SOCIO-ECONOMIC ASPECTS THAT AFFECT LOAN REPAYMENT IN SELECTED MICRO FINANCE INSTITUTIONS IN KENYA

BY:

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MAY, 2017
DECLARATION

I declare that this research project report is my original work and has not been submitted to any other college or university for academic credit.

Signed: ______________________  Date:  ______________

Edward Oyugi Makori

D53/CTY/PT/25686/2013

This research project report has been submitted for examination with my approval as the university supervisor.

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DEDICATION

I dedicate this research project to my family for their love, support, patience and encouragement; may this proposal be an inspirational to them.
ACKNOWLEDGEMENT

First and foremost I acknowledge God Almighty for the gift of life and good health. I sincerely thank my supervisor for his positive criticism on the document and guidance, without his help, guidance and dedication to support this research proposal; I would not have been this successful.

My appreciation also goes to the Lecturers and my fellow classmates for their assistance and moral support. I am grateful for their company, positive discussions and support they accorded me towards the achievement of my post graduate degree.

Special thanks go to my family members who realized the course of my study and gave me the moral support to complete my studies. I owe my success to their sacrifices.
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OPERATIONAL DEFINITION OF TERMS

Default: is a risk threshold that describes the point in the borrower’s repayment history where he or she missed at least three installments within a 24 month period.

Education qualification: are the degrees, diplomas, certificates, professional titles and so forth that an individual has acquired.

Family (size): is defined as a group of related or nonrelated individuals, who usually (although not necessarily), are living together as one economic unit. Family members share income and consumption of goods and/or services.

Income level: the amount of money received during a period of time in exchange for labor or services, from the sale of goods or property, or as a profit from financial investments.

Loan repayment: Amount or the act of payment of periodic payments to satisfy a loan that has been advanced.

Microcredit: is defined as small loans given to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families.

Microfinance: is defined as the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services.
ABSTRACT

Microfinance institutions (MFIs) were established to fill the gap in the financial services sector by providing funds to the poor and lower income group and thus alleviating poverty and enhance their business activities. In the credit market, agency problem, moral hazard and adverse selection exist because of information asymmetries. Information asymmetries are the main obstacle for MFIs to provide loans to clients. This study sought to analyze socio-economic issues that affect loan repayment in micro finance institutions Kenya. Some of the socio-economic factors that were examined include the borrowers’ income level, education qualification, age of the borrower and family size. Being a quantitative study, descriptive research design will be adopted. The study population was 66 staff of Kenya Women Finance Trust microfinance who consists of the senior managers and the loan/credit officers in six branches within Nairobi. Since the population is small, a census study was adopted hence all the 66 staff formed the sample size for the study. The study collected primary data through a questionnaire which had both closed and open-ended questions. A pilot test of the instrument was conducted to test for reliability and validity. The researcher personally administered the questionnaire to the respondents. Both descriptive and inferential statistics was adopted for the study. Descriptive statistics included frequency distribution tables and measures of central tendency, measures of variability and measures of relative frequencies. The inferential statistics included a multivariate linear regression model which established the relationship between variables. Data was presented using tables, pie charts and bar graphs. The study found that majority of the respondents indicated they considered the borrowers’ income when advancing loans in their institution. Further majority of the respondents indicated those clients below Kshs. 10,000 income level were likely to default. The study also found that majority of the respondents indicated their institution considers the borrowers’ education level when advancing loans to individual borrowers. The study also established that majority of the respondents indicated they did not consider the age of the borrower when advancing loans to individual borrowers. The study also concludes that the number of income sources of the borrower determines his/her ability to repay a loan and also the borrowers’ source of income. The study concludes that the number of dependants affects borrowers’ repayment of loans and the household expenses affect borrower’s ability to repay loans. In addition the income of the borrower affects loan repayment in their organization to great extent. In a nutshell the study concluded that socio-economic factors affect borrowers’ timeliness to repay loans. The study recommends that; this study recommends that micro finance institutions should revise the term and conditions attached to loan so that they can reduce the loan repayment problems associated with socio-economic factors and also that financial institutions should develop appropriate mechanisms to ensure that loans are repaid within the specified time period. This is because poor loan repayment can affect the future access to finances from financial institutions.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Micro finance incorporates the provision of micro-credit, savings, and other services to the poor or that group of clients who are excluded by the commercial banks for collateral and other reasons (Getubig, 2007). In Kenya, credit was initially given to the rich people and big companies and was not popular to the poor (Mbugua, 2011). According to K-REP, (2011) In 1990s loans given to customers did not perform which called for an intervention. Most suggestions were for the evaluation of customer’s ability to repay the loan, but this did not work as loan defaults continued. The concept of credit management became widely appreciated by Microfinance Institutions (MFI’s) in the late 90s, but again this did not stop loan defaults to this date (Mbugua, 2011), hence loan default remains a major challenge to Microfinance Institutions (MFI’s) to date.

Kotler, (2003) argues that the ability to penetrate new markets and customers hinges on the ability to quickly and easily make well-informed credit decisions and set appropriate lines of credit. Credit management starts with the sale and does not stop until the full and final payment has been received. It is as important as part of the deal as closing the sale. In fact, a sale is technically not a sale until the money has been collected. According to Kempe, (2004), the success of lending out credit depends on the methodology applied to evaluate and to award the credit and therefore, the credit decision should be based on a thorough evaluation of the risk conditions of the lending and the characteristics of the borrower.
The drive of micro-finance institutions in extending loans is to improve the business of beneficiaries, make profit for benefactors and above all recover the principal (Getubig, 2007). The success of MFIs largely depend on the effectiveness of their credit management systems because these institutions generate most of their income from interest earned on loans extended to small and medium entrepreneurs (Getubig, 2007). Micro Finance Institutions (MFIs) are increasingly a central source of credit for the poor in many countries. Weekly or monthly collection of repayment installments by bank personnel is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable (Ministry of Finance, Planning and Economic Development 2010). According to Okech, (2010), some of the factors that lead to loan default include; inadequate or non-monitoring of micro and small enterprises by banks, leading to defaults, delays by banks in processing and disbursement of loans, diversion of funds, over-concentration of decision-making, where all loans are required by some banks to be sanctioned by Area/Head Offices.

1.1.1. Socio-Economic Factors in Loan Repayment

Socioeconomic factors are the social and economic experiences and realities that help mold one's personality, attitudes, and lifestyle. The factors can also define regions and neighborhoods. Socio-economic factors are perceived to affect loan repayment. Generally, in spite of the importance of loans, its acquisition and repayment are fraught with a number of problems especially in the small holder farming (Wongnaa & Awunyo, 2013).
Inability of borrowers to repay amount of loans collected is crucial for the long-term sustenance of the credit institutions. As a result, many studies have tried to examine loan repayment performance of many socio-economic groups. Empirical work by Oladeebo and Oladeebo (2008) on loan repayment among smallholder farmers in Ogbomoso Agricultural Zone, Nigeria examined socio-economic factors such as years of farming experience with credit and level of education were major factors that positively and significantly influenced loan repayment. In Ghana Wongnaa and Awunyo (2013) examined socio-economic factors such as farmers’ age, sex, educational level, marital status, household, occupation, farm size and other factors influencing loan repayment. In Ethiopia, Pasha and Negese (2014) explored the determinants of loan repayment performance. Among the determinant explored were socio-economic factors such as age, education level and family size in the household.

1.1.2 Loan Repayment

A loan is said to be delinquent when a payment is late (CGAP, 1999). A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help to predict how much of the portfolio will eventually be lost because it never gets repaid. According to Lawrence, (2012) There are three broad types of delinquency indicators: collection rates which measures amounts actually paid against amounts that have fallen due, arrears rates measures overdue amounts against total loan amounts and portfolio at risk rates which measures the outstanding balance of loans that are not being paid on time against the outstanding balance of total loans.
Default occurs when a debtor has not met his or her legal obligations according to the debt contract. For example a debtor has not made a scheduled payment, or has violated a loan covenant (condition) of the debt contract (Mwenje, 2006). A default is the failure to pay back a loan (Lawrence, 2012). Default may occur if the debtor is either unwilling or unable to pay their debt. A loan default occurs when the borrower does not make required payments or in some other way does not comply with the terms of a loan (Ledgerwood et al., 2009).

According to Smirlok (2011) revealed that default is a risk threshold that describes the point in the borrower’s repayment history where he or she missed at least three installments within a 24 month period. This represents a point in time and indicator of behavior, wherein there is a demonstrable increase in the risk that the borrower eventually will truly default, by ceasing all repayments. The definition is consistent with international standards, and was necessary because consistent analysis required a common definition. This definition does not mean that the borrower had entirely stopped paying the loan and therefore been referred to collection or legal processes; or from an accounting perspective that the loan had been classified as bad or doubtful, or actually written-off. Loan default can be defined as the inability of a borrower to fulfill his or her loan obligation as at when due (Mwenje, 2006).

Kiiru, (2007) found out that repayment performance is significantly affected by borrowers’ characteristics, lender’s characteristics and loan characteristics. The marginal effects of each set of characteristics are determined and analyzed. Repayment problems can be in the form of loan delinquency and default. Whatever the form however, the
borrowers alone cannot be held responsible wherever problems arise as it is important to examine the extent to which both borrowers and leaders comply with the loan contract as well as the nature of the duties, responsibilities and obligations of both parties as reflected in the design of the credit program rather than heaping blames only on the borrowers.

Repayment performance thus serves as a positive signal for increasing the volume of credit availability to various sectors of the economy (Acquah & Addo, 2011). However, certain factors are considered before it is availed to the beneficiary and one of such factors is the beneficiaries ability to repay the loan which in turn is also determined by many factors. According to Ugbomeh, Achoja, Ideh and Ofuoku (2008), credit repayment performance could be influenced by a myriad of factors such as interest rate, and the social relations and responsibilities of the borrower. According to the Bank Supervision Annual Report (2012), gross loans grew by 11.7 per cent from Sh1.1 trillion in December 2011 to Sh1.3 trillion in December 2012, a growth attributable to increased demand for credit by the various economic sectors. However, the report further indicated the ratio of non-performing loans to gross loans increased from 4.4 per cent in December 2011 to 4.7 per cent in December 2012; this has risen to 12.1 per cent in the year 2014. The acceptable limit of non-performing loans is 4% of the gross loans (Bank Supervision Annual Report, 2014).

1.1.3 Micro Finance Sector in Kenya

The Microfinance Act, 2006 and the Microfinance (Deposit Taking Institutions) Regulations 2008 issued there under sets out the legal, regulatory and supervisory
framework for the microfinance industry in Kenya. The Microfinance Act became operational with effect from 2nd May 2008. The principal object of the Microfinance Act is to regulate the establishment, business and operations of microfinance institutions in Kenya through licensing and supervision. The Act enables Deposit Taking Microfinance Institutions licensed by the Central Bank of Kenya to mobilize savings from the general public, thus promoting competition, efficiency and access.

Depending on the purpose, two approaches are generally used to categorize the different providers of micro finance services in Kenya. The first and most commonly used one is on the basis of formality where providers are categorized as formal or informal depending of the extent to which the provider is registered and regulated under formal law and transactions are governed under the various statutes of the law of contract or rather by self- regulation or group-based rules. The second categorization is based on the customer/provider relationship in the management and ownership of the financial service-providing entity. Under this categorization, micro finance providers could be dichotomized into client-based micro finance agencies (CMFAs) and member-based microfinance agencies (MMFAs). Client-based microfinance agencies comprise of all microfinance providers, formal or informal, where customers are not also owners of the institution, have little direct involvement in the management of the institution, and do not have a share in the returns made by the institution. Member-based and formal; SACCOS, FSAs and informal; ROSCAs, ASCRAs. By mid-1999, it was estimated that the formal segment of this category comprised of 86 institutions, with a total of 134,612 active clients and a loan portfolio of Kshs 2.5 billion (K-REP, 2011).
Member-based microfinance agencies comprise of formal and informal mechanisms where resources are mobilized from members, management of the arrangement is in the hands of members and it is members who constitute the main target group for service provision. The formal segment of this largely comprise of both urban and rural Savings and Credit Cooperatives (K-REP, 2011).

1.2. Statement of the Problem

Many financial institutions in developing countries provide financial services such as saving and credit to aid several small-scale enterprises. This was an effort in line with the “Millennium development goals” which sought to reduce poverty by 50% by the year 2015, whereby the target of reducing extreme poverty rates by half was met by the 2015 deadline; more than 1 billion people have been lifted out of extreme poverty since 1990 (UN Report, 2015). Currently the goal is to end poverty which is in the 2030 Agenda for Sustainable Development, which includes other set of Sustainable Development Goals (SDGs). However, the sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on the repayment rates. High repayment rates allow the institutions to lower the interest rates and processing costs and consequently increase patronage of loans. High repayment rates reduce the subsidy- dependence of the credit institutions to help them reach a better sustainability level (Acquah & Addo, 2011).

Microfinance institutions have barred thousands of loan defaulters who have contributed to the high rate of non-performing loans in the market (Njuguna, 2013). On the hand, Nkungi (2013) speaking on behalf of Association of Microfinance Institutions revealed
that over the years, owing to fast tracked reforms in MFIs in Kenya, the number of loan
defaulters has decreased but non-performing loans still pose a serious challenge in the
financial sector. Murira (2010) also identified that there is a very high difference in loan
portfolio performance between commercial banks and micro finance institutions in
Kenya, despite that they are operating in the same economy. Bearing in mind that MFIs
in Kenya provides funds to lower-income group who are usually involved in small and
micro business activities; this begs the question, could the socio-economic factors of the
borrowers be affecting loan repayment in the MFIs?

This gap epitomizes this research work, which focused on analyzing socio-economic
factors that affect loan repayment in micro finance institutions Kenya. There is also
limited empirical evidence in this area, as the review of the local studies (for instance
Kaggwa, 2013; Imeokpararia, 2012; and Murira, 2010) shows that the authors only
analyzed factors for default for only commercial banks and very little investigation done
for MFIs. It is against this background therefore that the study sought to analyze socio-
economic aspects that affect loan repayment in micro finance institutions Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to analyze socio-economic aspects that affect loan
repayment in selected micro finance institutions Kenya.
1.3.2 Specific objectives

The study pursued the following specific objectives:-

i. To analyze the effect of borrowers’ income level on loan repayment in micro finance institutions Kenya.

ii. To determine the effect of education qualification of the borrowers on loan repayment in micro finance institutions Kenya.

iii. To examine the effect of age of the borrower on loan repayment in micro finance institutions Kenya.

iv. To establish the effect of family size on loan repayment in micro finance institutions Kenya.

1.4 Research Hypothesis

The study tested the following hypothesis:

\( H_0: \) There is no significant effect between borrowers’ income levels and loan repayment in micro finance institutions Kenya.

\( H_0: \) There is no significant effect between education qualifications of the borrower and loan repayment in micro finance institutions Kenya.

\( H_0: \) There is no significant effect between age of the borrower and loan repayment in micro finance institutions Kenya.

\( H_0: \) There is no significant effect between borrowers’ family size and loan repayment in micro finance institutions Kenya.
1.5. Significance of the Study

It is anticipated that the findings of this study may be important to the following:

**To the MFIs**

Considering the fact that, the basic objective of MFIs is providing financial services to improve the living standards of the poor. For these the institutions to be able to render such a services on a more sustainable basis, it has to realize its profitability and sustainability. Nevertheless, the profitability and sustainability of MFIs largely depends on the borrowers’ action toward the loan repayment rate. It is therefore necessary to understand how borrower’s action toward loan repayment or rather how loan default can affect the performance of MFIs.

**To the Borrowers**

This study is also expected to be of value to the borrowers. Most borrowers have limited financial experience and therefore are exploited by incompetent or unscrupulous lenders. This study will however enlightened the borrowers on how the various socio-economic factors determines their capacity; that is, how much debt a borrower can comfortably handle hence informing the MFIs decision to issue out loans.

**To the Shareholders**

Shareholders of the MFIs more than anything else need optimum Return on Investment (ROI) and therefore 100 percent debt collection strategy and implementation is key to safeguarding the wealth they invested.
Researchers and Scholars

This study may also act as a useful resource for those who would be undertaking research on socio-economic issues that affect loan repayment in micro finance institutions elsewhere. The study would also contribute to existing body of literature and form a basis for further research.

1.6. Scope of the Study

This study was interested in unearthing the socio-economic aspects or factors that affect loan repayment in MFIs in Kenya. The study explored socio-economic aspects such as income level of the borrower, education qualification of the borrower, age of the borrower and family size of the borrower and how they affected loan repayment in MFIs. This study was limited to the 9 registered Deposit Taking Microfinance (DTM) institutions in Kenya. They include; Faulu Kenya DTM Limited, Kenya Women Finance Trust DTM Limited, SMEP Deposit Taking Microfinance Limited, Rafiki Deposit Taking Microfinance, UWEZO Deposit Taking Microfinance Limited, Century Deposit Taking Microfinance Limited, SUMAC DTM Limited, U & I Deposit Taking Microfinance Limited and UNAITAS. The study targeted staff (both the management and general staff) in the credit department of the nine institutions. The study targeted the headquarters of the nine DTMs which are all located within Nairobi.

1.7. Limitations of the Study

The busy schedule of the respondents, more so the top management team who are most of the time out in meetings were not readily available for the interviews. Accessing the top level management was therefore a challenge. The management at times referred the duty
of answering the questions to their assistants or other plans. To avoid this, the researcher booked appointments at the most convenient time of the respondents. The researcher also used drop and pick method to give the respondents ample time to answer the questions.

Some of the respondents were averse to sharing critical information related to the research. Some become a little hesitant albeit the researcher plans to convince them by stating clearly the objectives of the research.

1.8 Organization of the Study

The study was organized in five chapters. Chapter one lays out the background of the study, the problem statement, the research objectives, significance of the study, the scope and limitations of the study. Chapter covers the literature review; it contains the theoretical review, the empirical review based on the objectives/variables of the study. The chapter ends with a conceptual framework which shows the dependent and independent variables to be investigated. Chapter three presents the study methodology to be adopted. It describes the research design, size, the target population, sampling technique and sample size, instrument used in the data collection, data collection methods and finally the data analysis method. Chapter four chapter covered the presentation, analysis and interpretation of the results and findings of the study and lastly chapter five covered the summary of the findings, conclusions, policy recommendations as well as recommendations for further research.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter, literature which is related to and consistent with the objectives of the study is reviewed. Important theoretical and practical problems are brought out, relevant literature on the aspects pertaining to the Socio-economic issues that affect loan repayment in micro finance institutions.

2.2 Theoretical Review

This study was based on three theoretical foundations namely: Utility theory, Chirwa’s Theory and Portfolio Theory so as to be able to understand the socio-economic issues that affect loan repayment in micro finance institutions.

2.2.1 Portfolio Theory

Portfolio Theory is a theory on how risk-averse investors can construct portfolios to optimize or maximize expected return based on a given level of market risk, emphasizing that risk is an inherent part of higher reward. Portfolio theory of investment which tries to maximize portfolio expected return for a given amount of portfolio risk or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. Portfolio theory was developed in 1950’s through the early 1970’s and was considered an important advance in the mathematical modeling of finance. Since then, many theoretical and practical criticisms have been developed against it. This include the fact that financial returns do not follow a Gaussian distribution or indeed any symmetric distribution, and those correlations between asset classes (Opiokello, 2010)
In standard portfolio theory developed by Markowitz (1952) the optimal portfolio is selected solely based on financial returns. The most common method to include a social dimension in investment choice is screening. The idea is simple: From all available assets, investors choose the subset of assets they want to invest in. Positive screening selects the assets to invest in, whereas negative screening excludes assets which the investor does not want to fund under any circumstances.

Theory of Social Returns in Portfolio Choice With Application To Microfinance: Many investors include a social dimension in investment choice via screening and conduct optimal portfolio choice afterwards. The study extends Markowitz (1952) portfolio theory by adding a social dimension. Most standard setups considers social returns as stochastic. The research work also observes deterministic social returns as a special case.

Portfolio theory guides this study by providing a context for understanding the interactions of systematic risk and reward. It shows institutional portfolios are managed and motivated the use of passive investment techniques. In this study, the author uses the theoretical foundation of portfolio choice based on social returns and derive the preference based solution of the portfolio problem and present an application to the field of microfinance.

2.2.2 Chirwa’s Theory

The famous Chirwa’s Theoretical Framework for microfinance Chirwa (1997), specified a probity model to assess the determinants of the probability of credit repayment among smallholders in Malawi. The model allows for analysis of borrowers as being defaulters
or non-defaulters. Various specifications of the X-vector were explored by step-wise elimination. The explanatory power of the model is plausible with the log likelihood statistically significant at 1-percent. Four independent variables – gender, amount of loan, club experience and household size were not statistically significant in various specifications.

The theory is relevant to this study in that the loan repayment by the borrower is dependent on various aspects such as the MFIs monitoring financial and business performance of the borrower, the state of the country’s economy and diversion of the loan funds by the borrowers to other purposes not agreed upon. According to this theory, gender, amount of loan, business experience/skills and household size are not significant. This theory informs the variable on the effect of family size and education qualification of the borrowers on loan repayment.

2.2.3 Utility Theory

Economics concept that although it is impossible to measure the utility derived from a good or service, it is usually possible to rank the alternatives in their order of preference to the consumer (Aleskerov and Monjardet, 2002). Since this choice is constrained by the price and the income of the consumer, the rational consumer will not spend money on an additional unit of good or service unless its marginal utility is at least equal to or greater than that of a unit of another good or service. Therefore, the price of a good or service is related to its marginal utility and the consumer will rank his or preferences accordingly (Aleskerov & Monjardet, 2002).
Utility theory provides a methodological framework for the evaluation of alternative choices made by individuals, firms and organizations (Mercer & Pattanayak, 2003). The decision to either participate in micro-credit groups or not in this study is also built on utility theory which depends on whether group borrowing scheme gives the household higher utility than the individual borrowing scheme. Participation/adoption studies involve two stages: The decision to either participate/adopt or not and in the second stage, the level of participation/adoption (Mercer & Pattanayak, 2003). The decision to either participate in micro-credit groups or not is dichotomous and therefore a binary choice model has been identified as appropriate for such estimation. However, this is only possible under the following assumptions: that the households are faced with only two alternative choices and that any choice an individual chooses depends on their characteristics.

Utility theory helps explain and understand the behavior of individual consumers and repayment of loans. In this study it was used to explain the choice of loan default, and reasons for not paying up an obligation and making other choices in view of income and economic conditions faced by the clients. This variable therefore informs the variable on borrowers’ income level and age of the borrower on loan repayment.

2.3 Empirical Review

2.3.1 Financial Performance

Financial performance is subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. This term is also used as a general measure of a firm's overall financial health over a given period of time, and can be used
to compare similar firms across the same industry or to compare industries or sectors in aggregation (Crane, 2013). The recommended measures for financial analysis are grouped into three broad categories: liquidity, profitability, and shareholders wealth. Monitoring these measures as a group is more important than focusing on only one or two measures at the exclusion of others (Owolabi & Obida, 2012).

Liquidity measures the ability of the business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Two recommended measures of liquidity are the current ratio and acid test ratio. The current ratio measures the relationship between total current firm assets and total current firm liabilities and is a relative measure rather than an absolute dollar measure. The higher the ratio, the more liquid the farm is considered to be. Acid test ratio is a measure of the amount of funds available to purchase inputs and inventory items after the sale of current assets and payment of all current firm liabilities (Elliot, 2008).

Profitability measures the extent to which a business generates a profit from the factors of production: labor, management and capital. Profitability analysis focuses on the relationship between revenues and expenses and on the level of profits relative to the size of investment in the business. Profit is the difference between revenue and expenses over a period of time and it’s the ultimate ‘output’ of the firm. Two major types of profitability ratios calculated are those that measure profitability in relation to sales on the one hand and in relation to investments on the other (Mohan, 2017).

Agarwal and Sinha (2010) evaluated the financial performance of microfinance institutions of India. The authors revealed that MFIs need to be economically viable and sustainable in the long run but economic implications of long term sustainability are not being considered. MFIs must be able to sustain themselves financially in order to continue pursuing their lofty objectives, through good financial performance (Agarwal & Sinha, 2010).
2.3.2 Income Level and Loan Repayment

A review of the empirical literature shows that a number of studies have been conducted on factors affecting loan default/loan repayment performance. Most of the studies use multivariate regression, probit and logit models to assess the factors affecting loans repayment performance or loan default risks. For instance Acquah and Addo (2011) conducted a study on the determinants of loan repayment performance of fishermen in Ghana while Kohansal and Mansoori (2009) examined the factors affecting loan repayment performance of farmers in Khorasan-Razavi Province of Iran. The studies found out that income of the farmers have positive influence on loans repayment performance in Ghana and Iran respectively.

Anigbogu, Onugu, Onyeugbo and Okoli (2014) conducted a study to examine the Determinants of Loan Repayment among Cooperative Farmers in Awka North L.G.A of Anambra state, Nigeria. The study provided empirical evidence on the farmers’ socio-economic characteristics and determined the characteristics that influence loan repayment. The study found out that income of the farmers insignificant but a positive relationship with loan repayment.

Mashatola and Darroch (2003) also conducted a study on the factors affecting the mortgage loan repayment status of new freehold growers in the KwaZulu-Natal Sugar Industry, South Africa. The study also found out that income of the growers had a positive influence on loans repayment performance. The findings also concur with those of Arene (2002); the author examined loan repayment and technical assistance among smallholder maize farmers in Nigeria. The author outlined the main factors that
determine loan repayment performance as income, age, number of years of business experience, loan size, enterprise size, distance between home and source of loan, education, household size, adoption of innovations, and credit needs.

Oni, Oladele and Oyewole (2005) conducted a study to determine the factors influencing default in loan repayment among poultry farmers in Ijebu Ode Local Government Area of Ogun State. A total of 100 poultry farmers were randomly sampled from the study area. Probit model was employed to determine and analyze the factors influencing default in loan repayment in the study area. Descriptive statistics were also employed to describe the socio-economic characteristics of the farmers. The study found out that income of the farmers also significantly influence default in loan repayment. Similarly, Vasanthi and Raja (2006) used descriptive and logit model and revealed that that lower income is one of the major factors causing loans default for housing borrowers in Australia.

Al- Mamun et al. (2011) examined the critical factors affecting the repayment of microcredit provided by Amanah Ikhtiar Malaysia. The study explored how common household factors affect repayment performance of Amanah Ikhtiar Malaysia (AIM)’s hardcore poor microcredit program clients in Peninsular Malaysia. The findings of this study show a significant model fit and negative linear relationship between repayment problem with uses of loan in income generating activities, household income, number of gainfully employed members, and number of sources of income.

2.3.3. Education Qualification and Loan Repayment

Empirical work done by Arene, (2002) revealed that farming experience and level of education of farmers contributed positively to the credit worthiness of farmers. Much
consideration has been given on financial aspects of the entrepreneurs ignoring the entrepreneur aspect that is the human capital. The findings agrees with those of Oni et al. (2005) who examined the factors influencing default in loan repayment among poultry farmers in Nigeria; and found out that majority of the farmers in the study area were educated. They further found out that educational level of the farmers also significantly influence default in loan repayment. The study recommended that Government and other stakeholders ensure that the farmers have access to formal education since findings from their study has shown that educational level of farmers significantly influence default in loan repayment. Wydick (1999) also reported that lack of knowledge increased the chance of encountering repayment problem.

A study by Acquah and Addo (2011) on the determinants of loan repayment performance of fishermen in Ghana also found out that education has a positive influence on loans repayment performance for fishermen. The findings corroborates with that of Addisu (2006) who conducted a study on micro-finance repayment problems in the informal sector in Addis Ababa, Ethiopia. The study established a positive influence of education on loans repayment performance in informal sector in Ethiopia. A study by Anigbogu et al. (2014) on the determinants of loan repayment among Cooperative Farmers in Nigeria also found out that educational qualification had a significant influence on loan repayment. However, Oladeebo and Oladeebo (2008) found a negative influence of education on repayment performance of farmers in Nigeria.

Magali (2013) assessed factors affecting loans’ default risks or loans repayment performance for the Savings and Credits Cooperative Societies (SACCOS) in Tanzania.
The study used qualitative, descriptive and multivariate regressions analysis to assess factors affecting credit default risks for 431 borrowers from 37 SACCOS in Morogoro, Dodoma and Kilimanjaro regions. The study reveals that years of schooling of borrowers contributed positively to the loan default. The study exposes that in general lack of investment analysis skills led to huge loans arrears.

2.3.4. Age of the Borrower and Loan Repayment

Different studies report difference influence of age on loans repayment. Oni et al (2005), apply descriptive and probit regression analysis to determine factors influencing default in loan repayment among poultry farmers in Nigeria. Their results from the probit model reveal that age influences positively to the loans repayment. On the other hand, studies by Haque et al. (2011) in Bangladesh; Oladeebo and Oladeebo (2008) in Ghana and Acquah and Addo (2011) in Nigeria applied the multivariate regression model and they found out that age influences negatively on loan repayment performance for small business owners, farmers and fishermen in Bangladesh, Ghana and Nigeria respectively. Implying that in the first case, the higher the age; the low the risk of default while in the second case, the higher the ages, the higher the risk of loan default respectively.

Magali (2013) who also found out that age did not have a linear effect with the loans default. The findings concurs Anigbogu et al. (2014) also found out that age the farmers had an insignificant but a positive relationship with loan repayment. Ojiako and Ogbukwa (2012) analyzed loan repayment capacity of the smallholder cooperative farmers by using descriptive statistics, correlation and regression techniques in Nigeria where they revealed that the average age and repayment rate of borrowers were 43 years and 44% respectively.
Mbugua (2011) also identified the major causes of loan default as age of farmers, loan shortages, delay in time of loan delivery, small farm size, high interest rate, poor supervision, non-profitability of farm enterprises and undue government intervention with the operations of government sponsored credit programs. Matin, 2007; Warue, 2012; and Chirwa, (1997) studies revealed that the probability of loan repayment depends on the borrowers’ specific characteristics (i.e. age, education, experience, sex, household size, loan utilization), loan contract terms (repayment installment, collateral, frequency of maturity, grace period, loan volume, interest rate, number of disbursement) and other factors such as political influence, technical advice, level of social cohesion (for micro enterprises).

2.3.5. Family Size and Loan Repayment

A number of studies have been conducted on the effect of family size on loan repayment in micro finance institutions. For instance, Ojiako and Ogbukwa (2012) analyzed loan repayment capacity of the smallholder cooperative farmer in Nigeria. The study found a negative influence of family size on loan repayment performance. Haque et al (2011) reviewed the effectiveness of Community Based Organization (CBO) Microcredit Programme of Concern Worldwide, in Bangladesh and observed a negative effect of family size on loan repayment performance for small business owners in Bangladesh. It implies that larger family size exposes high risk of loan default.

Similarly, Vasanthi and Raja (2006) observe the negative influence of the number of dependants and the loan default risk for housing borrowers in Australia. Warue (2012) conducted a study on the factors affecting loan delinquency in microfinance institutions
in Kenya. The study found out that farm size, family size, scale of operation, family living expenses and exposure to sound management techniques were some of the factors that can influence the repayment capacity of farmers. However, a study by Magali (2013) on the factors affecting loans’ default risks or loans repayment performance for the Savings and Credits Cooperative Societies (SACCOS) in Tanzania established that marital status, family size were found to have no linear effects with the loans default.

A study by Lilian, Stanley, and Simoyan (n.d) as quoted by Anigbogu et al. (2014) evaluated socio-economic factors that could predict repayment ability, quantify the effects of those factors and device a method to curb or manage default in agriculture and/or other credit lending. Data for the analysis were obtained by interviewing a sample of loan beneficiary farmers cooperative society members and non cooperative society members in three local government areas in Kogi State. The study established that, while income; farming experience had major effect on repayment ability; family size, had a minimal effect on repayment ability. The findings agree with those of Onyeagocha et al. (2012) who investigated the loan repayment, its determinants and socio-economic characteristics of microfinance loan beneficiaries in the Southeast states of Nigeria; and found out that though majority of the respondents had large family size; it was not a significant determinant of loan repayments.

2.4. Summary of the Literature

This chapter covered the theoretical foundation of the study, the empirical literature, the conceptual framework and the research gaps identified. Under the theoretical foundation, the study was informed by three theories; that is, Utility theory, Chirwa’s Theory and
Portfolio Theory. Portfolio theory guided the study by providing a context for understanding the interactions of systematic risk and reward. It shows institutional portfolios are managed and motivated the use of passive investment techniques. Chirwa’s theory was also relevant to this study as it informs that loan repayment by the borrower is dependent on various aspects such as the MFIs monitoring financial and business performance of the borrower, and diversion of the loan funds by the borrowers to other purposes not agreed upon. Utility theory helps explain and understand the behavior of individual consumers and repayment of loans.

On the empirical review, the study discussed the socio-economic factors that affect loan repayment in micro finance institutions as guided by the study objectives. The study also identified the research gaps that were left unaddressed the empirical studies reviewed. The chapter ends with a presentation of the conceptual framework which illustrates the variables in the study.

2.5 Research Gaps

The various studies reviewed shows that have provided varying empirical evidence on the relationship between the various socio-economic aspects (income level, education qualification, age of the borrower and family size) and loan repayment in micro finance institutions. For instance, while studies by Acquah and Addo (2011), Addisu (2006) found a positive influence between education and loans repayment performance/repayment, other studies for example, Oladeebo and Oladeebo (2008) found a negative influence of education on repayment performance/repayment.
On the other hand, most of the literature has been conducted in developed countries and developing countries other than Kenya; despite the growth of MFIs in the country. There was limited empirical evidence on how socio-economic factors affect loan repayment in micro finance institutions in Kenya. A review of the existing local studies, for instance Kaggwa, 2013; Imeokpararia, 2012; and Murira, 2010; shows that the authors only analyzed factors for default for only commercial banks and very little investigation done for MFIs. It is against this research gaps that this study sought to fill the gaps by conducting a study to analyze socio-economic factors that affect loan repayment in MFIs in Kenya.

2.6 Conceptual Framework

A conceptual framework is a hypothesized model identifying the concepts under study and their relationship. Mugenda and Mugenda (2003) refer a conceptual framework as a conceptualization of the relationship between variables in the study and it is shown diagrammatically. The conceptual framework presented in Figure 2.1 below illustrates the socio-economic issues that affect loan repayment in micro finance institutions Kenya. The independent variables were income level, education qualification, age of the borrower and family size while dependent variable is loan repayment.
Independent Variables

Income Level
- Employment Status
- Monthly income
- Source of Income
- No. of income sources

Education Qualification
- Literacy levels
- Level of Training
- Skills Attained

Age of the Borrower
- Young adult
- Middle aged
- Elderly

Family Size
- No. of children
- No. of defendants
- Household expenses

Dependent Variable

Loan Repayment
- Timeliness of payments
- Default rates
- Irrecoverable loans

Source: Author, (2016)

Figure 2.1: Conceptual Framework
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter describes the research methodology that was employed in carrying out the study; it also contains the target population, and the sampling design, test of reliability and validity, data collection procedures and data analysis.

3.2 Research Design

Research design is the blueprint that enables the investigator to come up with solutions to problems and guides in the various stages of the research (Nachmias & Nachamias, 2000). The study adopted descriptive research design. According to Chandran (2004) descriptive study describes the existing conditions and attitudes through observation and interpretation techniques. Descriptive design method provided quantitative data from the chosen population. The descriptive survey is a method which enables the researcher to summarize and organize data in an effective and meaningful way. They provide tools for describing collections of statistical observations and reducing information to an understandable form. The descriptive research design was also deemed fit for this study since it provides a multifaceted approach for data collection and can provide statistics about an event while also illustrative how people experienced that event (Mugenda & Mugenda, 2003).
3.3 Target Population

Target population is that population to which the researcher wants to generalize the results of the study. Target population is also defined by Bryman, (2008) as a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The study targeted registered Deposit Taking Microfinance (DTM) institutions in Nairobi, Kenya. According to the Association of Micro-Finance Institutions (2015), there were 9 registered deposit taking microfinance institutions in Kenya (AMFI, 2014). The population consisted of 18 management staff in credit department (two from each institution) 187 loan and credit officers from the nine DTM as gathered from their respective human resource departments.

Table 3.1: Target Population

<table>
<thead>
<tr>
<th>Targeted MFI</th>
<th>Total Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Management staff</td>
</tr>
<tr>
<td>KWFT</td>
<td>2</td>
</tr>
<tr>
<td>Faulu Kenya</td>
<td>2</td>
</tr>
<tr>
<td>Uwezo Microfinance</td>
<td>2</td>
</tr>
<tr>
<td>Rafiki Microfinance Bank Ltd</td>
<td>2</td>
</tr>
<tr>
<td>SMEP Microfinance Bank Ltd</td>
<td>2</td>
</tr>
<tr>
<td>Remu DTM Limited</td>
<td>2</td>
</tr>
<tr>
<td>Century Deposit Taking Microfinance Limited</td>
<td>2</td>
</tr>
<tr>
<td>SUMAC DTM Limited</td>
<td>2</td>
</tr>
<tr>
<td>U &amp; I Deposit Taking Microfinance Limited</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>18</td>
</tr>
</tbody>
</table>

Source: HR Departments of the Nine DTMs (2016)
3.4 Sampling and Sampling Procedures

Sampling is the process of selecting a number of individuals for a study in such a way that the individuals selected represent the large group from which they were selected (Mugenda & Mugenda, 2003). The sampling frame in this study was 205 staff in the nine DTM who included the management staff and the loan/credit officers. The researcher chose to target the management staff and the credit officers since the management are in a strategic position to analyze and tell what affects the loan repayments in the institution while the loan/credit officers carry out the daily operation the credit department which include helping clients fill the loan applications, appraising and approving loans; hence they can give credible information on how socio-economic issues affect loan repayment in the institution.

Stratified random sampling technique was used to select the sample. Stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population. Stratification aims to reduce standard error by providing some control over variance (Latham, 2007). The study grouped the population into two stratas, that is, senior management and loan/credit officers. From each stratum, a 30% sample was taken. This is guided by Mugenda and Mugenda, (2003), who revealed that a sample of between 10% and 30% would be a representative sample size of the target population. The sample size was therefore 62 respondents as shown in Table 3.2 below.
Table 3.2: Sample Size

<table>
<thead>
<tr>
<th>Employee Category</th>
<th>Population Size</th>
<th>Sampling</th>
<th>Sample Size</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management staff</td>
<td>18</td>
<td>30%</td>
<td>5</td>
</tr>
<tr>
<td>Loan/credit officers</td>
<td>187</td>
<td>30%</td>
<td>57</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>205</strong></td>
<td></td>
<td><strong>62</strong></td>
</tr>
</tbody>
</table>

*Source: HR Departments of the Nine DTMs (2016)*

3.5 Data Collection Procedure

The study collected primary data through use of a questionnaire that had both closed and open-ended questions. The study employed the use of questionnaire as the main tool for data collection because it can allow wider coverage within a short period of time, and also enhance confidentiality of information. The questionnaire was also convenient to the respondents as they can fill the questionnaire at their own free and convenient time (Kothari, 2004).

During the data collection process, an introductory letter for data collection was first obtained from the University; this gave authority to the student to collect data. The researcher personally administered the questionnaire to the respondents so that he could interpret each of the sections of the questionnaires to the respondents to ensure that they fully understood the questions before answering.

The study conducted a pilot test to test for validity and reliability of the questionnaire to ascertain whether it is adequate to collect reliable information. The accuracy of data to be collected largely depended on the data collection instruments in terms of validity and reliability (Mugenda & Mugenda, 2003). The study subjected the questionnaire to 5 staff in credit department of KWFT to participate in the pilot study. The five staff were
exempted from the actual study. The objectives of pre-testing were corrected inconsistencies arising from the instruments, which ensured that they measure what is intended.
3.5.1. Reliability Test

Reliability is the ability of a research instrument to consistently measure characteristics of interest over time. It is the degree to which a research instrument yields consistent results or data after repeated trials (Mugenda & Mugenda, 2003). Reliability was calculated with the help of Statistical Package for Social Sciences (SPSS). Cronbach’s alpha test was conducted to test for reliability whereby a co-efficient of above 0.8 was achieved which implies that the instrument was sufficiently reliable for the measurement (Cronbach, 1951).

3.5.2 Validity of the Questionnaire

Ranjit and Kumar (2005) define validity as the quality of measurement procedure that provides respectability and accuracy. Robson (2002) also notes that validity is the degree to which result obtained from the analysis of the data actually represents the phenomenon under study. In this study the questionnaire was shared with the supervisor and other professionals in the field to ascertain the validity. This ensured that the questionnaire collects reliable information and also improves the response rate.

3.6 Data Analysis and Presentation

Data analysis is the process of bringing order, structure and meaning to the mass of information collected (Mugenda, 2008). After the data was collected, it was cleaned, coded into the computer and analyzed with the aid of Statistical Package for Social Sciences (SPSS) version 21.0. Descriptive and inferential statistics were used during the analysis. Descriptive statistics was used to describe and summarize the data to enable meaningful description; these included measures of relative frequencies, measures of
central tendency, and measures of variability. Inferential statistics were conducted using regression analysis which was computed to investigate how the independent variable predicted the dependent variable.

3.6.1 Model Specification

The regression model took the following form:

\[ Y = \beta_0 + \beta_1 \chi_1 + \beta_2 \chi_2 + \beta_3 \chi_3 + \beta_4 \chi_4 + \epsilon \]

Where: \( Y \) is the dependent variable and it presents loan repayment; \( \chi_1 \) is income level; \( \chi_2 \) is education qualification; \( \chi_3 \) is age of the borrower; \( \chi_4 \) is family size; \( \beta_0 \) is the constant; \( \beta_1, \beta_4 \) is the regression coefficient or change included in \( Y \) by each \( \chi \) while \( \epsilon \) = error term.

The analyzed data was presented using frequency tables, bar graphs and pie charts.

3.6.2 Diagnostic Tests

Test of Multicollinearity

Multicollinearity is a situation when independent variables in the regression model are highly inter-correlated. To check for multicollinearity, the study obtained a correlation matrix between all independent variables from E-Views 7.0. The test for multicollinearity was significant for the fact that, it gives abnormal R-Squared value along with spurious regression coefficient value with large standard error estimates. The test was the first step in detecting solution for improving regression model for variables which are high correlated.
**Test of Serial Correlation**

For regression model to be used, it is assumed that the residuals are uncorrelated with one another. If the errors are correlated with one another, it can be stated that they are serially correlated and this can be an indication that the coefficients estimates derived using OLS regression model are still unbiased, but they are inefficient. The presence of serial correlation in the regression model was examined by Durbin Watson (DW) Test through eview 7.0. Durbin Watson was used to detect the presence of autocorrelation among the variables.

**3.7 Ethical Issues**

The study was guided by the following ethical considerations. The researcher ensured the quality and integrity of the research; sought informed consent from the respondents; and respected the confidentiality and anonymity of the research respondents. This ensured that the participants participated in the study voluntarily. Moreover, the researcher avoided harm to the participants in any way and avoid infringing in their privacy. The research was independent and impartial.
CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

The study sought to analyze socio-economic factors that affect loan repayment in microfinance institutions Kenya. The data was thereafter analyzed based on the objectives of the study. The findings were presented as per the different classes shown below.

4.2 Response Rate

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responded</td>
<td>48</td>
<td>77</td>
</tr>
<tr>
<td>Non-respondents</td>
<td>14</td>
<td>23</td>
</tr>
<tr>
<td>Total</td>
<td>62</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

A total of sixty two (62) questionnaires had been distributed to the respondents, out of which 48 were completed and returned. This gave a response rate of 77%. According to Mugenda (2008) a response rate of 50% is adequate for a study, 60% is good and 70% and above is excellent. Thus, a response rate of 77% was fit and reliable for the study as shown in Table 4.1

4.3 Demographic Information

4.3.1 Gender of the Respondents

The respondents were requested to indicate their gender. The findings were as presented in the figure below
The sample population was classified by gender whereby females who participated amounted to 37% while the males amounted to 63%. Therefore based on these findings, majority of the staff in the MFIs in Kenya were males.

4.3.2 Age Bracket

The study requested the respondents to indicate their age bracket. The findings were as shown below

<table>
<thead>
<tr>
<th>Age Bracket</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30 years</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>31-40 Years</td>
<td>16</td>
<td>33</td>
</tr>
<tr>
<td>41-50 Years</td>
<td>14</td>
<td>29</td>
</tr>
<tr>
<td>Above 50 Years</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)
The study findings in Table 4.2 shows that 33% of the respondents’ age bracket was between 31-40 years, 29% was between 41-50 years, 21% were below 30 years and 17% were above 50 years. This implies that majority of the respondents age was between 31-40 years.

4.3.3 Level of Academic Qualification

The study requested the respondents to indicate their level of academic qualification. The findings were as shown below.

![Level of Academic Qualification](image)

**Figure 4.2 Level of Academic Qualification**

Source: Survey Data (2016)

As per the findings in the figure above, majority 46% of the respondents indicated their academic qualification as being bachelor’s degree, 26% indicated masters, 21% indicated certificate/diploma and 7% indicated PhD.

This depicts that majority of the respondents indicated their academic qualification as being bachelor’s degree. The findings show that majority of the respondents were educated to a high level, which implies that they also understood the questions being asked, hence it improved the reliability of the information given.
4.3.4 Duration Worked
Respondents were requested to indicate the number of years they had worked in this organisation. The findings are presented in Table 4.3.

Table 4.3: Duration Worked

<table>
<thead>
<tr>
<th>Duration</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 5 Years</td>
<td>10</td>
<td>21</td>
</tr>
<tr>
<td>5-10 Years</td>
<td>15</td>
<td>31</td>
</tr>
<tr>
<td>11-15 Years</td>
<td>18</td>
<td>38</td>
</tr>
<tr>
<td>Above 20 Years</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

From the findings in the Table 4.3, majority 38% indicated they had worked for 11-15 years, 31% indicated 5-10 years, 21% indicated less than 5 years and 10% indicate above 20 years. This depicts that majority had worked for 11-15 years.

The study results shows that majority of the respondents had worked in their organizations for a period of 5 years and above which means that they understood the operations of their businesses well and therefore were in a position to give reliable information on socio-economic aspects that affect loan repayment in selected micro finance institutions Kenya.

4.4 Descriptive Statistics Analysis

4.4.1 Income Level and Loan Repayment

This section analyze whether borrowers’ income level affect loan repayment in micro finance institutions Kenya.
4.4.1.1 Consideration of Borrowers’ Income

The respondents were asked to indicate whether they considered the borrowers’ income when advancing loans in their institution. The findings are presented in Figure 4.3.

![Pie chart showing consideration of borrowers' income](image)

**Figure 4.3 Consideration of Borrowers’ Income**

Source: Survey Data (2016)

As per the findings in the figure above, majority 92% of the respondents indicated they considered the borrowers’ income when advancing loans in their institution while 8% were of a contrary opinion. This depicts that respondents considered the borrowers’ income when advancing loans in their institution. Among the respondents who stated yes, they indicated the following as the income aspects that they consider, monthly income, source of income (salary, agriculture, business) and number of income sources.

The findings above are in agreement with of Oni et al. (2005) who found out that income of the farmers significantly influence default in loan repayment. Al- Mamun et al. (2011) in their study also found a significant and negative relationship between repayment of loan problems and income generating activities, household income, number of gainfully employed members, and number of sources of income. This implies that an increase in income sources would decrease loan repayment problems and vice versa.
4.4.1.2 Clients Likely to Default

Respondents were asked to indicate which category of clients were likely to default based on their income levels. The findings were as shown in Table 4.4.

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below Kshs. 10,000</td>
<td>15</td>
<td>31</td>
</tr>
<tr>
<td>Ksh. 10,001 - 20,000</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Kshs. 20,001 - 30,000</td>
<td>7</td>
<td>16</td>
</tr>
<tr>
<td>Kshs. 30,001 - 40,000</td>
<td>8</td>
<td>17</td>
</tr>
<tr>
<td>40,001 - 50,000</td>
<td>5</td>
<td>10</td>
</tr>
<tr>
<td>Above 50,000</td>
<td>4</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

The findings in Table 4.4 shows that 31% of the respondents indicated those clients below Kshs. 10,000 income level were likely to default while 18% indicated clients whose income level was Ksh. 10,001 - 20,000. On the other hand, 17% indicated the clients with income levels of Kshs. 30,001 - 40,000 were likely to default, 10% indicated 40,001 - 50,000 while only 8% indicated those with incomes above 50,000. This depict that’s respondents indicated those clients below Kshs. 10,000 income level were likely to default.

Acquah and Addo (2011) conducted a study on the determinants of loan repayment performance of fishermen in Ghana while Kohansal and Mansoori (2009) examined the factors affecting on loan repayment performance of farmers in Khorasan-Razavi Province of Iran. The studies found out that income of the farmers have positive influence on loans repayment performance in Ghana and Iran respectively. Similarly, Vasanthi and Raja
(2006) revealed that lower income is one of the major factors causing loans default for housing borrowers in Australia.

### 4.4.1.3 Borrowers’ Income and Repayment of Loans

The respondents were asked to indicate their extent of agreement with the following statements on borrowers’ income and repayment of loans in their institution. The findings are presented in Table 4.5.

#### Table 4.5 Borrowers’ Income and Repayment of Loans

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The employment status of the borrower, that is, permanent, contact or casual determines the borrower’s ability to repay a loan</td>
<td>4.07</td>
<td>0.786</td>
</tr>
<tr>
<td>The monthly income of the borrower determines his/her ability to repay a loan</td>
<td>4.05</td>
<td>0.682</td>
</tr>
<tr>
<td>The borrowers source of income (salary, agriculture, business) determines his/her ability to repay a loan</td>
<td>4.10</td>
<td>0.785</td>
</tr>
<tr>
<td>The number of income sources of the borrower determines his/her ability to repay a loan</td>
<td>4.11</td>
<td>0.762</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

The study findings show that the respondents agreed that the number of income sources of the borrower determines his/her ability to repay a loan (mean=4.11), followed by the borrowers source of income (salary, agriculture, business) determines his/her ability to repay a loan (mean=4.10). Respondents further agreed that the employment status of the borrower, that is, permanent, contact or casual determines the borrower’s ability to repay a loan (mean=4.07) and the monthly income of the borrower determines his/her ability to repay a loan (mean=4.05).
The study findings are in agreement with Acquah and Addo (2011) who conducted a study on the determinants of loan repayment performance of fishermen in Ghana while Kohansal and Mansoori (2009) examined the factors affecting on loan repayment performance of farmers in Khorasan-Razavi Province of Iran. The studies found out that income of the farmers have positive influence on loans repayment performance in Ghana and Iran respectively. Oni, Oladele and Oyewole (2005) conducted a study to determine the factors influencing default in loan repayment among poultry farmers in Ijebu Ode Local Government Area of Ogun State. The study found out that income of the farmers also significantly influence default in loan repayment.

4.4.1.4 Influence of Income of the Borrower on Loan Repayment

The respondents were asked to indicate the extent to which the income of the borrower affected loan repayment in their institution. The findings are presented in Figure 4.4.

**Figure 4.4 Influence of Income of the Borrower on Loan Repayment**

Source: Survey Data (2016)
As per the findings above, majority 39% indicated income of the borrower affected loan repayment in their institution to a great extent, 33% indicated to a very great extent, 17% to a moderate extent, 9% to a small extent and 2% not at all. This implies that income of the borrower affected loan repayment in their institution to a great extent. These findings are in agreement with those of Oni et al. (2005), Kohansal and Mansoori (2009), Al-Mamun et al. (2011), Acquah and Addo (2011) who found out that income of a borrower has a positive influence on loans repayment. This depicts the amount of income or the number of income sources of the borrower determines his/her ability to repay a loan.

4.4.2 Education Qualification and Loan Repayment

This section addresses the second objective of the study which sought to analyze the effect of education qualification of the borrowers on loan repayment in micro finance institutions Kenya.

4.4.2.1 Borrowers Education Level

Respondents were requested to indicate whether their institution considers the borrowers’ education level when advancing loans to individual borrowers. The results are presented in Figure 4.5.
Source: Survey Data (2016)

As shown in figure 4.5, majority of the respondents (83%) indicated their institution considers the borrowers’ education level when advancing loans to individual borrowers while 17% do not consider borrowers education level. This implies that their institution considers the borrowers’ education level when advancing loans to individual borrowers. Among the respondents who stated yes, they indicated the following as the education level aspects that they consider; level of training (for self-employed) and skills attained (for self-employed).

The above findings are in corroborates with those of Wydick (1999) also revealed that lack of knowledge increased the chance of encountering repayment problem. This is also supported by Magali (2013) who assessed factors affecting loans’ default risks or loans repayment performance for the SACCOS in Tanzania and found out that education level of borrowers contributed positively to the loan default. The study revealed that lack of investment analysis skills led to huge loans arrears.

4.4.2.2 Influence of Borrowers Education on Loan repayment

The study requested the respondents to indicate their level of agreement to the following statements on borrowers’ education qualification and repayment of loans in their institution. The findings are shown in Table 4.6.
Table 4.6 Influence of Borrowers Education on Loan Repayment

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of education has an implication on loan usage</td>
<td>4.16</td>
<td>1.124</td>
</tr>
<tr>
<td>Borrowers’ level of training/skills has an implication on management the business and subsequent repayment of loan.</td>
<td>4.00</td>
<td>0.791</td>
</tr>
<tr>
<td>Borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan.</td>
<td>4.14</td>
<td>0.866</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

From the findings in the table above, respondents agreed that level of education has an implication on loan usage (mean=4.16), followed by borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan (mean=4.14) and borrowers’ level of training/skills has an implication on management the business and subsequent repayment of loan (Mean=4.00). This depicts that level of education has an implication on loan usage and borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan.

The research findings concur with those of Arene, (2002) who revealed that farming experience and level of education of farmers contributed positively to the credit worthiness of farmers. Much consideration has been given on financial aspects of the entrepreneurs ignoring the entrepreneur aspect that is the human capital. The findings agrees with those of Oni et al. (2005) who examined the factors influencing default in loan repayment among poultry farmers in Nigeria; and found out that majority of the farmers in the study area were educated.
4.4.2.3 Extent Borrowers Education Qualification Affects Loan Repayment

The study requested the respondents to state to what extent borrowers’ education qualification affected loan repayment in their institution. The findings are presented in Figure 4.6.

![Figure 4.6 Extent Borrowers Education Qualification Affects Loan Repayment](image)

From the findings most of the respondents (44%) of the respondents stated borrowers’ education qualification affected loan repayment in their institution to a great extent, 27% to a very great extent, 20% to a moderate extent, 6% to a small extent and 3% not at all. This implies that borrowers’ education qualification affected loan repayment in their institution to a great extent. These results are in agreement with those of Arene, (2002), Oni et al. (2005), Magali (2013) who found out that borrowers’ education level influenced loan default or loan repayment. High education level or some form of training for instance on business skills, investment skills positively influence loans repayment.

4.4.3 Age of the Borrower and Loan Repayment

This section addresses the third objective of the study which sought to analyze whether the age of the borrower affect loan repayment in micro finance institutions Kenya.
4.4.3.1 Consideration of Borrowers’ Age

Respondents were requested to indicate whether they consider the age of the borrower when advancing loans to individual borrowers. The findings were as shown in Table 4.7.

Table 4.7 Consideration of Borrowers’ Age

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>12</td>
<td>26</td>
</tr>
<tr>
<td>No</td>
<td>36</td>
<td>74</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

According to the findings above, majority (74%) of the respondents indicated they did not consider the age of the borrower when advancing loans to individual borrowers while 26% were of a contrary opinion. This depicts that the institution did not consider the age of the borrower when advancing loans to individual borrowers.

4.4.3.2 Age Brackets Likely to Default on Loans

The respondents were requested to indicate the age brackets likely to default or fail to repay loans advanced. The findings were as shown in Figure 4.7.

![Figure 4.7: Age Brackets Likely to Default on Loans](image)

Source: Survey Data (2016)
The findings in Figure 4.7 shows that 32% indicated the age bracket likely to default in loan payment was 18-35 years, 29% indicated 46-55 years, 20% above 55 years and 19% indicated 36-45 years. This implies that the age bracket likely to default in loan payment is 18-35 years.

**4.4.3.3 Influence of Age of the Borrower on Repayment of Loans**

The study requested the respondents to indicate the extent to which they agreed with the following statements on age of the borrower and repayment of loans in your institution. The findings were as shown in Table 4.8.

**Table 4.8: Influence of Age of the Borrower on Repayment of Loans**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of borrower increases chances of the borrower to become settled and accumulate wealth</td>
<td>3.78</td>
<td>1.034</td>
</tr>
<tr>
<td>Increase in age increases borrower acquirement of experience in business management and credit use than youngsters</td>
<td>3.96</td>
<td>1.060</td>
</tr>
<tr>
<td>Increase in age determines borrowers loan repayment</td>
<td>3.77</td>
<td>0.951</td>
</tr>
<tr>
<td>Age determine the productivity of the borrower and subsequent ability to repay loans</td>
<td>3.88</td>
<td>1.201</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

As per the findings in the Table 4.8, respondents were neutral that increase in age increases borrower acquirement of experience in business management and credit use than youngsters (mean=3.96), followed by age determine the productivity of the borrower and subsequent ability to repay loans (mean=3.88). Further respondents agreed that age of borrower increases chances of the borrower to become settled and accumulate wealth.
(mean=3.78) and Increase in age determines borrowers loan repayment (mean=3.77). This implies that respondents were neutral that increase in age increases borrower acquisition of experience in business management and credit use than youngsters and that age does not determine the productivity of the borrower and subsequent ability to repay loans.

The study findings are in agreement with studies by Haque et al. (2011) in Bangladesh; Oladeebo and Oladeebo (2008) in Ghana and Acquah and Addo (2011) in Nigeria applied the multivariate regression model and they found out that age influences negatively on loan repayment performance for small business owners, farmers and fishermen in Bangladesh, Ghana and Nigeria respectively. Magali (2013) who also found out that age did not have a linear effect with the loans default. The findings concurs Anigbogu et al. (2014) also found out that age the farmers had an insignificant but a positive relationship with loan repayment.

4.4.3.4 Extent to Which Age of the Borrower Affects Loan Repayment

The study requested the respondents to indicate the extent to which age of the borrowers affected loan repayment in their institution. The findings were as shown in Figure 4.8.
As per the findings above, 38% of the respondents indicated age of the borrowers affected loan repayment in their institution to a small extent, 31% indicated to a moderate extent, 15% indicated to a great extent, 9% not at all while 7% to a very great extent. This depicts that age of the borrowers affected loan repayment in their institution to a small extent. These findings concurs with those of Magali (2013) and Anigbogu et al. (2014) who found out that age did not have an effect on the loans default or loan repayment.

4.4.4 Family Size and Loan Repayment

In this section, the study sought to establish whether family size as a socio-economic factor, affect loan repayment in micro finance institutions Kenya.

4.4.4.1 Consideration of Family Size

The respondents were requested to indicate whether they consider family size of the borrower when advancing loans. The findings were as shown below

---

**Figure 4.8: Extent to which Age of the Borrower Affects Loan Repayment**

Source: Survey Data (2016)
The study results shows that majority of the respondents (73%) indicated they did consider family size of the borrower when advancing loans while 27% were of a contrary opinion. This implies that respondents considered family size of the borrower when advancing loans. Among the respondents who stated yes, they stated the following family aspects as what they consider; number of children, number of dependents’ and household expenses. According to a study by Haque et al (2011) larger family size exposes high risk of loan default.

### 4.4.4.2 Family Size Households Likely to Default on Loan Repayment

Respondents were requested to indicate which of the following family size households were like to default on repayment of loans. The findings are presented in Figure 4.9.

**Figure 4.9: Family Size Households likely to Default on Loan Repayment**

Source: Survey Data (2016)
According to the findings in the figure above, 42% of the respondents indicated above 10 dependants family size households were like to default on repayment of loans, 28% indicated 8-10 dependants, 17% indicated 5-7 dependants, 8% indicated 3-5 dependants while 5% indicated 1-3 dependants. This depicts that above 10 dependants family size households were likely to default on repayment of loans.

4.4.4.3 Influence of Family Size of the Borrower on Loan Repayment

The study requested the respondents to indicate their level of agreement to the following statements on family size of the borrower and repayment of loans in their institution. The findings were as shown in Table 4.10.

Table 4.30: Influence of Family Size of the Borrower on Loan Repayment

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The number of children a borrower has determines the ability to repay loans.</td>
<td>4.21</td>
<td>0.7394</td>
</tr>
<tr>
<td>The number of dependants affects borrowers repayment of loans</td>
<td>4.25</td>
<td>0.7356</td>
</tr>
<tr>
<td>The household expenses affects borrower’s ability to repay loans</td>
<td>4.24</td>
<td>0.5568</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

The study findings in Table 4.10 shows that the respondents agreed that the number of dependants affects borrowers repayment of loans (mean=4.25), further respondents agreed that the household expenses affects borrower’s ability to repay loans (mean=4.24) and the number of children a borrower has determines the ability to repay loans (mean=4.21). This implies the number of dependants affects borrowers’ repayment of loans and the household expenses affect borrower’s ability to repay loans.
The research findings are in agreement with Warue (2012) who conducted a study on the factors affecting loan delinquency in microfinance institutions in Kenya. The study found out that farm size, family size, scale of operation, family living expenses and exposure to sound management techniques were some of the factors that can influence the repayment capacity of farmers.

4.4.4.4 Extent Family Size of the Borrower Affects Loan Repayment

The respondents were requested to indicate the extent to which family size of the borrower affects loan repayment. The findings were as shown in Figure 4.10.

![Figure 4.10: Extent Family Size of the Borrower Affects Loan Repayment](source: Survey Data (2016))

As per the findings in the figure 4.9, 38% of the respondents indicated family size of the borrower affects loan repayment to a great extent while 31% indicated to a very great extent. On the other hand, 15% of the respondents indicated family size of the borrower affects loan repayment to a small extent, 9% indicated not at all while 7% indicated to a moderate extent. This depicts that the family size of the borrower affects loan repayment to great extent. This is to mean that, the larger family size exposes high risk of loan
default. These findings are in agreement with those of Haque et al (2011), Ojiako and Ogbukwa (2012) who found out there was a negative influence of family size on loan repayment performance. This implies that an increase in family size would have a negative effect on loan repayment.

4.4.5 Loan Repayment

The respondents were requested to indicate their level of agreement with the following statements on socio-economic issues and repayment of loans in your institution. The findings were as shown below.

Table 4.11: Loan Repayment

<table>
<thead>
<tr>
<th>Statements on Loan Repayment</th>
<th>Mean</th>
<th>Std. deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Socio-economic issues affects borrowers timeliness to repay loans</td>
<td>4.18</td>
<td>0.759</td>
</tr>
<tr>
<td>Socio-economic issues affects borrowers default rates</td>
<td>4.08</td>
<td>0.670</td>
</tr>
<tr>
<td>Socio-economic issues affects inability of borrowers to repay the specified amounts of loans</td>
<td>4.01</td>
<td>0.907</td>
</tr>
</tbody>
</table>

Source: Survey Data (2016)

From the findings, the respondents agreed that socio-economic issues affects borrowers’ timeliness to repay loans (mean=4.18), further respondents agreed that socio-economic issues affects borrowers default rates (mean=4.08) and socio-economic issues affects inability of borrowers to repay the specified amounts of loans (mean=4.01). This depicts that socio-economic issues affects borrowers’ timeliness to repay loans.
4.5 Inferential Statistics Analysis

4.5.1 Regression Analysis

In this section, the study sought to relationship between the socio-economic factors and loan repayment in selected MFIs. The predictor variables were income level, education qualification, age of the borrower, family size while the dependent variable was loan repayment. The regression results are presented below.

Table 4.12: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.821(a)</td>
<td>0.674</td>
<td>0.643</td>
<td>0.254</td>
</tr>
</tbody>
</table>

a Predictors: (Constant), income level, education qualification, age of the borrower, family size

Source: Survey Data (2016)

The R is the correlation coefficient which shows the relationship between the study variables while the Adjusted R squared is coefficient of determination which tells us the variation in the dependent variable due to changes in the independent variable. The regression results in Table 4.13 shows an R value of 0.821 which means that there was a high relationship between the variables. The results also show the value of coefficient of determination was 0.643 which implies that socio-economic factors (income level, education qualification, age of the borrower, family size) explained 64.3% of loan repayment in selected MFIs at a confidence level of 95%.
Table 4.13: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>5.713</td>
<td>4</td>
<td>1.428</td>
<td>22.199</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>2.766</td>
<td>43</td>
<td>0.064</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>8.479</td>
<td>47</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), income level, education qualification, age of the borrower, family size
b Dependent Variable: Loan Repayment

Source: Survey Data (2016)

The ANOVA results show F-significant value of p=0.000. This implies that the regression model has a 0.001 (0.1%) probability of giving a wrong prediction. Therefore the results generated from this regression are reliable.

Table 4.14: Coefficient Results

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>0.729</td>
<td>0.634</td>
<td>1.150</td>
</tr>
<tr>
<td></td>
<td>Income level</td>
<td>0.290</td>
<td>0.051</td>
<td>0.579</td>
</tr>
<tr>
<td></td>
<td>Family size</td>
<td>-0.280</td>
<td>0.077</td>
<td>-0.439</td>
</tr>
<tr>
<td></td>
<td>Education qualification</td>
<td>0.255</td>
<td>0.064</td>
<td>0.433</td>
</tr>
<tr>
<td></td>
<td>Age of the borrower</td>
<td>0.028</td>
<td>0.072</td>
<td>0.053</td>
</tr>
</tbody>
</table>

a Dependent Variable: Loan Repayment

Source: Survey Data (2016)

From the regression results, the following equation was established:

\[ Y = 0.729 + 0.290X_1 - 0.280X_2 + 0.255X_3 + 0.028X_4 \]
The regression results show that there was a positive and statistically significant relationship between income levels of the borrowers and loan repayment as shown by a $\beta = 0.290$, $p=0.000<0.05$. This implies that a unit increase in income of the borrowers will increase loan repayment at a unit of 0.290 (29%). The study therefore rejects the null hypothesis and accepts the alternative hypothesis that there is a significant relationship between borrowers’ income levels and loan repayment in micro finance institutions Kenya.

The study found a negative but statistically significant relationship between family size of the borrowers and loan repayments as shown by $\beta = -0.280$, $p=0.001<0.05$. This implies that a unit increase in family size would negate loan repayment by a unit of 0.280 (28%). The study therefore rejects the null hypothesis and accepts the alternative hypothesis that there is a significant relationship between borrowers’ family size and loan repayment in micro finance institutions Kenya.

The regression results also show a positive and statistically significant relationship between education qualification of the borrowers and loan repayment as shown by $\beta = 0.255$, $p=0.000<0.05$. This implies that a unit increase in education level would increase or improve loan repayment at a unit of 0.255 (25.5%). The study rejects the null hypothesis and accepts the alternative hypothesis that there is a significant relationship between education qualifications of the borrower and loan repayment in micro finance institutions Kenya.

However, the study found a positive and statistically insignificant association between age of the borrower and loan repayment in selected MFIs as shown by $\beta = 0.028$; $p=
0.696>0.05. The study therefore accepts the null hypothesis that there is no significant relationship between age of the borrower and loan repayment in micro finance institutions Kenya.

The regression results show that income level, family size and education qualification are the major socio-economic factors that have a significant effect on loan repayment in MFIs in Kenya. These results are in line with those of Arene (2002) who outlined the main factors that determine loan repayment performance as income, education, household size, among others. Warue (2012) in Kenya also found out that family size, and family living expenses were some of the factors that can influence the repayment capacity of customers.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents summary, conclusion and recommendations on determinants socio-economic factors that affect loan repayment in micro finance institutions Kenya.

5.2 Summary of Findings
5.2.1 Income Level and Loan Repayment
The study sought to establish whether borrowers’ income level affect loan repayment in micro finance institutions Kenya. The study found that majority of the respondents indicated they considered the borrowers’ income when advancing loans in their institution. Further majority of the respondents indicated those clients below Kshs. 10,000 income level were likely to default. Additionally respondents agreed that the number of income sources of the borrower determines his/her ability to repay a loan, followed the borrowers source of income (salary, agriculture, business) determines his/her ability to repay a loan. Respondents further agreed that the employment status of the borrower, i.e. permanent, contact or casual determines the borrower’s ability to repay a loan and the monthly income of the borrower determines his/her ability to repay a loan. In addition majority indicated income of the borrower affected loan repayment in their institution to a great extent. The regression results established that there was a positive and statistically significant relationship between income levels of the borrowers and loan repayment.
5.2.2 Education Qualification and Loan Repayment

The study sought to find out whether the education qualifications of the borrowers affect loan repayment in micro finance institutions Kenya. The study also found that majority of the respondents indicated their institution considers the borrowers’ education level when advancing loans to individual borrowers. Among the respondents who stated yes, they indicated the following as the education level aspects that they consider, level of training (for self-employed) and skills attained (for self-employed). Additionally respondents agreed that level of education has an implication on loan usage, followed by borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan and borrowers’ level of training/skills has an implication on management the business and subsequent repayment of loan. Moreover majority of the respondents stated borrowers’ education qualification affected loan repayment in their institution to a great extent. The regression results also show a positive and statistically significant relationship between education qualification of the borrowers and loan repayment.

5.2.3 Age of the Borrower and Loan Repayment

The study sought to analyze whether the age of the borrower affect loan repayment in micro finance institutions Kenya. The study established that majority of the respondents indicated they did not consider the age of the borrower when advancing loans to individual borrowers. Further majority indicated the age bracket likely to default in loan payment is 18-35 years. Additionally respondents were neutral that Increase in age increases borrower acquirement of experience in business management and credit use than youngsters, followed by age determine the productivity of the borrower and
subsequent ability to repay loans. Further respondents agreed that age of borrower increases chances of the borrower to become settled and accumulate wealth and increase in age determines borrowers’ loan repayment. Moreover, majority of the respondents indicated age of the borrowers affected loan repayment in their institution to a small extent. However, the study found a positive but statistically insignificant association between age of the borrower and loan repayment in the MFIs.

5.2.4 Family Size and Loan Repayment

The study sought to analyze whether family size affects loan repayment in micro finance institutions in Kenya. The study established that majority of the respondents indicated they did consider family size of the borrower when advancing loans. Among the respondents who stated yes, they stated the following family aspects as what they consider; number of children, number of dependents’ and household expenses. In addition, respondents agreed that the number of dependants affects borrowers repayment of loans, further respondents agreed that the household expenses affects borrower’s ability to repay loans and the number of children a borrower has determines the ability to repay loans. Also majority of the respondents indicated income of the borrower affects loan repayment in their organization to a great extent. The regression results found a negative but statistically significant relationship between family size of the borrowers and loan repayment.

The study established that socio-economic factors had affected borrowers’ timeliness to repay loans, further respondents agreed that socio-economic issues affects borrowers
default rates and socio-economic issues affects inability of borrowers to repay the specified amounts of loans.

5.3 Conclusion

The study concludes that socio-economic factors have a relationship with loan repayment which is an indication that socio-economic factors influence loan repayment in micro finance institutions in Kenya. In regard to income level, the study also concludes that the number of income sources of the borrower determines his/her ability to repay a loan and also the borrowers’ source of income. Further income of the borrower affected loan repayment in their institution to a great extent.

The study also concludes that the level of education has an implication on loan usage and borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan. Additionally borrowers’ education qualification affected loan repayment in their institution to a great extent. Regarding age of the borrower the study found that respondents were neutral that increase in age increases borrower acquirement of experience in business management and credit use than youngsters and that age does not determine the productivity of the borrower and subsequent ability to repay loans.

The study finally concludes that the number of dependants affects borrowers’ repayment of loans and the household expenses affect borrower’s ability to repay loans. In addition the income of the borrower affects loan repayment in their organization to great extent. In a nutshell the study concludes that a socio-economic issue affects borrowers’ timeliness to repay loans.
5.4 Recommendation

Based on the findings with regard to socio-economic factors that affect loan repayment in micro finance institutions in Kenya, the study recommends that; micro finance institutions should revise the terms and conditions attached to loan so that they can reduce the loan repayment problems associated with socio-economic factors.

The study recommends that financial institutions should develop appropriate mechanisms to ensure that loans are repaid within the specified time period. This is because poor loan repayment can affect the future access to finances from financial institutions. Easy loan processing and onward disbursement of loans need to be ensured by the micro finance institutions to improve repayment behaviour.

5.5 Contribution to Knowledge

The major research gap identified in chapter two was that most of the literature has been conducted in developed countries and developing countries other than Kenya; despite the growth of MFIs in the country. The review of the existing local studies also showed that most of the authors only analyzed factors for default for only commercial banks and very little investigation done for MFIs. This study therefore filled that gap that existed since it added more value to the existing body of knowledge, locally, on the socio-economic aspects affecting loan repayment in micro finance institutions Kenya. Other than adding value to the existing body of knowledge, this study also forms a basis for further research in this area.
5.6 Suggestion for Further Research

The study recommends that further research needs to be done on other determinants of loan repayment in micro finance institutions in Kenya as this study, concentrated on analyzing effect of socio-economic factors on loan repayment in micro finance institutions in Kenya. The study can also cover other financial institutions such as commercial banks and SACCOs for comparison of results.
REFERENCES


Kiiru (2007), ‘*Case Study of Kenyan Micro Finance Programme*’, Africa region number 80 February 2007


Wangai P.N. (2008) *‘Factors that influence demand for credit among small investors’*. A Case of Imenti North District, Research Project.


APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

RE: DATA COLLECTION
I am a student at Kenyatta University pursuing a degree in Master of Business Administration (MBA). I am conducting a research study to “analyze socio-economic issues that affect loan repayment in micro finance institutions Kenya” to fulfill the requirements of the award of the above mentioned degree program. Your organization has been chosen to take part in the study.

Kindly respond to all the questions in the questionnaire accurately and honestly as possible. The information in the questionnaire will be treated as confidential and it is for academic purpose only.

Your co-operation is highly appreciated. Thank you.

Yours Sincerely,

Edward Oyugi Makori
Appendix II: Questionnaire

Instructions: Please read the answer the questions as appropriately as possible. It is advisable that you answer or fill in each section as provided. Tick (☑) where appropriate.

Section A: Respondents Profile
1. Indicate your gender.
   a) Male [ ]
   b) Female [ ]

2. Indicate your appropriate age bracket.
   a) Below 30 years [ ]
   b) 31-40 Yrs [ ]
   c) 41-50 Yrs [ ]
   d) Above 50 Yrs [ ]

3. Kindly indicate your highest level of academic qualification.
   a) Certificate/Diploma [ ]
   b) Bachelors Degree [ ]
   c) Masters [ ]
   d) PhD. [ ]
   d). Other (specify)……………………………………………………

4. How many years have you worked in this organisation? (Tick (☑) where appropriate).
   a) Less than 5 Years [ ]
   b) 5-10 Years [ ]
   c) 11-15 Years [ ]
   d) 16-20 Years [ ]
   d) Above 20 Years [ ]

5. What is your Designation?……………………………………………………

Section B: Income Level

6. Do you consider the borrowers’ income when advancing loans in your institution?

   Yes [ ]
   No [ ]

7. a). If yes, in qn 6 above, which of the following income aspects do you consider? Tick all that applies.
   i). Employment Status [ ]
   ii). Monthly income [ ]
   iii). Source of income (salary, agriculture, business) [ ]
   Number of income sources [ ]
b). Others (specify) ....................................................................................................................
............................................................................................................................................

8. Which clients in the below income levels are likely to default?
   i). Below Kshs. 10,000 [ ] ii). Ksh. 10,001 - 20,000 [ ]
   iii). Kshs. 20,0001 - 30,000 [ ] iv). Kshs. 30,001 - 40,000 [ ]
   v). 40,001 - 50,000 [ ] vi). Above 50,000 [ ]

9. To what extent do you agree with the following statements on borrowers’ income and repayment of loans in your institution? Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree

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<tr>
<th>Statements</th>
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<tbody>
<tr>
<td>The employment status of the borrower, i.e. permanent, contact or casual determines the borrower’s ability to repay a loan</td>
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<tr>
<td>The monthly income of the borrower determines his/her ability to repay a loan</td>
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<tr>
<td>The borrowers source of income (salary, agriculture, business) determines his/her ability to repay a loan</td>
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<tr>
<td>The number of income sources of the borrower determines his/her ability to repay a loan</td>
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10. To what extent does the income of the borrower affect loan repayment your institution?
    Very great extent [ ] Great extent [ ] Moderate extent [ ]
    Small extent [ ] Not at all [ ]

Section C: Education Qualification

11. Does your institution consider the borrowers’ education level when advancing loans to individual borrowers?
    Yes [ ] No [ ]
12. If yes in qn 10 above, which of these education level aspects do you consider (Tick all that applies).

   i). Literacy levels [ ]     ii). Level of training (for self employed) [ ]
   iii). Skills attained (for self employed) [ ]

b). Others (specify) ..................................................................................................................
....................................................................................................................................................

13. To what extent do you agree with the following statements on borrowers’ education qualification and repayment of loans in your institution? Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree

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<tbody>
<tr>
<td>Level of education has an implication on loan usage</td>
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<tr>
<td>Borrowers’ level of training/skills has an implication on management the business and subsequent repayment of loan.</td>
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<tr>
<td>Borrowers’ level of education affects usage of loan for income generating activities and repayment of the loan.</td>
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</table>

14. To what extent does borrowers’ education qualification affect loan repayment in your institution?

   Very great extent [ ]  Great extent [ ]  Moderate extent [ ]
   Small extent [ ]  Not at all [ ]

**Section D: Age of the Borrower**

15. Does your institution consider the age of the borrower when advancing loans to individual borrowers?

   Yes [ ]  No [ ]

16. Which of the following age brackets are the likely to default or fail to repay loans advanced?

   18-35 years [ ]  36-45 years [ ]  46-55 years [ ]
   Above 55 years [ ]
17. To what extent do you agree with the following statements on age of the borrower and repayment of loans in your institution? Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree

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<tbody>
<tr>
<td>Age of borrower increases chances of the borrower to become settled and accumulate wealth</td>
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<td>Increase in age increases borrower acquirement of experience in business management and credit use than youngsters</td>
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<td></td>
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<tr>
<td>Increase in age determines borrowers loan repayment</td>
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<tr>
<td>Age determine the productivity of the borrower and subsequent ability to repay loans</td>
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</table>

18. To what extent does age of the borrowers affect loan repayment in your institution?

- Very great extent [ ]
- Great extent [ ]
- Moderate extent [ ]
- Small extent [ ]
- Not at all [ ]

Section E: Family Size

19. Does your institution consider family size of the borrower when advancing loans?

- Yes [ ]
- No [ ]

20 a). If yes in qn 18 above, which of the following family size aspects do you consider?

(Tick all that applies).

- No. of children [ ]
- No. of dependants [ ]
- Household expenses [ ]

b). Other aspects (specify)……………………………………………………………………………………………

21. Which of the following family size households are like to default on repayment of loans?

- 1-3 dependants [ ]
- 3-5 dependants [ ]
- 5-7 dependants [ ]
- 8-10 dependants [ ]
- Above 10 dependants [ ]

22. To what extent do you agree with the following statements on family size of the borrower and repayment of loans in your institution? Use a scale of 1 to 5 where 1 is strongly disagree, 2 is disagree, 3 is Neutral, 4 is agree and 5 is Strongly agree
The number of children a borrower has determines the ability to repay loans.
The number of dependants affects borrowers repayment of loans
The household expenses affects borrower’s ability to repay loans

23. To what extent does family size of the borrower affect loan repayment in your institution?

<table>
<thead>
<tr>
<th>Very great extent</th>
<th>Great extent</th>
<th>Moderate extent</th>
<th>Small extent</th>
<th>Not at all</th>
</tr>
</thead>
</table>

Section F: Loan Repayment

24. To what extent do you agree with the following statements on socio-economic issues and repayment of loans in your institution? Use a scale of 1-5 where: 5 is to a very great extent, 4 is to a great extent, 3 is to a moderate extent, 2 is to a small extent while is not at all.

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<tbody>
<tr>
<td>Socio-economic issues affects borrowers timeliness to repay loans</td>
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<tr>
<td>Socio-economic issues affects borrowers default rates</td>
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<tr>
<td>Socio-economic issues affects inability of borrowers to repay the specified amounts of loans</td>
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25. How else do socio-economic issues of the borrowers affect repayment of loans in your institution? .................................................................

THANK YOU FOR YOUR TIME
Appendix III: List of Selected MFI\textsuperscript{s}

1. KWFT

2. Faulu Kenya

3. Uwezo Microfinance

4. Rafiki Microfinance Bank Ltd

5. SMEP Microfinance Bank Ltd

6. Remu DTM Limited

7. Century Deposit Taking Microfinance Limited

8. SUMAC DTM Limited

9. U & I Deposit Taking Microfinance Limited
Appendix IV: Letter for Data Collection – Kenyatta University

KENYATTA UNIVERSITY
GRADUATE SCHOOL

E-mail: dean-graduate@ku.ac.ke
Website: www.ku.ac.ke

FROM: Dean, Graduate School

TO: Edward Oyugi Makori
C/o Accounting and Finance Dept.

DATE: 24th August, 2016

REF: D53/CTY/PT/25686/2013

SUBJECT: APPROVAL OF RESEARCH PROJECT PROPOSAL

We acknowledge receipt of your revised Research Project Proposal as per our recommendations raised by the Graduate School Board of 22nd June, 2016.

You may now proceed with your Data Collection, subject to clearance with Director General, National Commission for Science, Technology and Innovation.

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking Forms per semester. The form has been developed to replace the Progress Report Forms. The Supervision Tracking Forms are available at the University’s Website under Graduate School webpage downloads.

Thank you.

ELIJAH MUTUA
FOR: DEAN, GRADUATE SCHOOL

c.c. Chairman, Department of Accounting and Finance
Supervisors:

1. Mr. James Muturi
C/o Department of Accounting and Finance
Kenyatta University

EM/omm
Appendix V: Research Authorization - NACOSTI

RE: RESEARCH AUTHORIZATION

Following your application for authority to carry out research on “Socio-economic factors that affect loan repayment in selected Micro finance institutions in Kenya,” I am pleased to inform you that you have been authorized to undertake research in Nairobi County for the period ending 3rd October, 2017.

You are advised to report to the County Commissioner and the County Director of Education, Nairobi County before embarking on the research project.

On completion of the research, you are expected to submit two hard copies and one soft copy in pdf of the research report/thesis to our office.

Boniface Wanyama
For: Director-General/CEO

Copy to:
The County Commissioner
Nairobi County.

The County Director of Education
Nairobi County.