropriate sampling design, he finally proceeded in selecting a representative sample of the target population to be used for the study. In determining the sample size, several interrelated factors considered in decision making included, heterogeneity of the population, the desired precision, type of sampling design, available resources and the number of breakdowns planned in data analysis. The sample selected comprised of 114 loan borrowers. In order to get a representative sample with acceptable accuracy and within the shortest time possible and limited budget, this study applied multi-stage cluster and purposive sampling of Community Finance Groups (CFG’s). In selecting these community finance groups, this study involved purposive sampling as the first stage. The second stage purposive sampling was employed in order to select clients with loans. Third stage purposive sampling was employed in order to select clients with loans in arrears or defaulted loans. Purposive sampling was also applied in selecting individual clients who were not members of any community finance group but having loans in arrears or defaulted loans. A total of 114 respondents were interviewed. In addition, purposive sampling was employed in order to identify key informants respondents. These key informants respondents included PAWDEP senior credit officers, branch managers and the operation manager.

3.4.1 SAMPLE FRAME

In this study, sampling was done from the sample frame shown below. This was an extract from the clients’ register of Pamoja Women Development Programme (PAWDEP).

<table>
<thead>
<tr>
<th>Community Finance Group/Individual clients</th>
<th>No. of Clients</th>
<th>Desired Sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community finance group clients</td>
<td>14,200</td>
<td>104</td>
</tr>
<tr>
<td>Individual clients</td>
<td>800</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>15,000</td>
<td>114</td>
</tr>
</tbody>
</table>

3.5 UNIT OF ANALYSIS

These are the social entities whose social characteristic are the focus of study Baker (1994). The unit of analysis hinges largely on the research topic, which determines what the researcher seeks to describe and compare. In this study, the unit of analysis included off farm loan borrowers of microfinance programmes. The respondents
consisted of both the loan borrowers and loan administrators of microfinance programmes.

3.6 TECHNIQUES OF DATA COLLECTION

The study utilized both primary and secondary data. The primary data comprised of off farm loan borrowers and loan administrators of microfinance programmes e.g. Clients, loan officers, managers, operation managers etc. Secondary data sources included clients' Registers e.g. group registers, Files e.g. group files, Periodic records e.g. montly meetings group records, Theses e.g. Kurundu (1990), Muturi (1991), Wainaina (1977), Dissertations e.g. (McCormick) etc, Published materials e.g Cabrera (1967), Miller L. (1975), Mustafa (2000) etc. and Unpublished materials e.g Oketch/Aleke (1992), Msambich aka (1976) and Internet resources.

3.6.1 QUESTIONNAIRES

Structured and unstructured questionnaires were the major instruments of data collection for the study. Interviews were conducted in order to determine the characteristics of a larger population of loan borrowers which could not be investigated directly Babbie (1988). Face to face interviews were used to collect both qualitative and quantitative data from the respondents. The researcher chose this approach in order to obtain immediate and direct feedback from the respondents and to minimize the rate of misinterpretation of questions. In the structured questionnaire, interview schedule was divided into 5 parts. Part (I) contain questions on client’s personal information. Part (II) contains questions on business information. Part (III) entails questions on loan borrowing history of the client. Part (IV) contains questions on loan repayment while Part (V) contains questions on suspected causes of loan default.

3.6.2 KEY INFORMANTS INTERVIEWS:

The unstructured questionnaire was used to get in depth information from the key informants. These included the credit officers, managers and operations manager. Interview guide was used in guiding the interviews hence enabling the researcher to probe and get in-depth information of what causes default of loan repayment in Microfinance programmes.

3.6.3 OBSERVATION:

Observation method was also used as a tool of data collection. Observation entailed observing phenomenon of business as it unfolded in its natural environment. Direct observation of clients enterprises and community finance groups' performance records/reports/registers was done.
3.6.4 METHODS OF DATA ANALYSIS

In order to draw and make valid and reasonable conclusions on the basis of the analysis, statistics facilitated the organization, summarization and presentation of the collected data. The responses to specific questions were summarized, coded and categorized using the common themes and phrases relevant to the research questions. The data collected was entered into the computer by the researcher for analysis using the statistical package for the social science (SPSS) programme. The study findings were presented using descriptive statistics without drawing any conclusions or generalizing. Research data description was done using the graphs, tables and percentages.
4.0 INTRODUCTION

In this chapter, the researcher used descriptive statistics to present the research findings. These include the use of tables, graphs and percentages in describing the characteristics of the respondents.

4.1.0 The characteristics of the respondents

A total of a hundred and fourteen (114) respondents who were loan clients of Pantoja Women Development Programme were interviewed. These were clients who had received loans from PAWDEP either individually or through community finance groups. In the course of this study, the researcher gained an in-depth understanding of PAWDEP's clients in respect to gender, age, marital status, level of education, number of dependants and type of business. Out of 114 respondents interviewed by the researcher, 99% of them were females and 1% male. The Organization's original specific objective was to reach women only hence reason for the high number of women than men.

4.1.1 Age of the respondents

In this study, class frequencies were used in presentation of the respondents' age as shown in the table 2 below.

<table>
<thead>
<tr>
<th>Age Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>22</td>
<td>19%</td>
</tr>
<tr>
<td>31-40</td>
<td>49</td>
<td>43%</td>
</tr>
<tr>
<td>41-50</td>
<td>28</td>
<td>25%</td>
</tr>
<tr>
<td>51-60</td>
<td>13</td>
<td>11%</td>
</tr>
<tr>
<td>61 and above</td>
<td>2</td>
<td>2%</td>
</tr>
<tr>
<td>Total</td>
<td>114</td>
<td>100%</td>
</tr>
</tbody>
</table>

In this study, majority of the respondents were aged between 31-40 years i.e. 49 respondents out of 114 (43%). 28 of them or 25% of the respondents were aged between 41-50 years, 22 of them or 19% of the respondents were aged between 21-30 years, 13 of them or 11% of the respondents were aged between 51-60 years while only 2 or 2% of the respondents were aged 61 years and above. In most of the demographic studies, the 18-45 age bracket has been identified as the most productive in any population. In this study, the findings indicate that most of the respondents i.e.
68% were aged between 31 - 50 years. From these findings, it is important to conclude that majority of the clients who had borrowed loans from Pamoja Women Development Programme (PAWDP) were in age brackets 31 - 40 and 41 - 50 respectively. This being the most productive age category in any population or economy, support in form of advice and guidance should be given to them as they manage loans borrowed from Microfinance programmes.

**RESPONDENTS ACCORDING TO AGE**

<table>
<thead>
<tr>
<th>AgeBracket</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGE 21-30</td>
<td>22</td>
<td>19%</td>
</tr>
<tr>
<td>AGE 31-40</td>
<td>28</td>
<td>25%</td>
</tr>
<tr>
<td>AGE 41-50</td>
<td>49</td>
<td>43%</td>
</tr>
<tr>
<td>AGE 61 AND ABOVE</td>
<td>13</td>
<td>11%</td>
</tr>
</tbody>
</table>

**FIGURE 2**

### 4.1.2 Marital status

The table below shows the distribution of respondents according to marital status.

<table>
<thead>
<tr>
<th>Marital Status</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Married</td>
<td>72</td>
<td>63.1%</td>
</tr>
<tr>
<td>Single</td>
<td>33</td>
<td>29%</td>
</tr>
<tr>
<td>Widowed</td>
<td>5</td>
<td>4.4%</td>
</tr>
<tr>
<td>Divorced</td>
<td>3</td>
<td>2.6%</td>
</tr>
<tr>
<td>Separated</td>
<td>1</td>
<td>1%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>114</td>
<td>100%</td>
</tr>
</tbody>
</table>

In this study and as indicated in the above table, 72 or 63.1% of the respondents were married, 33 or 29% of the respondents were single, 5 or 4.4% of the respondents were divorced while only 1 or 1% of the respondents were separated cases. The findings of this study shows that most of the 114 respondents were either married or single i.e 63.1% and 29% respectively. As indicated above, 19% of these clients were aged between 21 - 30 years while 43% of them were aged between 31 - 40 years. Age
between 21 - 40 years, is normally the engagement period hence the possible reason for high percentage of single status among the respondents.

### RESPONDENTS ACCORDING TO MARITAL STATUS

![Marital Status Pie Chart]

- Married: 72 (63%)
- Single: 33 (29%)
- Widowed: 3 (3%)
- Divorced: 1 (1%)
- Separated: 5 (4%)

**FIGURE 3**

### 4.1.3 Education

In the selected sample of 114 respondents, the study found that 59 (51.7%) had secondary education, 30 (26.3%) had college education, 23 (20.2%) had primary education while only 2 (1.8%) of 114 respondents had University education. The table below shows the distribution of respondents according to literacy or education level.

<table>
<thead>
<tr>
<th>Education Level</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Education</td>
<td>23</td>
<td>20.2%</td>
</tr>
<tr>
<td>Secondary Education</td>
<td>59</td>
<td>51.7%</td>
</tr>
<tr>
<td>College Education</td>
<td>30</td>
<td>26.3%</td>
</tr>
<tr>
<td>University Education</td>
<td>2</td>
<td>1.8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>114</td>
<td>100%</td>
</tr>
</tbody>
</table>

In this study, the findings reflect a high level of literacy among the respondents with 91 (79.8%) of the respondents having a minimum of secondary level of education.
4.1.4 DEPENDANTS

In the selected sample of 114 respondents of this study, 37 (32.4%) of these respondents had 1 dependant, 26 (23%) of the respondents had 4 dependants, 20 (17.5%) of the respondents had 5 dependants, 19 (16.6%) of the respondents had 2 dependants, 4 (3.5%) of the respondents had 1 dependant, 3 (2.6%) of the respondents had 6 dependants while only 5 (4.4%) of the respondents had 7 or more dependants. The findings of this study shows that out of 114 respondents selected, 83 (72.8%) of them had between 3 and 5 dependants. It is therefore prudent to conclude that majority of the respondents had 3 - 5 dependants. This shows that most of the loan borrowers of Microfinance programmes like PAWDIP have an average of 4 dependants who indirectly benefit from the extended loans. Advising and guiding these clients of Microfinance programmes on how to avoid loan default is very important to the client, the financial institution and the Country as a whole. The table below shows the distribution of dependants among the respondents.

<table>
<thead>
<tr>
<th>No. of Dependents</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>4</td>
<td>3.5%</td>
</tr>
<tr>
<td>2</td>
<td>19</td>
<td>16.6%</td>
</tr>
<tr>
<td>3</td>
<td>37</td>
<td>32.4%</td>
</tr>
<tr>
<td>4</td>
<td>26</td>
<td>23%</td>
</tr>
<tr>
<td>5</td>
<td>20</td>
<td>17.5%</td>
</tr>
<tr>
<td>6</td>
<td>3</td>
<td>2.6%</td>
</tr>
<tr>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>5</td>
<td>4.4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>114</td>
<td>100%</td>
</tr>
</tbody>
</table>
### Table 6: Distribution of business categories among the respondents

<table>
<thead>
<tr>
<th>Business Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commerce</td>
<td>89</td>
<td>78%</td>
</tr>
<tr>
<td>Service</td>
<td>17</td>
<td>15%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8</td>
<td>7%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>114</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

In the selected sample of 114 respondents, 89 (78%) of the respondents were in commerce sector, 17 (15%) were in service while only 8 (7%) of the respondents were in manufacturing sector. The findings of this study shows that majority of the respondents were in commerce sector while only a few of the respondents were in manufacturing sector. It is therefore important to conclude that a lot of support is needed by the respondents in commerce sector in order to transform their business activities into industries hence industrialization of the nation. Advice and guidance on loan default is therefore critical to this sector of economy.
4.2 FACTORS EXPLAINING LOAN DEFAULT AMONG OFF FARM LOAN BORROWERS OF MICROFINANCE PROGRAMMES

The study found that different respondents had different reasons for failing to repay their loans on time or completely failure to repay their loans. Reasons expressed by the study respondents included: Selection recruitment of loan borrowers, Time taken in processing a loan, Lack of supervision in loan utilization, Misunderstanding of loan policies, Market forces like increasing rate of inflation and competition, Client attitude, Income generated, Loan diversion, Investment of borrowed loan, Lack of business plans, Sickness, Theft, Death, Overfunding, Client mobility. Family issues and Politics. 100 ( 88% ) of the respondents indicated that default of loan repayment was due to the prevailing market forces like continuous increase in rate of inflation and competition. 97 ( 85% ) of the respondents gave the reason for loan default as lack of supervision on loan utilization. 88 ( 77% ) of the respondents indicated that loan default was due to lack of good investment of the borrowed loan. 86 ( 75% ) of the respondents considered inadequate income generated from the enterprises as the cause of loan default. 60 ( 53% ) of the respondents indicated that sickness of loan borrower or close family members of loan borrower could cause default of loan repayment. 44 ( 39% ) of the respondents identified loan borrowers' attitude as the cause of loan default. 27 ( 24% ) of the respondents indicated that theft of business products and assets was the cause of loan default. 27 ( 23.7% ) of the respondents considered time taken to process a loan as the cause of loan default. 26 ( 23% ) of the respondents indicated that the cause of loan default was due to multiple loans by borrowers. 26 ( 23% ) of the respondents indicated that the cause of loan default was due to unclear loan policies of the financial programme. 20 ( 18% ) of the respondents identified death of loan borrower or close family member of the loan borrower as the cause of loan default. 19 ( 17% ) of the respondents indicated that the loan default was due to
lack of good business plans. 11 (9.6%) of the respondents identified loan borrowers’ recruitment—selection as the cause of loan default. 11 (9.6%) of the respondents indicated that the cause of loan default was due to mobility of loan borrowers from one place to the other. 10 (9%) of the respondents identified national politics as the cause of loan default. 9 (8%) of the respondents identified fire as the cause of loan default while 3 (3%) of the respondents identified family issues such as divorce and separation as the cause of loan default.

4.2.1 Market Forces

100 (88%) of the selected 114 respondents identified market forces such as inflation rate and competition in the market as the cause of loan default. 80 (70%) of these respondents identified inflation rate as the cause of loan default while 20 (18%) of these respondents identified competition in the market as the cause of loan default. The table below summarizes the responses from the respondents.

<table>
<thead>
<tr>
<th>Market Forces</th>
<th>Frequency</th>
<th>Percentage ( % )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation rate</td>
<td>80</td>
<td>80%</td>
</tr>
<tr>
<td>Competition</td>
<td>20</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 7: Distribution of Responses Among the Respondents

DISTRIBUTION OF RESPONSES AMONG THE RESPONDENTS

FIGURE 7
4.2.2 Loan Supervision and Follow Up

97 (85%) of the selected 114 respondents indicated that the cause of loan default was due to lack of both supervision and follow up on loan utilization. 68 (70%) of these respondents identified lack of both supervision and follow up as the cause of loan default. 19 (20%) of these respondents identified the cause of loan default as lack of loan supervision only while only 10 (10%) of the respondents identified the cause of loan default as lack of loan follow up only.

Table 8: Distribution of Responses Among The Respondents With Respect To Loan Supervision and Follow Up

<table>
<thead>
<tr>
<th>Loan Supervision/Follow Up Status</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of Both Loan Supervision and Follow Up</td>
<td>68</td>
<td>70%</td>
</tr>
<tr>
<td>Lack of Loan Supervision Only</td>
<td>19</td>
<td>20%</td>
</tr>
<tr>
<td>Lack of Loan Follow Up Only</td>
<td>10</td>
<td>10%</td>
</tr>
<tr>
<td>Total</td>
<td>97</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.3 Borrowers' Ability to Invest

88 (77%) of the selected 114 respondents identified lack of skills to invest borrowed loan as the cause of loan default. Whenever a borrowed loan is invested wrongly, income generated from such an investment is not enough to repay the loan. On the other hand, properly invested loan will automatically generate enough income to repay the borrowed loan. 40 (35%) of these respondents considered lack of any investment skills as the cause of loan default. 30 (26%) of these respondents considered lack of additional investment skills (training) as the cause of loan default while 18 (16%) considered lack of natural or in-born investment skills as the cause of loan default.

<table>
<thead>
<tr>
<th>Investment Skills</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack Of Any Investment Skills</td>
<td>40</td>
<td>45.5%</td>
</tr>
<tr>
<td>Lack Of Additional Investment Skills</td>
<td>30</td>
<td>34%</td>
</tr>
<tr>
<td>Lack Of In-born Investment Skills</td>
<td>18</td>
<td>20.5%</td>
</tr>
<tr>
<td>Total</td>
<td>88</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.4 Economic and Income Status of Loan Borrower

86 (75.4%) of the selected 114 respondents identified economic and income levels as the cause of loan default. The higher the income level of the loan borrower is, the easier it is to repay the borrowed loan. On the other hand, the lower the income level of the loan borrower is, the more difficult it is to repay the loan. Some loan borrowers are only able to repay their loans simply because they have other sources of income other than the known business enterprise. 69 (60.5%) of these respondents considered inadequate business income as the cause of loan default. 17 (14.9%) of these respondents considered lack of other sources of income as the cause of loan default. The table below summarizes the distribution of response among the respondents.

<table>
<thead>
<tr>
<th>Income Status</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack Of Adequate Business Income</td>
<td>69</td>
<td>80.2%</td>
</tr>
<tr>
<td>Lack Of Other Sources Of Income</td>
<td>17</td>
<td>19.8%</td>
</tr>
<tr>
<td>Total</td>
<td>86</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.5 Loan Diversion

78 (68%) of the selected 114 respondents considered loan diversion as the cause of loan default. 55 (70%) of these respondents selected loan diversion to other different investments as the cause of loan default while 23 (30%) of these respondents selected loan diversion to consumption as the cause of loan default. The table below summarizes the distribution of responses among the respondents.

<table>
<thead>
<tr>
<th>Loan Diversion</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Different Investments</td>
<td>55</td>
<td>70%</td>
</tr>
<tr>
<td>To Consumption</td>
<td>23</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 11: Distribution of Responses Among Respondents With Respect To Loan Diversion
4.2.6 Sickness as the Cause of Loan Default

Surprisingly, though sickness was not a question of investigation in this study, 60 (53%) of the selected 114 respondents considered sickness as the cause of loan default. 40 (35%) of these respondents identified sickness of close family members as the cause of loan default while 20 (18%) of these respondents identified sickness of the loan borrower as the cause of loan default. The findings of this study shows that sickness is a serious cause of loan default considering the traditional African family set ups and the upcoming global health problems such as HIV AIDS etc. The table below shows how the respondents answered the question on how sickness affected their loan repayment and hence loan default.

<table>
<thead>
<tr>
<th>Sickness</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sickness of the loan borrower</td>
<td>20</td>
<td>33.3%</td>
</tr>
<tr>
<td>Sickness of a close family member</td>
<td>40</td>
<td>66.7%</td>
</tr>
<tr>
<td>Total</td>
<td>60</td>
<td>100%</td>
</tr>
</tbody>
</table>

Table 12: Sickness as the cause of loan default
4.2.7 Loan Borrowers' Attitude

45 (39.5%) of the selected 114 respondents identified loan borrowers’ attitude as the cause of loan default. 5 (4.4%) of these respondents consider loans from the Microfinance programme as grants and therefore develop a poor repayment attitude. 25 (21.9%) of these respondents just want to copy other previous loan defaulters while 15 (13.2%) of the respondents want to test the Institutional capability in default management. The table below summarizes the distribution of the responses among the respondents.

Table 13: Distribution of Responses among the Respondents With Respect To Loan Borrowers’ Attitude.

<table>
<thead>
<tr>
<th>Loan Borrowers’ Attitude</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copy Other Previous Loan Defaulters</td>
<td>25</td>
<td>56%</td>
</tr>
<tr>
<td>Test Institutional Default Management Capability</td>
<td>15</td>
<td>33%</td>
</tr>
<tr>
<td>Consider Loans as Grants</td>
<td>5</td>
<td>11%</td>
</tr>
<tr>
<td>Total</td>
<td>45</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.8 Theft as the cause of loan default

Though theft was not a question of investigation in this study, 27 (23.6%) of the selected 114 respondents identified theft as the cause of loan default. Theft may be of the working capital, stocked products or both. 20 (17.5%) of these respondents considered theft of both the stocked products and working capital as the cause of loan default. 4 (3.5%) of these respondents considered theft of stocked products as the cause of loan default while 3 (2.6%) of these respondents considered theft of working capital as the cause of loan default. The table below shows how the selected respondents answered the question on how theft affected their loan repayment and loan default.

Table 14: Theft as the cause of loan default.

<table>
<thead>
<tr>
<th>Theft of business/capital/stock</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Theft Of Both Stock And Working Capital</td>
<td>20</td>
<td>74.1%</td>
</tr>
<tr>
<td>Theft Of Stock Only</td>
<td>4</td>
<td>14.8%</td>
</tr>
<tr>
<td>Theft Of Working Capital Only</td>
<td>3</td>
<td>11.1%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.2.9 Timeliness of Loan Issue

27 (23.7%) of the 114 selected respondents identified timeliness of loan issue as the cause of loan default. 17 (14.9%) of these respondents indicated that loans issued when too late were mostly defaulted loans while only 10 (8.8%) of these respondents indicated that loans issued when too fast were mostly defaulted loans. The table below shows the distribution of responses among the respondents.

Table 15: Distribution of Responses Among The Respondents With Respect to Timeliness of Loan Issue.

<table>
<thead>
<tr>
<th>Timeliness of Loan Issue</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans issued too Late</td>
<td>17</td>
<td>63%</td>
</tr>
<tr>
<td>Loans issued too Fast</td>
<td>10</td>
<td>37%</td>
</tr>
<tr>
<td>Total</td>
<td>27</td>
<td>100%</td>
</tr>
</tbody>
</table>

FIGURE 14
4.3.0 Multiple Loans

26 (23%) of the selected 114 respondents indicated that the cause of loan default was due to multiple loans. Clients borrow multiple loans from different loan programmes or a chain of loans from one financial institution. 18 (16%) of these respondents considered borrowing of several loans from different financial institutions as the cause of loan default while 8 (7%) of these respondents considered borrowing of several loans from one financial institution as the cause of loan default. The table below shows how the respondents answered the question on how overfunding affected their loan repayment and hence loan default.

<table>
<thead>
<tr>
<th>Multiple Loans Of The Borrower</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiple Loans From Several Loan Programmes</td>
<td>18</td>
<td>69.2%</td>
</tr>
<tr>
<td>Multiple loans From One Loan Programme</td>
<td>8</td>
<td>30.8%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.4.0 INSTITUTIONAL POLICIES

26 (23%) of 114 respondents interviewed indicated that the cause of loan repayment was due to institutional policies. According to these respondents, the loan repayment policies were either not very clear to them (17, 15%) or hard to follow (9, 8%). The table below shows how the respondents responded to the question on how the institutional policies affected their loan repayment.

<table>
<thead>
<tr>
<th>Institutional policies</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies hard to follow</td>
<td>17</td>
<td>65.4%</td>
</tr>
<tr>
<td>Policies not very clear</td>
<td>9</td>
<td>34.6%</td>
</tr>
<tr>
<td>Total</td>
<td>26</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.5.0 Selection/Recruitment of Loan Borrowers

11 (9.6%) of the 114 respondents indicated that mistakes done in selection/recruitment of loan borrowers was the cause of loan default. 7 (6.1%) of these respondents cited lack of a proper screening process in selecting new loan borrowers as the cause of loan default. 4 (3.5%) of these respondents cited nepotism in recruiting new loan borrowers as the cause of loan default. The table below shows the distribution of responses among the selected respondents.

<table>
<thead>
<tr>
<th>Selection/Recruitment Reason</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of a proper selection/Recruitment process</td>
<td>7</td>
<td>63.6%</td>
</tr>
<tr>
<td>Nepotism in Selection/Recruitment</td>
<td>4</td>
<td>36.4%</td>
</tr>
<tr>
<td>Total</td>
<td>11</td>
<td>100%</td>
</tr>
</tbody>
</table>
4.6.0 Other Mentioned causes of loan default

Though not listed as questions of investigation in this study, other mentioned causes of loan default were as follows: 20 (18%) of the selected 114 respondents identified death as the cause of loan default. This could be the death of the business owner or a key manager of the enterprise. 19 (17%) of the selected 114 respondents identified lack of business plan as the cause of loan default. The findings of this study indicated that loan borrowers mess up the borrowed funds due to lack of a clear business plan. 11 (9.6%) of the selected 114 respondents identified mobility of loan borrowers from one place to the other as the cause of loan default. Rural-Urban migration and vice versa cause problems in loan repayment. 10 (9%) of the selected 114 respondents considered politics as the cause of loan default. Tribal clashes occurring during both parliamentary and local authority elections periods destroy business set ups and displace many loan borrowers resulting with loan default. 9 (8%) of the selected 114 respondents identified fire as the cause of loan default. Regular fire occurrences in slum areas and big markets have resulted with loan default. 5 (4%) of the selected 114 respondents identified family problems as the cause of loan default. Loan borrowers family members separating or divorcing cause default of loan repayment.
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction

This chapter comprise of four parts. The first part summarizes the findings of this study, Part two entails the conclusions of the study, Part three consists of issues that emerged from the study while part four focuses on recommendations on what need to be done by all the stakeholders of Microfinance industry.

5.1.0 PART 1

5.1.1 Summary of the Findings

The purpose of this study was to determine the factors that cause default of loan repayment among off farm loan borrowers of Microfinance programmes. The study therefore looked at market forces, supervision and follow up of loan borrowers, loan misallocation or diversion to un-intended purposes, economic status and income of loan borrower, investment of loan funds, borrowers’ attitude, Timeliness of loan issue, selection and recruitment of loan borrowers, institutional policies and multiple loans by loan borrowers as the possible causes of loan default. The study also welcomed all the other possible factors identified by the selected respondents as the cause of loan default. The study findings will form part of the missing knowledge with respect to the causes of loan default. In other words, the findings of this study will fill the knowledge gap as to what causes default of loan repayment among off farm loan borrowers of Microfinance programmes. The study findings will also assist the Microfinance programmes in development of the appropriate training modules for their clients and staff. The findings will further be useful in development of learning curriculum for Microfinance students at Universities and colleges.

5.2.0 PART 2

5.2.1 CONCLUSIONS

5.2.1.1 MARKET FORCES

The study findings noted that 100 (88%) of the 114 selected respondents indicated that default of loan repayment was due to the prevailing market forces such as deteriorating inflation rate and competition. The study findings also noted that 80 (70%) of these selected respondents considered inflation rate as the cause of loan default while 20 (18%) of these selected respondents considered competition as the cause of loan default. The findings of this study noted that continuous price increase of products in the market reduces the profit margins of entrepreneurs. These profit margins are further reduced by increase in production costs, overheads costs and transport costs. It is therefore prudent to conclude that these reduced profit margins
are unable to service any pending loan or credit facility. The study findings also noted that stiff competition in the liberalized market also reduces profit margins of most entrepreneurs. Some business owners respond to this competitive and liberalized market environment by importing the needed commodities hence reducing both the wholesale and retail prices of their commodities. Since majority of the customers in the market are more attracted by cheap goods, it is important to conclude that the market share end up by being unequally distributed among the players in the market hence pressurizing some of them to be out of business. The exited business owners in such situations are unable to service any pending loan or credit facility hence resulting with loan default. It is therefore important to conclude that market forces such as inflation rate and competition are a major cause of loan default.

5.2.1.2 LACK OF LOAN SUPERVISION AND FOLLOW UP

The study findings noted that 97 (85%) of the selected 114 respondents considered lack of loan supervision and follow up as the cause of loan default. 68 (70%) of these selected respondents identified lack of both loan supervision and follow up as the cause of loan default. 19 (20%) of these selected respondents considered lack of loan supervision only as the cause of loan default while 10 (10%) of these selected respondents considered lack of loan utilization follow up only as the cause of loan default. The study findings also noted that loans are sometimes defaulted simply because the lender and the guarantors are less concerned with loan utilization and business growth/development after a business received a credit facility. From these study findings, it is therefore important to conclude that loan borrowers become less concerned with loan repayment whenever they realized that the lender and the guarantors are less concerned with loan utilization and impact of those loans in their businesses. It is also prudent to conclude that lack of loan utilization supervision and follow up is a major cause of loan default.

5.2.1.3 LACK OF INVESTMENTS SKILLS

The study findings noted that 88 (77%) of the selected 114 respondents considered lack of investments skills as the cause of loan default. The study findings also noted that 40 (35%) of these selected respondents identified lack of any investment skills as the cause of loan default, 30 (26%) of these selected respondents identified lack of additional investment skills as the cause of loan default while 18 (16%) of these selected respondents identified lack of natural or in-born investment skills as the cause of loan default. The findings of this study noted that some loan borrowers have no idea of what to do with borrowed loans while others have limited investment skills. The end result of this deficiency in skills to invest is wrong investment or non-investment with the borrowed funds hence default with loan repayment. Considering
these study findings, it is important to conclude that lack of both in–born and acquired investment skills is a major cause of loan default.

5.2.1.4 INCOME AND ECONOMIC STATUS OF LOAN BORROWER

The study findings noted that 86 (75.4%) of the selected 114 respondents considered income and economic status levels of the loan borrowers as the cause of loan default. These study findings also noted that 69 (60.5%) of the selected respondents considered lack of adequate income from the business as the cause of loan default while 17 (14.9%) of these selected respondents considered lack of other sources of income as the cause of loan default. According to the findings of this study, whenever a loan borrower business is unable to generate enough income, the loan is defaulted unless the loan borrower has other sources of income. It is therefore prudent to conclude that lack of enough income from a business together with lack of other sources of income is a major cause of loan default.

5.2.1.5 LOAN DIVERSION

The study findings noted that 78 (68%) of the selected 114 respondents considered loan diversion as the cause of loan default. These study findings also noted that 55 (48%) of the selected respondents identified loan diversion to other investments as the cause of loan default while 23 (20%) of the selected respondents identified loan diversion to consumption as the cause of loan default. The study findings noted that loan borrowers divert loan funds to other uses contrary to the original purpose of the loan. Some do it due to lack of investment skills, others do it due to lack of loan utilization supervision and follow up while others do it due to prevailing market forces. Regardless the reasons for loan diversion, most of the diverted loans are finally defaulted. It is therefore important to conclude that diversion of borrowed loans is a major cause of loan default.

5.2.1.6 LOAN BORROWER’S ATTITUDE

The study findings noted that 45 (39.5%) of the selected 114 respondents considered loan borrowers' attitude as the cause of loan default. The same study findings noted that 25 (21.9%) of these selected respondents identified default culture copied from the other previous and current defaulters as the cause of loan default. Clients develop an attitude that defaulters are never punished and whenever legal actions are taken against such defaulters, legal processes are too long and generally end up in favor of the defaulters. The findings also noted that 15 (13%) of these selected respondents identified an attitude developed by the loan borrowers of testing Financial Institutional capability in default management as the cause of loan default. These loan borrowers just want see to what the loan lender and guarantors can do if they fail to honor their loan repayments. The study findings also noted that 5 (4.4%) of the these selected respondents identified an attitude.
developed by the loan borrowers of considering loan funds as grants. These clients think that Institutional funds are grants from donors and should be transmitted to them as grants not loans. From these study findings, it is therefore prudent to conclude that loan borrowers’ attitude is a key cause of loan default.

5.2.1.7 MULTIPLE LOANS

The study findings noted that 26 (23%) of the selected 114 respondents considered multiple loans as the cause of loan default. 18 (16%) of these selected respondents identified borrowing of several loans from different Financial Institutions as the cause of loan default while 8 (7%) of these selected respondents identified borrowing of several loans from one institution as the cause of loan default. From these study findings, it is important to make the following conclusions: Due to lack of loan utilization supervision, business plans and investment skills, loan borrowers keep on borrowing several loans from either the same Financial Institution or different Institutions/Programmes in order to manage their mismanagement of loan funds. It is therefore important to conclude that multiple loans by loan borrowers is a cause of loan default.

5.2.1.8 TIMELINESS OF LOAN ISSUE

The study findings noted that 27 (23.7%) of the selected respondents considered timeliness of loan issue as the cause of loan default. The same study findings noted that 17 (14.9%) of these selected respondents identified lateness of loan issue as the cause of loan default while 10 (8.8%) of these selected respondents identified fastness of loan issue as the cause of loan default. Considering these study findings, it is important to make the following conclusions: Loan borrowers have plans on when they need borrowed funds. A loan issued too fast or too late will not serve the original purpose of the loan. A borrowed loan needs to be issued on time. Timeliness of loan issue is therefore a cause of loan default.

5.2.1.9 INSTITUTIONAL POLICIES

The study findings noted that 26 (23%) of the selected 114 respondents considered Institutional policies as the cause of loan default. The same study findings noted that 17 (15%) of these selected respondents cited unclear Institutional policies as the cause of loan default while 9 (8%) of these selected respondents cited hard policies to follow as the cause of loan default. Some Loan borrowers register with Financial Institutions having not understood clearly the lending policies of those Institutions while others register with these Financial Institutions with the knowledge that some policies are hard to follow and what matters first is getting a loan but not policies. From these study findings, it is prudent to make the following conclusion: Unclear Institutional policies and policies that are hard to be followed by the loan borrowers will cause default of loan repayment.
5.2.2.0 SELECTION/RECRUITMENT OF LOAN BORROWERS

The study findings noted that 11 (9.6%) of the selected 114 respondents considered weaknesses and mistakes done during the recruitment and selection of loan borrowers as the cause of loan default. The same study findings noted that 7 (6.1%) of these selected respondents identified lack of proper screening process as the cause of loan default while 4 (3.5%) of these selected respondents identified nepotism in selection and recruitment of loan borrowers as the cause of loan default. From these study findings, it is important to make the following conclusion: Mistakes and weakness committed during the selection and recruitment of loan borrowers will cause default of loan repayment.

5.3.0 OTHER CAUSES OF LOAN DEFAULT

Apart from the listed questions of investigation for this study, the findings of this study noted that there other causes of loan default identified by the selected respondents and include the following:

5.3.1 Sickness as the Cause of Loan Default

The study findings noted that 60 (53%) of the selected 114 respondents identified sickness as the cause of loan default. This sickness could be of the loan borrower herself/himself or that of a close relative of the loan borrower. The study findings noted that both the working capital and the stocks are used to meet the health care of the sick persons. Surprisingly, the study findings noted that though sickness was not listed as a question of investigation, a high percentage of the respondents i.e 60 (53%) considered sickness as the cause of loan default. It is therefore reasonable to conclude that sickness is a major cause of loan default.

5.3.2 Theft as the Cause of Loan Default

The study findings noted that 27 (23.6%) of the selected 114 respondents identified theft as the cause of loan default. The same study findings noted that 20 (17.5%) of these selected respondents considered theft of both the business stock and working capital as the cause of loan default, 4 (3.5%) of these selected respondents identified theft of business stock only as the cause of loan default while 3 (2.6%) of these selected respondents identified theft of the working capital only as the cause of loan default. From these study findings, it is therefore important to conclude that theft of business stock and working capital is a cause of loan default.
5.3.3 Death as the Cause of Loan Default.

The study findings noted that 20 (18%) of the selected 114 respondents identified death as the cause of loan default. According to these study findings, death could be of the loan borrower himself/herself or that of a close family member to the loan borrower. From these study findings, it is therefore important to conclude that death is a slight cause of loan default.

5.3.4 Lack of Business Plan as the Cause of Loan Default

The study findings noted that 19 (17%) of the selected 114 respondents identified lack of a business plan as the cause of loan default. Considering the fact that business plan is a road map for any growing and developing business, lack of it end up with misdirection of the business and hence mismanagement of business funds. From these study findings, it is therefore too important to conclude that lack of business is a slight cause of loan default.

5.3.5 Mobility as the Cause of Loan Default.

The study findings noted that 11 (9.6%) of the selected 114 respondents identified mobility as the cause of loan default. Movement of loan borrowers from one place to the other could cause default of loan repayment. It is therefore important to conclude that mobility of loan borrowers from one place to the other is a slight cause of loan default.

5.3.6 Politics as The cause Of Loan Default

The study findings noted that 10 (9%) of the selected 114 respondents considered politics as the cause of loan default. Tribal alignments and deadly political pronouncements during both parliamentary and local authority elections results with tribal clashes which finally destroy business set ups and internally displace people hence resulting with loan default. From these study findings, it is important to conclude that politics is a slight cause of loan default.

5.3.7 Fire as the Cause of Loan Default

The study findings noted that 9 (8%) of the selected 114 respondents identified Fire as the cause of loan default. Regular fire occurrences in major markets and slums areas destroy business establishments hence resulting with loan default. It is therefore important to conclude that fire is an extremely cause of loan default.
5.4.0 Ranking of the Causes of Loan default

The table below summarizes all the causes of loan default as identified by the selected respondents during the study.

Table 18: Ranking of The Causes of Loan Default

<table>
<thead>
<tr>
<th>Cause Of Loan Default</th>
<th>Percentage Of Selected Respondents</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Forces e.g. inflation rate, competition</td>
<td>88%</td>
<td>1</td>
</tr>
<tr>
<td>Lack Of Loan Supervision And Follow Up</td>
<td>85%</td>
<td>2</td>
</tr>
<tr>
<td>Lack Of Investments Skills</td>
<td>77%</td>
<td>3</td>
</tr>
<tr>
<td>Lack Of Enough Income</td>
<td>75%</td>
<td>4</td>
</tr>
<tr>
<td>Loan Diversion</td>
<td>68%</td>
<td>5</td>
</tr>
<tr>
<td>Sickness Of Loan Borrower Or Close Family Members</td>
<td>53%</td>
<td>6</td>
</tr>
<tr>
<td>Borrowers' attitude</td>
<td>39%</td>
<td>7</td>
</tr>
<tr>
<td>Theft</td>
<td>24%</td>
<td>8</td>
</tr>
<tr>
<td>Timeliness Of Loan Issue</td>
<td>23.7%</td>
<td>9</td>
</tr>
<tr>
<td>Institutional Policies</td>
<td>23%</td>
<td>10</td>
</tr>
<tr>
<td>Overfunding</td>
<td>23%</td>
<td>10</td>
</tr>
<tr>
<td>Death Of Loan Borrower or</td>
<td>18%</td>
<td>11</td>
</tr>
</tbody>
</table>
From these study findings, it is prudent to conclude that six major causes of loan default include market forces e.g. increasing inflation rates and competition, lack of loan utilization supervision and follow up, lack of investment skills, lack of enough income, loan diversion and sickness of loan borrower or her/his close family members. Borrowers’ attitude, theft of business stock and working capital, Timeliness of loan issue, Overfunding and Institutional policies are concluded as key causes of loan default while death of loan borrower or her/his family member, lack of business plans, selection/recruitment of loan borrowers, mobility of loan borrowers, politics and family issues are concluded as slight causes of loan default. It is also important to conclude that sickness of loan borrower or her/his close family members came up as a major cause of loan default though not listed as question of investigation.

5.5.0 RECOMMENDATIONS

5.5.1 Marketing Forces as Cause of Loan Default

According to this study, marketing forces such as increasing rate of inflation and competition have been identified as major cause of loan default. Regarding this fact, I would like to recommend that Financial Institutions/Programmes facilitate the formation or development of market networks or linkages for their clients. These market linkages will enable the small entrepreneurs to purchase and sell their products with good profit margins. Using the same market networks, it is easier for small entrepreneurs to import and export their products with good profit margins.
5.5.2 Loan Utilization Supervision and Follow Up as Cause of Loan Default

Considering the fact that lack of loan utilization supervision and follow up has been identified as a major cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes through their field/loan/credit officers create time in their work schedule for supervising loan utilization. They should also create time for following up the growth and development of the funded enterprises. Also, Financial Institutions/Programmes management should factor in time of supervising loan utilization and follow up when drawing up business plans and setting up performance targets.

5.5.3 Investment Skills as Cause of Loan Default

According to this study, lack of investment skills was identified as a major cause of loan default. In order to arrest this major cause of loan default, I would like to recommend that Financial Institutions/Programmes include Investment skills training in their training modules and particularly during the loan orientation seminars.

5.5.4 Income /Economic Status as Cause of Loan Default

This study identified lack of enough income as a major cause of loan default. Considering this fact, I would like to recommend that Financial Institutions/Programmes include development of viable enterprises in their training modules and particularly during loan orientation seminars. Marketing and product pricing should be part of this training.

5.5.5 Loan Diversion as Cause of Loan Default

Utilizing loan for a different purpose other than the original stated purpose was considered as a key cause of loan default in this study. I would like to recommend that Financial Institutions/Programmes develop loan utilization supervision and follow up policy and train potential loan borrowers on effects of loan diversion.

5.5.6 Sickness as Cause of Loan Default

Considering the fact that sickness was identified as a key cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes include health care particularly micro-insurance and pensions in their products.

5.5.7 Attitude as Cause of Loan Default

Attitude of loan borrower was identified as a key cause of loan default in this study. Since this negative attitude develop from a bad default culture and confusion of loans and grants, I would like to recommend that Financial Institutions/Programmes establish active loan recovery departments or Units within their Organizations.
Defaulter should be dealt with immediately and very fast. Also, understanding the difference between loans and grants should be handled during the loan orientation seminars.

5.5.8 Timeliness of Loan Issue as Cause of Loan Default

Considering the fact that timeliness of loan issue was identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes develop a precise loan process and disbursement time frame which is fully understood by the potential loan borrowers during the loan orientation seminars. For a Loan to be meaningful to a particular client, it should be disbursed at the right time and not too fast or too late.

5.5.9 Multiple Loans as Cause of Loan Default

Since overfunding was identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes work together in developing a credit bureau through which all potential loan borrowers are vetted in order to determine their level of indebtedness.

5.6.0 Institutional Policies as Cause of Loan Default

According to this study, Institutional policies were identified as a slight cause of loan default. In this regard, I would like to recommend that Financial Institutions/Programmes develop client friendly policies which are very clear to the loan borrowers and easier to follow.

5.6.1 Death and Theft as Cause of Loan Default

Considering the fact that death and theft were considered as slight causes of loan default in this study, I would like to recommend that Financial Institutions/Programmes develop micro-insurance and pension savings products for their clients.

5.6.2 Business Plan as Cause of Loan Default

Since lack of business plan was identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes include business planning training in their training modules particularly during the loan orientation seminars for the potential loan borrowers.

5.6.3 Selection/Recruitment as the Cause of Loan Default

According to this study, mistakes and errors done during the selection and recruitment of loan borrowers were identified as slight cause of loan default. In this
case, I would like to recommend that Financial Institutions/Programmes put in place clear recruitment/selection policies.

5.6.4 Client Mobility as the Cause of Loan Default

Since client mobility was identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes review their lending policies in areas of flexible collaterals/securities offered by their clients.

5.6.6 Politics as the Cause of Loan Default

Considering the fact that politics were identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes minimize loan disbursements during any year of general elections. Also, Financial Institutions should facilitate insurance cover for their clients' businesses.

5.6.7 Fire as the Cause of Loan Default

Since fire was identified as a slight cause of loan default in this study, I would like to recommend that Financial Institutions/Programmes facilitate insurance cover for their clients' businesses particularly those enterprises in fire sensitive areas such as slums areas and key markets in major towns.

5.6.8 Family Issues as the Cause of Loan Default

Regarding family issues such as separation and divorce as a slight cause of loan default as identified in this study, I would like to recommend that loans be treated as family loans rather than individual loans. In this case, a husband or wife should be a mandatory guarantor of the loan borrower and consent to the usage of family assets as loan collateral/security.

5.7.0 Arising Issues

During this study, there are factors identified by the selected respondents as the causes of loan default but not originally listed as questions of investigations and include sickness, theft, death, lack of business plans, client mobility, politics, fire and family issues. Surprisingly, sickness came up strongly as as major cause of loan default with 53% of the selected respondents considering it as a cause of loan default. It was finally ranked 6th-position in the list of 18 identified causes of loan default.
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APPENDIX I


FORMAL INTERVIEW SCHEDULE (FOR LOAN BORROWERS)

CONFIDENTIAL

EXPLANATORY NOTE

I am a student of the University of Nairobi carrying out a study on off farm loans default. This is part fulfillment of my master's degree in sociology (entrepreneurship Development). Your participation in this study is completely voluntary and your responses will be completely confidential your help in answering these questions will be highly appreciated.

ENTREPRENEUR PERSONAL INFORMATION

1) Name of the entrepreneur
2) Age
3) Sex
4) Marital status: Single □ Married □ Divorced □ Separated □ Widow □ Widower □

Tick one

5) Number of dependants

6) Education level: Primary □ Secondary □ College □ University □ None □

Tick one
7) Occupation (past and present)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Period</th>
<th>Duration (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8) Languages spoken and written
   a) ____________________________ b) ____________________________ c) ____________________________

9) How long have you lived in Nairobi

10) Where do you stay (reside) while doing business in Nairobi

BUSINESS INFORMATION

11) Business activity?

12) Type of business; Manufacturing ☐ Commerce ☐ Service ☐
    Tick one

13) How big is the business in terms of employees (current)? ..............................................

14) How big is your business in terms of stock (current) ......................................................

15) Year business started? ...........................................................................................................

16) Location of business ........................................ Near what? ............................................

17) Who manages your business? ..................................................................................................
CREDIT INFORMATION

18) Source of initial business capital (seed capital)?

19) Who finance your business in terms of loans?
   a) ____________________ b) ____________________ c) ____________________

20) How many loans have you borrowed for your business, from what source and when?

<table>
<thead>
<tr>
<th>Amount</th>
<th>Time borrowed</th>
<th>Source of loan borrowed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) ___</td>
<td>_____________</td>
<td>______________________</td>
</tr>
<tr>
<td>(b) ___</td>
<td>_____________</td>
<td>______________________</td>
</tr>
<tr>
<td>(c) ___</td>
<td>_____________</td>
<td>______________________</td>
</tr>
<tr>
<td>(d) ___</td>
<td>_____________</td>
<td>______________________</td>
</tr>
<tr>
<td>(e) ___</td>
<td>_____________</td>
<td>______________________</td>
</tr>
</tbody>
</table>

LOAN REPAYMENT INFORMATION

21) ARREARS: Have you been in arrears with any/all the loans you have borrowed for your business? Yes [□] No [□]

22) Which loan in terms of size was in arrears, from what source and what amount or installments (weeks) were in arrears?

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>Source (financier)</th>
<th>Amount in arrears</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) ________</td>
<td>_________________</td>
<td>_________________</td>
</tr>
<tr>
<td>(b) ________</td>
<td>_________________</td>
<td>_________________</td>
</tr>
<tr>
<td>(c) ________</td>
<td>_________________</td>
<td>_________________</td>
</tr>
<tr>
<td>(d) ________</td>
<td>_________________</td>
<td>_________________</td>
</tr>
</tbody>
</table>
23) What causes you to be in the arrears?
   a) ____________________________________
   b) ____________________________________
   c) ____________________________________
   d) ____________________________________
   e) ____________________________________

24) Have you ever defaulted (failed to pay) with any/all of the above loans you borrowed for your business? Yes □ No. □

25) Which loan in terms of size was defaulted and from what source?

<table>
<thead>
<tr>
<th>Loan amount</th>
<th>Source</th>
<th>Amount defaulted</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

26) What causes you to default with your loan(s)

   a) ____________________________________
   b) ____________________________________
   c) ____________________________________
   d) ____________________________________
   e) ____________________________________
27) As a guarantor of many other loans in your community finance group (CFG), are there or has there been loans in arrears or defaulted loans?

Yes ☐ No ☐

28) If your answer in (27) is yes, what causes those loans to be in arrears or in default?

(a) _______________________________________________________

(b) _______________________________________________________

(c) _______________________________________________________

(d) _______________________________________________________

(e) _______________________________________________________

29) RECRUITMENT/SELECTION OF LOANEES:

(a) What is the name of your CFG? ............................................

(b) How many members are there in your group? ........................

(c) Where in particular do majority of your group members operate their businesses from ? ........................................................

(e) When did you join your group? ...........................................

(f) How did you join your group? ...........................................

(g) Who can you say did the work of recruiting you into your group? ............................................................................

(h) Are there conditions you were/are supposed to meet before you are selected as a member of a CFG? Yes ☐ No ☐

Which are those conditions?

(i) _________________

(ii) _________________

(iii) _________________

(iv) _________________

(v) _________________
i) Did you meet all the above conditions before you were recruited into the group? Yes ☐ No ☐

h) What was done or what happened to the condition(s) you could not met?

........................................................................................................................................

k) Are there processes (steps) you were supposed to go through before being selected as a member of a group? Yes ☐ No ☐

i) Which are these steps

   i) __________________________________________

   ii)________________________________________

   iii)________________________________________

   iv)________________________________________

m) Did you went through the entire laid down steps before being recruited into your group? Yes ☐ No ☐

n) If your answer in (m) above is no, which steps were avoided or excused and for whatever reason?

   i) __________________________________________

   ii)________________________________________

   iii)________________________________________

   iv)________________________________________

o) Were you qualified to be recruited as a member of this group? Yes ☐ No ☐

p) According to you, were you qualified to be recruited as a member of this group? Yes ☐ No ☐
q) If your answer in (p) above is "No", Give reasons

i) __________________________________________

ii) _________________________________________

iii) _________________________________________

iv) _________________________________________

r) If your answer in (p) above is "No", what effects do this have on the group?

i) __________________________________________

ii) _________________________________________

iii) _________________________________________

iv) _________________________________________

LOAN ISSUE

30 a) When joining your CFG, were you aware of the period of time to wait before receiving your first loan? Yes [ ] No [ ]

b) What period of time were you supposed to wait before you receive your first loan?

........................................................................................................

c) When did you get your first loan in relation to the scheduled time?

i) Too fast [ ] ii) On time [ ] iii) Too late [ ]

d) How did (c) above affected your loan repayment?

e) According to you, when do members of your CFG receive their loan?

Too fast [ ] On time [ ] Too late [ ]
f) Does (e) above affect members on loan repayment? Yes ☐ No ☐

**LOAN SUPERVISION/FOLLOW UP**

a. Before receiving your first or second loan, was your business visited officially by your guarantors and financier (Microfinance program)?
   i) Guarantors  Yes ☐ No ☐
   ii) Financier  Yes ☐ No ☐

b. If your answer in (a) above is "yes" were you given any advice/guidance on how to manage your incoming loan? Yes ☐ No ☐

c. After receiving your first or second loan, was your business visited officially by your guarantors and financier (Microfinance program) as a follow up?
   i) Guarantors  Yes ☐ No ☐
   ii) Financier  Yes ☐ No ☐

d. If your answer in (c) is "yes" were you given any advise/guidance/instruction on how to manage your loan and business? Yes ☐ No ☐

e. According to you, do supervision/visitation/follow up affect members on loan repayment? Yes ☐ No ☐

How?........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................
........................................................................................................................................................................

63
POLICIES

31) a) Before joining your CFG, were all loan policies including guaranteeing each other in group clear to you? Yes □ No □

   b) If your answer to (a) above is "No" what was not clear?

   c) According to you, do all members in your CFG understand all the loan policies including guaranteeing each other? Yes □ No □

   d) Have the unclear policies including guaranteeing each other affected you and the rest of the members of your group on loan repayment? Yes □ No □

MARKET

32. a) Who are your customers in the Market?

   b) Do your customers affect your loan repayment? Yes □ No □

   c) If your answer in (a) above is "yes" How?.................................?

   d) Who are your competitors in the market?.................................?

   e) Do your competitors affect your loan repayment? Yes □ No □

   f) If your answer in (e) above is "yes" How?.................................?

   g) Which is your product (s) in the market?.................................?

   h) Does the demand of our product in the market affect your loan repayment? Yes □ No □
How.................................................................?

I) How is the supply of your product(s) in the market ......................?

j) Does the supply of your product(s) in market affect your loan repayment?

   Yes □           No □

k) How is the price of your product(s) in market “......................”?

l) Is the above price of your product(s) normal or too much for your customers?

m) Does this high price of your product(s) affect your loan repayment?

   Yes □           No □

n) Can poor earnings from your business affect your loan repayment?

   Yes □           No □

Explain? ..............................................................................................................
                                                                                   

LOANS DIVERSION

33.  a) You are a loan borrower of how many microfinance programs ...................

     b) Name these programs i) .................................. ii) .................. iii) ..............

     c) How many businesses do you have .................................................?
d) When applying for a loan, which business is normally assessed?

e) When applying for a loan, do you normally have a written business plan?  

f) How do you apportion your loan money to your business and other commitments?  


g) How much was your first loan in Kshs?  

h) What was the intended purpose of this loan?  

i) How did you utilize this first loan?  

j) Amount borrowed Kshs?  

ii) Amount spent on business Kshs?  

iii) Amount spent on other things e.g. School fees, health, food/clothing Kshs?  

j) How much of borrowed loan was spent on unintended purpose?  

k) Did the amount diverted to other purposes affect your loan repayment?  

Yes □ No □  

How?  

l) As an experienced loan borrower and guarantor of many loans in your group, do amounts diverted to other purposes affect loan repayment among the CFG members?  

Yes □ No □  

How?
ATTITUDE

3.4 a) Name microfinance programs you are working with?
   
i)........................................................................................................
   
ii)........................................................................................................
   
iii)........................................................................................................

b) What is the general objective of these microfinance programs? ................

c) From where do they get their money? ...........................................

d) Are you supposed to pay back the borrowed money to the microfinance programs?
   
   Yes □  No □
   
   And how? ................................................................................................

 e) As an experienced loan borrower and guarantor of many loans in your group, do members understand the objective of microfinance programs and the source of their finance?
   
   Yes □  No □

 f) Do their understanding of (e) above affect their loan repayment
   
   Yes □  No □
   
   Explain? ................................................................................................

67
ECONOMIC STATUS/INCOME

35 a) Which are your sources of income?
   i)..............................................................................
   ii).........................................................................
   iii)......................................................................

b) Which of the above sources service your borrowed loans
   i)..............................................................................
   ii).........................................................................
   iii)......................................................................

c) Can your business alone be able to service the borrowed loan?
   Yes □  No □

d) Does your total income influence your loan repayment?
   Yes □  No □

e) As an experienced loan borrower and guarantor of many loans in your group, do members economic status/income levels affect their loan repayment?
   Yes □  No □

   and how?............................................................................................................................................

INVESTMENT

36 a) which is your sources of income?
   i)..............................................................................
   ii).........................................................................
   iii)......................................................................

b) Which of the above sources service your borrowed loans?

c) Do all members of your group get enough profits from their businesses?
   Yes □  No □

d) Can poor earnings from a business affect loan repayment?
   Yes □  No □

e) From your experience as a loan borrower and guarantor of many loans in your group, what other factors may cause default of loan repayment?
   i).............................................................................................................................................
   ii).............................................................................................................................................

68
APPENDIX II


FORMAL INTERVIEW SCHEDULE (FOR KEY INFORMANTS)

CONFIDENTIAL

EXPLANATORY NOTE

I am a student of the University of Nairobi carrying out a study on off farm loan default. This is part fulfillment of my master's degree in sociology (entrepreneurship development). Your participation in this study is completely voluntary and your responses will be completely confidential. Your help in answering these questions will be highly appreciated.

1. INTRODUCTION

a) Name of the informant ____________________________________________

b) Name of the micro finance program ________________________________

c) Years worked for this organization _________________________________

d) What positions have you held in this organization and when? ________

<table>
<thead>
<tr>
<th>Position</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>From   to</td>
</tr>
<tr>
<td>ii)</td>
<td>From   to</td>
</tr>
<tr>
<td>iii)</td>
<td>From   to</td>
</tr>
</tbody>
</table>

2a) What is the objective of this microfinance program? ..................

B) The organization is engaged in which activities...........................

........................................................................................................

69
3 a) Are there cases of arrearage in loan repayment in this organization?
   - Yes □
   - No □

b) Are there cases of default in loan repayment in this organization?
   - Yes □
   - No □

c) According to you, what causes these arrearage and default in loan repayment in your organization?
   i) _______________________________________
   ii) _______________________________________
   iii) _______________________________________ 
   iv) _______________________________________ 

3. In the whole system of loan borrowing and loan lending, there are stakeholders and surrounding forces contributing to default of loan repayment e.g. clients, groups, microfinance program, market and environment. What role is played by each of them in causing default of loan repayment?

   ________________________________________
   ________________________________________
   ________________________________________
   ________________________________________
   ________________________________________
   ________________________________________
APPENDIX III

Factors explaining default of loan repayment among off farm loan borrowers of Microfinance Programmes in Kenya, a case study of Micro, Small and Medium enterprises in Nairobi, Kenya.

OBSERVATION GUIDE

❖ Growth and development of enterprises
❖ Monthly loan repayment reports of community finance groups and individuals
❖ Quarterly loan repayment reports of community finance groups and individuals
❖ Semi-annual loan repayment reports of community finance groups and individuals
❖ Annual loan repayment reports of community finance groups and individuals
❖ Group members’ attendance registers
❖ Defaulters registers
❖ Lists of groups and individuals exits and reasons
❖ Minutes books of community finance groups
❖ Portfolio at risk (PAR) reports for the community finance groups and individuals
❖ Lists of legal cases to do with defaulters.