

**BORROWERS' NON-FINANCIAL INFORMATION AND QUALITY OF
MICRO, SMALL AND MEDIUM ENTERPRISE LOANS AMONG
COMMERCIAL BANKS IN NAIROBI CITY COUNTY, KENYA**

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UNIVERSITY**

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DECLARATION

This research project is my own original work and has not been submitted for award of any degree in any university.

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This research project has been submitted for examination with my approval as Kenyatta University Supervisor.

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DEDICATION

I dedicate this research project to my dear wife Lydia, my dad Moses and my mother Petronillah for their love, support and inspiration to excel in my studies. I also dedicate it to my pastor Rev. Elias, friends and colleagues for their encouragement in completing this research project.

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ABBREVIATIONS AND ACRONYMS

CBK:	Central Bank of Kenya
COVID-19	Corona virus
MFI:	Microfinance Institutions
MSME:	Micro, Small and Medium Enterprises
NACOSTI:	National Commission for Science, Technology and Innovation
NPL:	Non-performing loans
SPSS:	Statistical Package for Social Sciences

OPERATIONAL DEFINITION OF TERMS

Age: It is the duration of time an individual, item or event has existed or lived.

Education background: This refers to the highest level of education undergone by an individual and may consist of primary, secondary and tertiary education

Gender: This is a socially constructed attribute of being a male or female

Loan quality: it is the status of customer loan repayment. Loans can either be classified as performing, underperforming or non-performing

Marital status: This refers to the description of a person relationship with another significant person and can be described as married or single.

Medium enterprises: these are businesses with employees ranging from 50-100 and having an annual turnover between KES. 5M and 800M

Micro enterprises: these are businesses with less than 10 employees having an annual turnover not exceeding KES. 0.5 Million

Non-Financial Information: these are characteristics of borrowers in financial institutions, including age, gender, marital status, borrowing history, business characteristics etc.

Repayment: The act of the borrower remitting both principal and interest amounts to the bank as agreed in the loan repayment schedule. The frequency can be monthly, quarterly etc.

Small enterprises: these are businesses with an annual turnover of between KES. 0.5 Million to KES 5.0 million employing between 10-49 people.

ABSTRACT

This study was undertaken to address the increasing loan defaults in most commercial banks that are domiciled in Nairobi County as captured by Central Bank of Kenya and investor briefing presentations by the listed commercial banks. This trend is worrying since loan delinquency has a financial impact on the performance of commercial banks including provisions for expected credit losses and the follow up costs incurred by commercial banks in the process of debt collection and remedial management. The research sought to assess the relationship between non-financial customer information among micro, small and medium enterprises repayment of loans among commercial banks in Nairobi City County. The specific objectives of the study focused on the effect of borrower's personal characteristics, borrower's previous loan borrowing history and borrower's business characteristics on micro, small and medium enterprises loans quality in the county. Descriptive research design was employed in undertaking the research. The target population of the study was micro, small and medium enterprises business owners operating within the county. Out of this population, a sample of one hundred business owners was undertaken in executing the data collection tools. The researcher obtained both primary and secondary data with the primary data making use of semi-structured questionnaires while secondary data obtained from Central Bank of Kenya supervision reports, bank's annual financial reports and quarterly investor briefing presentations. The above questionnaire generated respondents' data, whose analysis was undertaken using both inferential and descriptive statistics. After analyzing the above data, the researcher presented the results thereof in form of tables for ease of understanding by the users. The analysis focused on the relationship between borrower's personal characteristics, borrower's previous loan borrowing history and borrower's business characteristics and micro, small and medium enterprises loans quality in the county. From the research, borrower's personal characteristics including gender, education level, marital status and age had an impact on loan repayment. In the same breath, borrower's business characteristics including type of business and the business age had an impact on loan repayment. Finally, borrower's borrowing history including number of times the borrower had borrowed before and the ease with which he repaid the loans had an impact on loan repayment. In conclusion, borrower's personal characteristics, borrower's previous loan borrowing history and borrower's business characteristics have an impact on micro, small and medium enterprises loans quality in the county. The study therefore recommends that Institutions involved in lending to micro, small and medium enterprises should review their micro, small and medium enterprises lending policies to not only take care of financial ability to pay but also the customer's willingness to pay which is majorly exhibited by non-financial information. The non-financial information includes but is not limited to personal borrower information including age, gender, marital status and education level. The other non-financial information includes business information on the business age and type. Lastly, non-financial information on frequency of historical borrowings and the ease of repayment of the historical borrowings is also critical

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Commercial banks play a big role in mobilizing customers and other savings and enhance capital flows to the economy (Richard, 2011). The financial intermediary function played by commercial banks in any economy increases productivity and stimulates investment (Hardy, 2006). Through financial institutions, large business as well as small and medium enterprises deposit, transfer money and acquire business loans.

According to Allen and Rai (1996), banks' major business is lending which involves advancing loans to customers on condition that they repay within a certain predetermined period and in specific frequency like monthly or quarterly. Over the years, there has been a consistent growth in both portfolio at risk and non- performing customer advances in the banking industry. In the previous years, provision of loans by financial institutions emphasized more on security as compared to other similar significant considerations (Santomero, 2007). There are some cases in the past decades whereby a debtor could easily obtain a loan from a financial institution as long as the debtor had a security on the loan and his ability to pay and service the loan was not considered. Factors such as viability of the project, borrower's character, previous loans completion, age, educational background, gender and marital status were not considered as being important in determining whether the borrower was able to pay the loan (Hardy, 2006). Thus, most commercial banks have found themselves with non-performing loan portfolios occasioned by inadequate credit risk analysis and

assessment particularly in the application of the 5C's of credit appraisal model that is: credibility, collateral, capital, character and capacity. Therefore, most commercial banks have ended up experiencing problems such as provisioning for bad loans, writing off bad loans and spending time and money on arrears follow up due to default by the debtors.

Effective loans portfolio management begins with appreciating the risks in the individual loans advanced to customers. Prudent risk assortment is paramount to the maintenance of sufficient loan quality. Thus, the background of an individual borrower is essential in management of loan performance. In order for commercial banks to mitigate on risks, they should come up with appropriate and effective loans repayment environments (Guy, 2011). This may comprise operating under adequate and comprehensive loan provisioning processes, establishing appropriate loan repayment and monitoring administration, having clear and water tight criteria and procedures for scoring loan applications, organized paper work and disbursement of funds, efficient and adequate credit internal controls and charging adequate and easily realizable loan security (Richard, 2011).

In the United States, the major crises in the banking industry for instant the Great Depressions in the 1930s to the credit crunch and economic melt-down in 2010 that hit most economies across the world were due to poor loan administration and management (Hardy, 2006). In Malaysia, Hakim et al. (2007) posited that informal and close relationship between commercial banks and loan borrowers may help in credit monitoring and early detection of loan quality issues that may give rise to loan defaults and non-repayment. In the same breath, the defaults on loan repayment were grouped into borrower related causes and lender related causes.

1.1.1 Non-Financial Information

According to Hardy (2006), non-financial information such as gender orientation, age, marital status, education background and borrowers' occupation affect loan repayment. Commercial banks usually decline loan applications from customers who are not married as they consider them poor in terms of loan repayment. Married people are considered to perform better in terms of loan repayment. A survey conducted by CBK in 2019 delved into this area and the findings indicated that borrowers' ability to pay has a high correlation with marital status.

In lending, banks consider non-financial information of the borrower such as income level, level of education, marital status, borrowing history, age of business and age of the borrower in establishing the customers' ability and willingness to pay (Gatuhu, 2013). The above factors are so critical in determining the customers' ability and willingness to repay loans advanced to them.

Historically, most lending institutions profile potential borrowers based on gender, income levels of the customers, etc. In most cases, higher income levels are associated with decreases in the probability of default (Woo, 2012). Hakim et al. (2007) argues that being female has a relation with substantial reduction in the likelihood of defaulting. Podgursky et al. (2008) posited that the age of the borrower has significant but small effect on default behavior, with increases in age related to higher probabilities of defaulting.

1.1.2 Repayment of Micro, Small and Medium Enterprises Facilities

One of the goals of financial institutions like commercial banks is to provide microloans to business owners and small and medium enterprises (Bystrom, 2007). One of the most

common challenges facing MSME lending include loan delinquency and default where customer will fail to meet their financial commitments regarding the loans advanced to them. A loan is considered delinquent when an instalment is not paid as per schedule over a certain timeline for example ninety days. Once this period expires without any payment, the loan falls into default. During this period, the bank will demand the whole amount due. Loan default is essentially of two basic types. The first and the most common type occur when the debtor defaults on a payment of interest or principle (Chachalika, 2013). This might be because the debtor is either unable or unwilling to repay the debt. The second type of default occurs when the debtor violates any of the agreements made on the promissory note either purposely or unintentionally.

To control loan defaults, commercial banks have established effective credit policies. Bystrom, (2007) stated that credit policies consist of frameworks and elements that help in providing guidance to bank officials. Therefore, it is a process and rules that aim at reducing the cost related to credit at the same time increasing profitability.

1.1.3 Commercial Banks in Kenya and Nairobi County

Kenyan banks are managed by the Banking Act, CBK Act and different frameworks as offered by CBK. CBK is regulated by ministry responsible for finance and treasury matters, which is responsible for articulating and executing financial policy, promoting liquidity and all the activities in the financial system. Commercial Banks in Kenya are under the leadership of Kenya Bankers Association (KBA) that acts as the lobby for the financial industry interests (Central Bank of Kenya, 2016). All the above 40 operational banks have presence in Nairobi County.

During the period ended 31st December 2017, Kenyan banking sector comprised 40 operational banks. It can be noted that the industry has witnessed an increased

performance with an asset value of around KES 3.94 trillion and the loans amounting to about KES 1.96 trillion and the deposit of about 2.86 trillion while net profit was KES 96.00 billion. In this period, the customer deposit and loan accounts were recorded at 47.7 million and 7.8 million, respectively.

Recently, most commercial banks in Nairobi City County and Kenya at large have been facing loan quality issues. The absolute NPL grew from 147.3B in 2015 to 178.6B in 2016 and 220.9B in 2017. In terms of NPL ratio, the rate grew from 6.8 percent in 2015 to 9.3 percent in 2016 and 12.3 percent in 2017.

Similarly, the MSME sector recorded growth in NPL as reported by various commercial banks in their annual investor briefings. Equity bank group reported a non-performing loan ratio of 6.3 percent for the period ending December 2017 against a tolerance limit of 5 percent. Out of the above ratio, large enterprises reported less than 1 percent, agri-business sector had 8.9 percent and consumer banking reported 6.2 percent. However, the highest NPL was in MSME which closed at 15.4 percent. Since Equity bank is the second largest bank by assets and profit after tax as per the CBK banking sector supervision report, 2017 and also being majorly an MSME bank, it clearly shows that MSME sector is exposed to NPL risks compared to other sectors in the market.

1.2 Statement of the Problem

Loan repayment by loan customers is essential for both organizational and individual performance as well as national financial environment. When the borrowers default in reimbursing the credit institutions advanced to them, the financial institutions related are negatively affected (Kithinji & Waweru, 2007). Loan delinquency and default leads to constrained finances to carry out operations in the financial firms and lending to other potential debtors. In case of consistent challenges of non-repayment, the financial

institutions may have bad debts; this situation may necessitate operational efficiency measures including staff optimization, reduced market expansion and can to the worst cause eventually collapse.

Over the years, commercial banks in Kenya have recorded continued increase in NPL, a trend which is worrying for the industry. The absolute NPL grew from 147.3B in 2015 to 178.6B in 2016 and 220.9B in 2017. In terms of NPL ratio, the rate grew from 6.8 percent in 2015 to 9.3 percent in 2016 and 12.3 percent in 2017.

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Additionally, Kenya commercial bank group reported a non-performing loan ratio of 3.3 percent for consumer loans for the period ending December 2017 and large enterprises posted 11.0 percent. However, MSME sector reported 16.4 percent. Since KCB is the largest bank by assets and profit after tax as per the CBK banking sector supervision report, 2017, it clearly shows that MSME sector is exposed to NPL risks compared to other sectors in the market

Various studies have been carried out in Kenya about factors influencing customer loan quality among financial institutions and Kenyan banks. For instance, Muriithi, (2013)

conducted a research bordering on factors that attributed to non-performing loans in the banking sector; and Mugambi (2014) did a study on determinants on micro institution loans disbursed by Cooperative Bank in Kawangware and Kangemi areas within Nairobi County. However, studies conducted on factors affecting MSME loan quality had a bias on specific banks, certain regions or financial related factors. As such, the foregoing research delved into the relationship between considering non-financial information at credit analysis and the quality of MSME loans afterwards with a bias to banks domiciled within the County of Nairobi.

1.3 Objectives of the study

1.3.1 General Objective

The researcher intended to find out the relationship between banks and other financial institutions considering non-financial information at credit analysis stage and the quality of MSME loans afterwards with a bias on banks domiciled within the County of Nairobi.

1.3.2 Specific Objectives

The specific objectives of the study were limited to the following: -

- i. To find out the effect of borrower's personal characteristics on MSME loans quality among commercial banks operating within the county of Nairobi.
- ii. To investigate the effect of borrower's previous loan borrowing history on MSME loans quality among commercial banks within the County of Nairobi.
- iii. To find out the effect of borrower's business characteristics on MSME loans quality among commercial banks within the County of Nairobi.

1.4 Research Questions

The research addressed the following questions: -

- i. How do borrower's personal characteristics affect MSME loans quality among commercial banks within the County of Nairobi?
- ii. What is the effect of borrower's previous loan borrowing history on MSME loans quality in banks within the County of Nairobi?
- iii. How does borrower's business characteristics affect MSME loans quality in banks domiciled within the County of Nairobi?

1.5 Significance of the study

The findings of the foregoing study were intended to assist financial bodies in Nairobi County and other regions by providing financial institutions with information that will enlighten them on the importance of non-financial factors in customer loan appraisal. In addition, the financial institutions will benefit, as the research offered vital information on the impact of borrower's personal characteristics, previous borrowing history and business characteristics on MSME loans quality, which can be used to improve credit policies in banks domiciled in Nairobi County and the rest of the regions in Kenya.

Since commercial banks in Kenya play a major role in the national economy, loan portfolios with poor quality also have an impact on the economy. It was anticipated that the study findings will be essential to the Government of Kenya, County government of Nairobi and the Central Bank of Kenya (CBK) as they may help in the establishment of policies aimed at mitigating on risks posed by poor quality loan portfolios owned by commercial banks. With the expansion of the financial sector coupled with its dynamic nature, the government has to formulate prudential guidelines and policies that cure the myriad of challenges within this sector to stimulate faster growth with minimum risks.

The research findings were to be of great importance to the future academic students, scholars and researchers since it contributes to the literature available on this topic. Future researchers will really benefit from this research since they will be able to reference their studies on the findings of this study. The study had clearly pointed out areas requiring further studies by future researchers delving in this interesting research area. Similarly, the study had laid a basis for future studies on non-financial information and loan quality in financial institutions.

1.6 Scope of the study

This research bordered around three borrower related non-financial factors such as personal characteristics, borrowing history and business characteristics. Moreover, the study emphasized on MSME businesses situated in Nairobi County and banking with the 40 operational banks as highlighted by the 2017 yearly banking report. The research was carried out in August and September 2019 and covered the period from the year 2015 to 2021

1.7 Limitation of the study

Owners of MSME businesses in Nairobi County did not willingly give out permission to carry out the research. The researcher had to notify MSME vendors that the study was for academic purposes. Furthermore, the researcher was to get data collection permission from The University and NACOSTI. The study also assumed that some researchers may not be able to give accurate information on the subject due to discrimination and attitude on the research. The researcher assured all respondents of confidentiality of data shared unless they granted express permission to share.

1.8 Organization of the Study

The project had five sections; chapter one comprised the study background, problem statement, study objective, significance, scope, limitation and organization of the study. The second section presented the various theories in this area of study, literature by various scholars, a summary of identified gaps and finally a framework picturing the concept of the study. The third section showed the research methodology; this included the study design, population targeted by the researcher, size of the sample and sampling technique, various instruments to be used in gathering data, pilot testing and analysis of the above gathered data. The fourth section majored on data analysis, presentation and interpretation. Lastly, the fifth section covered the summary of findings, conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This section looked at various materials focusing on non-financial information and MSME loans quality among commercial banks in Nairobi City County. It started with a highlight of the various theories covering this area of study, review of various research by global, regional, and national scholars in this area and then the various gaps identified in these research materials. Lastly, the chapter summarised the study in the form of a conceptual framework.

2.2 Theoretical Review

A theory is a systematic explanation of the relationship among phenomena and it offer a generalized description to an occurrence. The research was founded on the following theories: Credit Default, Adverse selection and Asymmetric Information theories.

2.2.1 Credit Default Theory

Wilson Sly developed the credit default theory in 2007. The credit default theory intention is to estimate the anticipated losses by understanding reasons for credit default. Practically, a loss from a certain default consists of lengthy delays of a month or years in selling off collateral asset or selling assets to clear the debt. The definition of the default as wrongdoing with time lag is merely to offer an early recognition of the intended loss and time lag may be different from one nation to another because of cultural and legal considerations.

The prosperous credit default hypothesis should be in a position to anticipate the optional delinquency time lag that shows a great loss in any jurisdiction. The unsecured loans like credit cards, have a low rate of payment commitment hence default rates are significantly less than what is expected (Sly, 2007). Without a doubt, lenders of unsecured loans aim at getting a significant gain from charging a high rate of interest rate on the balance after the payment. The loss given default when the borrower is unable to even make the minimum payment obligation will depend on the debt collection process and other cultural, demographic and legal factors.

Loan default depends on individuals' ability to pay, which is in turn influenced by several borrower characteristics including previous borrowing history, business characteristics including type and size of business and borrower personal characteristics such as education level, age bracket, gender and marital status.

This theory supports the objective on the borrower's personal characteristics on MSME loans quality among commercial banks operating within Nairobi city County.

2.2.2 Theory of Asymmetric Information

George Akerlof, Michael Spence and Joseph Stiglitz are among the influential economics who contributed to the development of the theory of asymmetric information. These economists won the Nobel Prize in economics 2001 for their best involvement. Akerlof was the first one to contend about information asymmetry in 1970, he noted that car purchasers see different information about the cars from the sellers, this plays an essential role in selling low quality products in the market (Grossman, 2013). Nevertheless, Stiglitz contribution made the model to reach its mainstream commendation. By adopting the market screening concept, he wrote many papers

consisting of great works on the asymmetry in the banking market (Kwambai & Wandera, 2013).

It is important to note that asymmetric information theory helps describing the situation that all parties are considered in the projects that do have suitable information (Xanthos, 2014). Moreover, in the debt market, information asymmetry increases the moment the debtor has the essential information about the risk and the profit anticipated from the money. Grossman, (2013), the lenders do not have enough information about the borrower.

Gatuhu (2013) stated that perceived information asymmetry is likely to cause two major issues for banks, ethical risks (observing entrepreneurial conduct) and opposing selection (making mistakes in loaning resolutions). Moreover, Kwambai and Wandera (2013) assume that an individual who has enough information on certain products to be sold (in this sense the credit borrower) is in good position to negotiate contract terms. This has given rise to poor loan quality portfolios in most commercial banks.

In this study, information asymmetry theory was used to explain the importance of inclusion of borrowers' personal characteristics, borrowing history and business characteristics in credit risk analysis in commercial banks. Most bankers grapple with situations of information asymmetry in their day-to-day lending activities. The information needed to evaluate both the prospective borrowers' ability and willingness to repay loans is either difficult, inadequate or unavailable all together (Gatuhu, 2013). Over the years, lenders have been focusing on financial factors of the borrowers when conducting credit analysis and credit scoring.

However, the use of non-financial information like the borrowers personal characteristics

borrowing history and business characteristics has a significant impact on borrower's ability and willingness to pay.

This theory supports the objective on the borrower's personal characteristics on MSME loans quality among commercial banks operating within Nairobi city County. It also supports the theory on the borrower's previous loan borrowing history on MSME loan quality among commercial banks within Nairobi City County.

2.2.3 The Adverse Selection Theory

This theory was developed by Stiglitz and Weiss (1981). Mimra and Wambach (2014) note that adverse selection arises when borrowers have characteristics that are unobservable to the lender but affect the probability of being able to repay the loan. The theory assumes: - That banks cannot differentiate loan borrowers with various levels of risk (Gale, 2010).

Adverse selection theory describes the situation of a bank that cannot distinguish the safe borrowers from risky. In adverse selection, the lender lacks information on the riskiness of its borrowers (Hackmann, Kolstad & Kowalski, 2015). Potentially risky borrowers should be charged slightly higher interest rates as a premium for increased risk of default than less risky potential borrowers who are less likely to default. Currently, most banks do not have adequate information about their potential borrowers. Therefore, all of them are treated as risky and thus charged higher interest rates (Mimra & Wambach, 2014). To mitigate adverse selection problems, credit providers take their loan applicants through an elaborate screening procedure before granting a loan. However, this has not been able to reduce loan default among borrowers.

The adverse selection theory is relevant in this research since it highlights the use of non-financial information in credit analysis. People in different age groups have different abilities and willingness to pay back their loans plus interest. In addition, most of the times women will lack collateral to borrow loans as compared to men. Further, the occupation, previous borrowing history, business characteristics and the education background of the borrowers play a role in influencing the borrowers' ability and willingness to repay loans advanced by commercial banks.

This theory supports the objective on the borrower's personal characteristics on MSME loans quality among commercial banks operating within Nairobi city County. It also supports the theory on the borrower's business characteristics on MSME loan quality among commercial banks within Nairobi City County.

2.3 Empirical Literature Review

2.3.1. Borrower's personal characteristics and MSME loans quality

2.3.1.1 Gender Orientation and MSME loans quality

In a study on loan performance Jemal (2003) sought to analyse the determinants of MSME loan repayment. The research collected data through structured questionnaires and adopted a descriptive research design for the study. The results showed that women customers repaid their loans better than men did. Additionally, the study revealed that MFIs with more women clients carry less loan loss provisions and write-offs as women significantly reduced the MFI's perceived credit-risk.

In the United States, Bhatt and Tang (2002) delved into the determinants of microcredit repayment from programs by applying a descriptive research design. Their study

showed that women have low repayment rate because some women entrepreneurs in the study might have been engaged in high risk and low return activities.

In Madagascar, Zellar (2008) researched on the various factors which affect loan repayment among group customers. He adopted Tobit model utilizing dataset on groups from different loan schemes. The findings indicated that women paid their loans on time without delays.

Kumara and Trivedi (2016) conducted a study on demographic factors influencing SME credit in Mumbai, India. Data was collected from SME owners by dividing the region into various clusters. The findings indicated that amount of turnover proved to be dependent on loan approvals and gender of the owner proved to be independent of loan approvals. The findings also indicated that women paid their loans promptly as most of them are dependent on loans for purposes of investing their income to cater for family needs.

Kiliswa and Bayat, (2014) researched on the factors influencing repayment of loans by MSMEs within Kariobangi Division of Nairobi County. The researcher applied descriptive research in analysing the data collected from the borrowers. It was established that gender has a significant influence on loan repayment. Women were better in loan repayment as compared to men.

2.3.1.2 Age and MSME loans quality

The Microfinance Centre for Central Asia (2011) sought to determine the risk factors affecting timely repayments in Kyrgyzstan. A descriptive study was adopted on a sample of 2,603 active borrowers. The study findings indicated that the youngest and oldest clients were the most disciplined ones in the repayment and the ones most often

overdue were middle-aged. This study also indicated that the younger the age, the higher the tenure available to loan borrower and hence leading to those who were young in Kyrgyzstan paying their loan on a timely basis. The elderly repaid their loans on time as they had many investments from which they obtained the amount for loan repayment. The study further indicated that the middle aged were fond of loan defaults as they were mostly engaged in startup business that made it difficult for them to repay their loans on a timely basis.

In Bangladesh, Godquin (2004) examined the microfinance repayment performance with an aim of producing a comprehensive analysis of the performance of microfinance institutions (MFIs) in terms of repayment. The study used 1629 loan observations to analyze the determinants of the repayment performance of borrowers of the BRAC, the BRDB and the Grameen Bank. The result of the study indicated that the size of loan and the age of the borrower showed the negative impact on the repayment performance. The study further indicated that age was a significant in determining loan quality and performance in Bangladesh. The study revealed that the old and young people paid their loans on time in Bangladesh as compared to those who were middle aged.

In South-West Nigeria, Kasali, Ahmad and Ean (2012) conducted a study on determinants of microcredit access. The study also looked at the major factors that influence the accessibility to micro credit by the poor in Nigeria. Descriptive statistics and Logit Regression Model analysis were adopted. The result revealed that age was significant in determining the accessibility of the poor to microfinance loan. Further, the study indicated that the age of the borrower determined the amount of credit advanced. This was a way of management of the risks concerned with loan repayment. It indicated that those loans were being advanced to the young people frequently as they had a high tenure in the labour market.

In Kenya, Kosen (2013) carried out a research on the effect of demographic factors on loan quality and profitability and efficiency of banks. The researcher made use of descriptive research design and found out that age does not significantly affect loan repayment

In addition, Ochung (2013) researched on the factors affecting micro-loan repayment by customers in Barclays Bank of Kenya. By employing a case study design, the research revealed that there is a statistically significant effect of borrower's age and loan repayment among customers.

2.3.1.3 Marital Status and MSME loans quality

Berhanu (2005) conducted a study in Ethiopia to assess factors that affect loan repayment among the small-scale farmers. To meet his goal, the researcher adopted Tobit model. The researcher found out that all the variables had a significant effect on loan repayment. Among these factors, marital status had a strong correlation with loan repayment.

Chachalika (2013) carried a study in Tanzania with an aim of comparing the loan repayment among the saving and credit institutions in Babati district. The study found out that the most obvious thing between savings and credit cooperation was the borrower's marital status, which significantly affected loan repayment. In this case, single borrowers had a higher chance of paying the loan than their married counterpart. The study indicated that poor loan repayment is based on the family issues.

In Ghana, Alexander (2012) delved into the effect of microfinance on women's livelihood in Jaman in the South District. The researcher adopted case study design. The findings show that there is a significant relationship between marital status and

loan repayment. Another study was carried out by Angaine and Waari (2014) in Kenya to determine the effect of marital status on loan repayment a case of Kenya microfinance institutions. The study used descriptive research design and the findings showed that marital status has an impact on loan repayment in microfinance institutions. Furthermore, Mukono (2015) carried a research to determine factors that affect loan repayment among small and medium scale enterprises in in Nairobi County. The researcher used a sample size of 160 participants and used a descriptive study. The findings showed a correlation between marital status and loan repayment.

2.3.1.4 Educational Background and MSME Loans Quality

Oladebo (2008) carried out a study in Ogbomoso in Oyo State in Nigeria, assessed socio-economic factors that affect loan repayment among the peasant farmers. The researcher adopted a descriptive research design. It was established that the amount obtained, and education levels are the main factors that affected the loan repayment. The level of education of the farmers determined the amount of loan that was advanced to them. Additionally, the results showed that educated farmers had easier accessibility to loans and their loan repayment patterns were good as they easily comprehended terms and conditions of loans.

In Madagascar, Zeller (2008) evaluated factors that affect the loan repayment and performance of credit institutions. The researcher adopted descriptive research design and the findings showed that individuals with a higher education level were most likely to pay the loan as compared to those who had a lower level of education. In south western Nigeria, Olagunju (2007) found that education level has a significant effect on the loan repayment. The findings further indicated that most borrowers were those who had secondary education, followed by those who had primary education, post-secondary diploma qualification and the degree holder.

Kosen (2013) carried out a research on the significance of education borrowers on loan repayment. The research used descriptive study with findings indicating that the level of education exhibited by a borrower had a significant impact on the loan repayment. Moreover, Angaine and Waari (2014) carried out a study on factors that affects loan repayment on the microfinance institution in Kenya. The research embraced descriptive study and the results indicated education level having an impact on loan repayment in microfinance institutions.

2.3.2 Customer's borrowing history and MSME loans quality

Ochung (2013) states that Micro-finance institutions usually employ use agile incentives and social intermediation in group lending models. MFIs employ agile and dynamic incentives when they increase the customers' loan limit based on the borrower's previous loan repayment. The money borrowed to the specific borrower as credit and new loan allocation is attached to the past repayment behaviour. The fact that a business was able to repay previous loans gives banks comfort that potential borrowers have both ability and willingness to honour financial commitments when it comes to loan repayment. Some businesses or individuals might have the ability to pay and the necessary requirements including capital, collateral, guarantee etc. however willingness to pay is paramount in all this. Previous repayment history or patterns will depict a lot about a customer's character and therefore willingness to pay.

2.3.3 Customer's business characteristics and MSME loans quality

Kanyari and Namusonge (2013) conducted a research with the intention of finding out determinants of loan default among micro-finance institutions in Kenya. The targeted population was the informal and formal MFIs in Imenti North District. The required data was collected from the population using a random sampling method. The research identified 400 respondents both beneficiaries and officials of the institutions. He used

both unstructured and structured questionnaires in collecting data from the respondents. In his findings, it was established that manufacturing sector recorded 6.7 percent loan defaults, service industry at 6.4 percent and agricultural sector at 5.8 percent. In addition, businesses that had been in existence for a longer period recorded lower defaults than the ones that had existed for a shorter period. The research therefore concluded that loan defaults are affected by business characteristics. These characteristics included age of the business, number of employees, and type of business. However, this research only focused on one region and did not indicate whether the same applies for customers borrowing from commercial banks in Nairobi City County.

Kohansal and Mansoori (2009), suggest that the type of business operated by the customer will influence the loan quality. He argues that micro and small businesses are susceptible to default due to large sums of money they collect from the bank disbursements as loans. Loans should be given to MSMEs based on their sales revenue and their working capital requirements. The sales or revenue these businesses post at a particular point in time should guide on the amount given to them as loans. Some businesses or individuals take loan facilities from banks, yet they know in actual fact that their turnover cannot cover their repayment. Since most MSMEs take loans without reference to sales levels and the existing working capital needs, they will end up defaulting on these facilities

2.3.4 MSME loan quality

According to Ochung (2013), the recent studies in Kenyan emerging markets, real estate and construction MSMEs are the most attractive investment sectors in Kenya. This is mainly because of the high profits they post compared to other sectors of the economy. However, Central Bank of Kenya supervision reports show that these sectors have been struggling in servicing the facilities lent to them. Therefore, it is in this

connection that the researcher wanted to know the relationship between borrower's non-financial information and quality of MSME loans advanced by banks within Nairobi City County

2.4 Summary of the Literature

The research will adopt the three theories to delve into the effect of non-financial information on repayment of MSME facilities in commercial banks in Nairobi City County. The credit default theory explains the loss the moment the borrower is not able to make the minimum repayment commitment depending on the debt collection procedure and social factors. Loan default depends on individuals' ability to pay, which is in turn influenced by demographic factors such as education level, age bracket, gender and marital status. Information asymmetry theory is used to explain the importance of inclusion of borrowers' demographic characteristics in credit risk analysis in commercial banks. Over the years, lenders have been focusing on financial factors of the borrowers when conducting credit analysis and credit scoring, thus neglecting non-financial factors. The adverse selection theory is adopted in the current survey to highlight the significance of non-financial information in credit analysis. People in different age groups have different abilities and willingness to pay back their loans plus interest.

The literature review above show mixed findings on the effect of demographic factors on repayment of MSME facilities. While some studies show that gender orientation, age, borrower's occupation and education background have a significant influence on loan repayment, other show insignificant influence. In addition, some studies show that women are better in paying loans, other show that men are better in repayment of loans. Furthermore, some studies show that marital status has a significant influence on loan repayment while others show no significant influence on loan repayment.

2.5 Research Gaps

Several researchers have conducted surveys on repayment of MSME facilities both locally and globally. Globally, Bhatt and Tang (2002) conducted a research on factors that affect loan repayment. In a microcredit case of United States. Kohansal and Mansoori (2009) carried out on determinant of loan repayment among farmers in Khorasan-Razavi Province of Iran. Due to alterations in macroeconomic aspects, economic elements and legal frameworks between countries, it is not prudent to generalize the outcome of the research in one country to another.

Locally, Ochung (2013) conducted a study bordering on factors influencing Loan quality and effective loan repayment among Barclays Bank customers. Kosen (2013) researched on the impact of demographic characteristics on profitability and efficiency of Kenyan banks. Most of these researchers constrained themselves on certain institutions. These findings cannot therefore be used as a summary of other banks in the country. Furthermore, Mukono (2015) conducted a research on factors influencing effective loan payment in SMEs in Nairobi County while Munene and Guyo (2016) conducted a survey on factors that affect loan payment default on the performance of SMEs in Imenti North District. Besides being limited to specific regions these studies mainly focused on business related factors and lender related factors. Consequently, little empirical evidence on the effect of non-financial information on repayment of MSME loans for MSMEs domiciled in Nairobi County and banking within Nairobi county banks. The above research gaps are summarized as follows.

Table 2.1: Conceptual Framework

No.	Research topic	Researcher	Gap	Type of gap
1	Major determinants of effective loan repayment among group customers	Bhatt and Tang (2002)	- Focus limited to micro-finance institutions and study done in USA. The determinants considered were also general	Contextual
2	Factors influencing MSME loan repayment	Jamal (2003)	- Focus limited to micro-finance institutions and the factors considered were general -	Contextual
3	Microfinance repayment and performance of MFIs in terms of loan quality and repayment	Godquin (2004)	- Study done in Bangladesh - Focused on effect of repayment on MFI performance	Contextual conceptual
4	Loan repayment and performance of smallholder farmers in North Gondar	Berhanu (2005)	- Focused on Smallholder farmers - Research limited to Gondar – Ethiopia - Factors considered are general	Contextual conceptual
5	Major determinants of effective loan repayment among group customers	Zellar (2008)	- Study done in Madagasca - Focused on group lending	Contextual conceptual

			- Most determinants considered were financial	
6	Socio-economic factors influencing loan repayment among small scale farmers	Oladeebo (2008)	- Research restricted to Oyo State of Nigeria - Population considered was small scale farmers	contextual
7	Factors affecting loan repayment performance of farmers in Khorasan-Razavi Province of Iran	Kohansal and Mansoori (2009)	- Research restricted to Khorasan-Razavi Province of Iran - Study limited to farmers	contextual
8	Risk factors affecting timely repayments in Kyrgyzstan	The Microfinance Centre for Central Asia (2011)	- Focused on risk factors - Study conducted in Kyrgyzstan -	Contextual
9	Impact of microfinance loan repayment on the livelihoods of women in rural communities in Jaman South District	Alexander (2012)	- Research limited by use of case study - Study conducted in Ghana - Focused on women in rural communities	contextual
10	Determinants of microcredit access	Kasali, Ahmad and Ean (2012)	- Study done in Nigeria - Focused on determinants of access to loans	Contextual conceptual
11	The influence of demographic features on the performance of	Kosen (2013)	- Only focused on demographic	Contextual

	customer advances among Kenyan banks.		characteristics of borrowers	
12	The determinants of loan repayment among Barclays Bank of Kenya customers.	Ochung (2013)	<ul style="list-style-type: none"> - Study limited to Barclays bank of Kenya - Focused on group lending 	Contextual Contextual
13	Loan repayments between savings and credit cooperatives societies and microfinance institutions borrowers in Babati district	Chachalika (2013)	<ul style="list-style-type: none"> - Restricted to Bahati District- Tanzania - Focused on SACCOs and MFIs 	Contextual
14	Determinants of loan default among micro-finance institutions in Kenya	Kanyari and Namusonge (2013)	<ul style="list-style-type: none"> - Study restricted to Imenti North District - Research focused on MFIs 	contextual
15	Factors influencing loan Repayment in SMEs in Kariobangi Division in Nairobi	Kiliswa and Bayat, (2014)	<ul style="list-style-type: none"> - Research only focused on Karobangi division in Nairobi Count 	Contextual
16	Marital status and repayment of loans among SMEs in Kenya.	Angaine and Waari (2014)	<ul style="list-style-type: none"> - Considered marital status alone as a variable - Focused on MFIs 	Conceptual contextual
17	Factors that affect customer loan repayment by SMEs in Nairobi County.	Mukono (2015)	<ul style="list-style-type: none"> - Considered general factors including financial 	Contextual conceptual
18	Demographic factors influencing SME credit in Mumbai, India	Kumara and Trivedi (2016)	<ul style="list-style-type: none"> - Study done in India - 	Conceptual

Source: Researcher, 2021

2.6 Conceptual Framework

This refers to a logically developed network showing the relation between dependent and the independent variables. The study intended to assess the impact of non-financial information on MSME loans quality among commercial banks within the County of Nairobi. Independent variables included borrower's personal characteristics, borrower's borrowing history and borrower's business characteristics. The dependent variable was Quality of MSMEs' facilities among commercial banks in Nairobi City County.

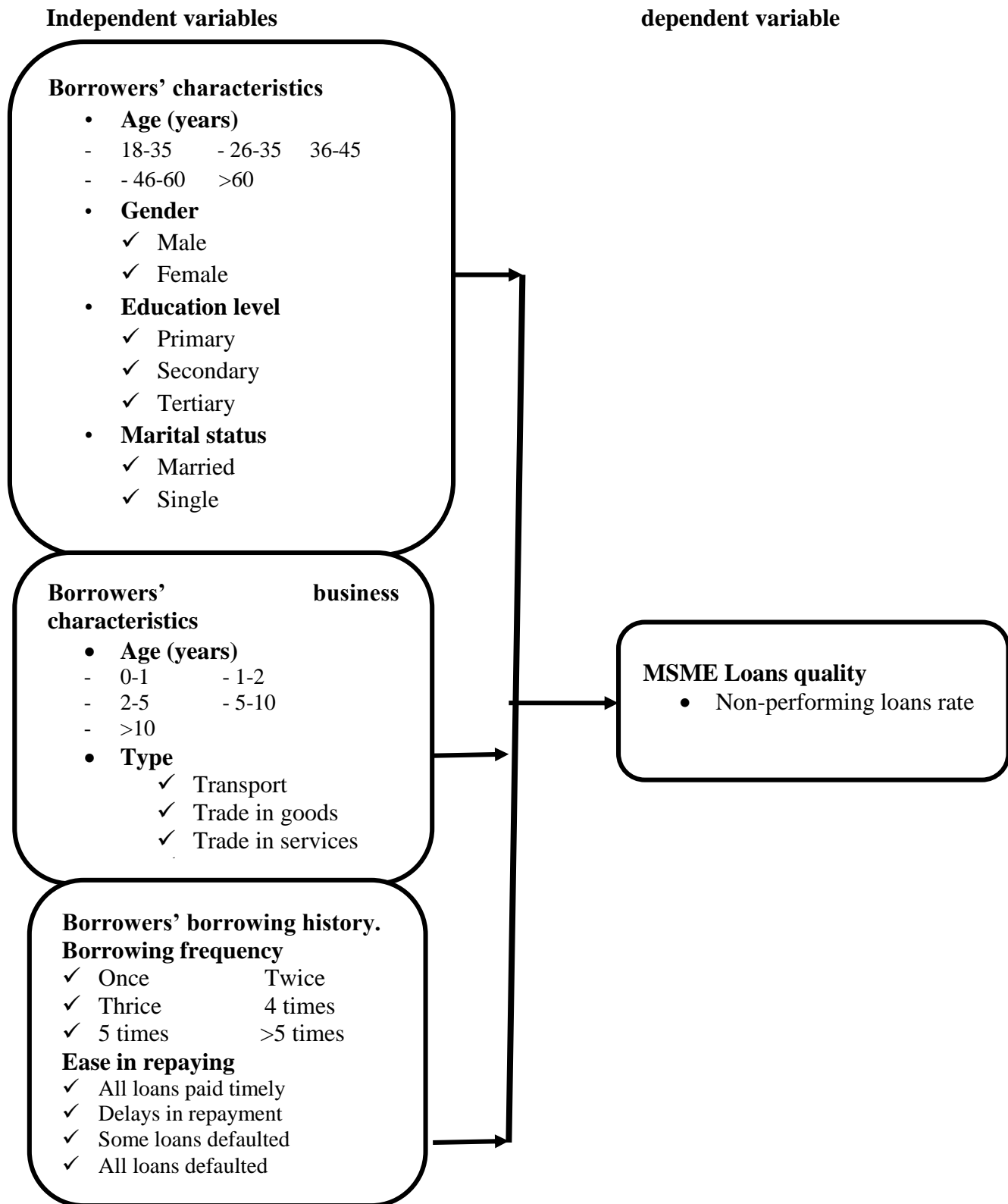


Figure 2.2: Conceptual Framework

Source: Researcher, 2021

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This section highlights the methodology adopted by the researcher. It includes the design of the research, the population that is targeted, frame of sampling, sample size, method of sampling, specific data collection instruments employed, an aspect of pilot testing, data collection process and lastly analysis.

3.2 Research Design

This refers to the method employed by researchers in conducting studies. The study employed descriptive research design. This method includes collecting data that describes the targeted respondents in the population (Greener, 2008). The researcher will adopt descriptive research design

3.3 Target Population

Target population is defined as the specific population that have the desired characteristics. Glicken (2008), is the set of people, events and household that is under investigation. The study targeted 100 MSME business owners banking with commercial banks in Nairobi City County. Central Bank of Kenya (2017), there are 40 currently operational commercial banks in Kenya and all of them have presence in Nairobi County. The reason for using 100 MSME business owners was because they were a representative sample of the whole population of MSME customers in the county and the number was comfortably interviewed without a strain on resources.

3.4 Sampling Technique and Size of sample.

A sample is part of the whole population that is chosen to represent the total population (Bryman and Cramer, 2012). Simple random sampling technique was employed to come up with the 100 MSME businesses banking with the 40 commercial banks within Nairobi County. The respondents also had an equal chance of being picked to mitigate on bias. The study targeted only 100 MSME businesses banking with the 40 commercial banks in Nairobi City County.

3.5 Data Collection Instrument

The foregoing research used both primary and secondary types of data. Primary data is collected directly from the participants; it can be collected using questionnaires, face to face or telephone interviews, observation guide and group discussions (Kultar, 2007). Similarly, secondary data is data collected from websites, books, journal articles etc. In the foregoing research, the annual financial reports of the individual commercial banks in the County in addition to the available banking supervision reports which are periodically published by the CBK were used to provide secondary data.

The researcher used questionnaires to gather data from the targeted population. The researcher used questionnaires because it is economical and saves time. The structured questions were employed since they save time and energy, and it is easy to carry out analysis. The researcher administered unstructured questions since they motivate the respondent in the sample to share detailed responses without being constrained by closed ended questions. The questionnaire made use of the nominal, ordinal and Likert scale.

3.6 Pilot Test

This refers to a mock study which is normally a trial of the research. It helps in qualifying the research tools. Pilot test is important in determining different weakness that may happen in the study, research inadequacies in addition to issues that might come up in the research procedure (Kothari, 2004). The researcher used pilot test to carry out simply randomly selected sample of 20 MSME business owners from Nairobi County. The pilot test consisted of around 10 percent of the sample size of 100 MSME business owners.

3.6.1 Validity of Research Instruments

This refers to the extent that research results are obtained from data analysis embodying the phenomenon under research (Bhattacharjee, 2012). Validity is divided into face and content validity. When it comes to face validity, there is a probability that the question posed to the respondent will either be misjudged or even misconstrued. Cooper and Schindler (2006) were of the view that in order to mitigate on the chances of having face validity, pre-testing of the research instrument is normally recommended. In the same breath, content validity refers to research measure embodying all the relevant aspects of a certain social paradigm in the population. In the foregoing research, content validity was beefed up by employing and encompassing professional views on the topic in question.

3.6.2 Reliability of the Research Instrument

According Bhattacharjee (2012), this refers to ability of the research instrument to consistently produce same results when administered. In the foregoing research, instrument reliability, questionnaires were tested by getting the internal consistency of the actual responses from the respondents in the sample population.

The Cronbach's Alpha method was also administered in order to test the internal consistency of the study variables. In this case, the value of alpha is expected to be between 0 and 1, with the reliability of the technique employed in the study growing as the value of alpha grows. Statistically, the most normally adopted coefficient of reliability is normally 0.6 to 0.7, with any value greater than or equal to 0.8 depicting sufficient and adequate reliability (Kothari, 2004). In summary, foregoing study considered an alpha value of 0.7 and above. The data from the pilot check was only for the piloting and did not form part of the actual sample.

3.7 Data Collection Procedures

Before commencing the study, the researcher obtained permission from both the University and NACOSTI. Moreover, it was necessary for researcher to attach transmittal letter from Kenyatta University consenting him to collect data from the participants. The surveys were then physically distributed to the respondents in the sample and close follow-ups made to the individual respondents. The research intended to administer at least 20 questionnaires per day for about one week in order to cover major areas in the County.

3.8 Data Analysis and Presentation

Before embarking on the above analysis work, the carefully completed questionnaires from respondents were reviewed and edited to ensure they were completed as envisioned in the study and the responses were consistent as per the reliability threshold. The descriptive kind of statistics was employed to review the data on gender, sex, age etc. The descriptive statistics included in the study comprised the use of frequencies and percentages, standard deviation and mean. The results were presented

via charts, graphical and tabular views. In terms of measuring the relationships between variables, the study employed correlation and regression analysis.

The multiple regression model for this study was as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mathcal{E}$$

Whereby: -

Y = Quality of MSME facilities

β_0 = Constant

$\beta_1 - \beta_3$ = Coefficients of determination

X_1 = Borrower's personal characteristics

X_2 = Borrower's business characteristics

X_3 = Borrower's previous borrowing history

ε = Error term

3.9 Ethical Considerations

To avoid apathy by study participants in filling the questionnaires, the researcher sought permission from NACOSTI. Various challenges were expected when collecting data, whereby some study participants were unable to completely fill the questionnaires, some had bad attitude on the study topic etc. Before interviewing the respondents, their consent was sought, and an assurance given that the information will be used for academic reasons. Indicating of names on the questionnaire was disallowed when administering the questionnaires.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSION

4.1 Introduction

The foregoing chapter presented the study findings, analysis of collected data and tabular or graphical presentations of the major findings. In order to show the relationships between variables, the collected data was presented in form of frequencies, percentages and tables.

4.2 Descriptive statistics

This section of the analysis presents the response rate, data reliability and summary descriptive statistics. The results of the analysis were as follows.

4.2.1 Response rate

A total of 100 questionnaires were administered to the sampled MSMEs within the county and all the questionnaires were returned fully filled by the respondents representing a response rate of 100 percent. This was deemed adequate for the research. Table 4.1 shows the results obtained.

Table 4.1 Response rate

Description	Frequency	percentage
Returned questionnaires	100	100%
Unreturned questionnaires	0	0%
Total	100	100%

Source: Researcher, 2021

4.2.2 Data reliability

In order to show the reliability of data instruments used, the Cronbach alpha co-efficient was applied as shown in table 4.2.

Table 4.2 Data reliability test (Using Cronbach's Alpha)

Variable	No. of items	Cronbach's Alpha
Customer Gender	100	.771
Customer Education Level	100	.758
Customer Marital Status	100	.833
Customer Age	100	.714
Customer Borrowing History	100	.784
Customer loan repayment history	100	.768
Customer Business Age	100	.753
Customer business type	100	.765

Source: Researcher, 2021

From the Cronbach Alpha co-efficient obtained, the overall alpha value was .768. All the variables posted values above .70, a clear indication that the data instrument used was reliable since a Cronbach alpha value of above .70 shows how reliable the instrument is while values below .70 indicates that the instrument is not reliable.

4.3 Summary descriptive statistics

4.3.1 Borrower's characteristics

Respondents indicated their responses to the effect of borrower's gender on loan repayment using a scale of 1-2 where 1- male borrowers and 2- female borrowers. On

the effect of borrower's education level on loan repayment, a scale of 1-3 was used with 1- Primary education level, 2- Secondary education level and 3- tertiary education level. The effect of borrower's marital status on loan repayment was presented on a scale of 1-2 with 1-Single borrowers and 2- married borrowers. Finally, the effect of borrower's age on loan repayment was presented on a scale of 1-5 with 1- age between 18-25, 2- age between 26-35, 3- age between 36-45, 4- age between 46-60 and 5- above 60 years.

Table 4.3 Statistics of borrower's characteristics

	Borrower's gender	Borrower's education level	Borrower's marital status	Borrower's age
Frequency	100	100	100	100
Mean	1.38	2.10	1.43	2.53
Std. Deviation	.488	.859	.498	1.322
Minimum	1	1	1	1
Maximum	2	3	2	5

Source: Researcher, 2021

Out of the survey data analysis on the effect of borrower's characteristics on MSME loan repayment, borrower's gender had a mean of 1.38 indicating that most of the borrowers interviewed were men. In the same breath, borrower's education level had a mean of 2.1 indicating that most of the borrowers interviewed achieved secondary school level of education. Borrower's marital status had a mean of 1.43 indicating that most of the respondents interviewed were single and finally borrower's age posted a mean of 2.53 meaning most of the borrowers were aged between 36-45 years.

4.3.1.1 Relationship between borrower's Gender and current loan repayment

Table 4.4 Statistics of borrower's gender vis-à-vis current loan repayment

Borrower gender	Borrower current loan repayment					Total	Total defaults	% defaults
	Paying on time	1-30 days delay	31-60 days delay	61-90 days delay	91-180 days delay			
Male	25	17	10	8	2	62	10	16%
Female	24	6	7	1	0	38	1	3%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 16 percent (10 out of 62) male MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. On the other hand, 3 percent (1 out of 38) female MSME borrowers had instances of loan defaults. Therefore, the gender of MSME loan borrowers has an impact on the loan repayment. In this case, female customers have less defaults compared to their male counterparts.

4.3.1.2 Relationship between borrower's education level and current loan repayment

Table 4.5 Statistics of borrower's education level vis-à-vis current loan repayment

Borrower education level	Borrower current loan repayment					Total	Total defaults	% defaults
	Paying on time	1-30 days delay	31-60 days delay	61-90 days delay	91-180 days delay			
Primary	2	11	11	7	1	32	8	25%
Secondary	13	5	5	2	1	26	3	12%
Tertiary	34	7	1	0	0	42	0	0%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 25 percent (8 out of 32) primary education level MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. Similarly, 12 percent (3 out of 26) secondary education level MSME

borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks while 0 percent (0 out of 42) tertiary education level MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. Therefore, the education level of MSME loan borrowers has an impact on the loan repayment. In this case, more educated borrowers repaid their loans without much defaults compared to the less educated.

4.3.1.3 Relationship between borrower’s marital status and current loan repayment

Table 4.6 Statistics of borrower’s marital status vis-à-vis current loan repayment

BORROWER MARITAL STATUS	BORROWER CURRENT LOAN REPAYMENT					Total	Total defaults	% Defaults
	PAYING ON TIME	1-30 DAYS DELAY	31-60 DAYS DELAY	61-90 DAYS DELAY	91-180 DAYS DELAY			
MARRIED	39	10	7	1	0	57	1	2%
SINGLE	10	13	10	8	2	43	10	23%
total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 2 percent (1 out of 57) married MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. On the other hand, 23 percent (10 out of 43) single MSME borrowers had instances of loan defaults. Therefore, the marital status of MSME loan borrowers has an impact on the loan repayment. In this case, married MSME loan borrowers repaid their loans without much defaults compared to the single borrowers.

4.3.1.4 Relationship between borrower's age and current loan repayment

Table 4.7 Statistics of borrower's age vis-à-vis current loan repayment

BORROWER AGE	BORROWER CURRENT LOAN REPAYMENT					Total	Total defaults	% Defaults
	PAYING ON TIME	1-30 DAYS DELAY	31-60 DAYS DELAY	61-90 DAYS DELAY	91-180 DAYS DELAY			
18-25	6	9	10	7	2	34	9	26%
26-35	7	4	3	2	0	16	2	13%
36-45	11	4	1	0	0	16	0	0%
46-60	23	5	3	0	0	31	0	0%
GREATER THAN 60	2	1	0	0	0	3	0	0%
total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 26 percent (9 out of 34) MSME borrowers aged between 18-25 had instances of loan defaults from all the loans they had borrowed from commercial banks, 13 percent (2 out of 16) MSME borrowers aged between 26-35 had instances of loan defaults from all the loans they had borrowed from commercial banks, 0 percent out of 16 MSME borrowers aged between 36-45 had instances of loan defaults from all the loans they had borrowed from commercial banks, 0 percent out of 31 MSME borrowers aged between 46-60 had instances of loan defaults from all the loans they had borrowed from commercial banks. Finally, 0 percent of the MSME borrowers aged above 60 years had instances of loan defaults from all the loans they had borrowed from commercial banks. Therefore, the age of MSME loan borrowers has an impact on the loan repayment. In this case, older borrowers repaid their loans without much defaults compared to the younger ones.

4.3.2 Borrower's business characteristics

Respondents indicated their responses to the effect of borrower's business type on loan repayment using a scale of 1-8 where 1- Wholesale/retail trade, 2 Transport services, 3- Ict/mobile/comm/services, 4- Money transfer services, 5- Extraction business, 6- Construction industry, 7- Education and training and 8- Others. On the other hand, the

effect of borrower's business age on loan repayment was presented on a scale of 1-6 with 1- for 0-1 years, 2- for 1-2 years, 3- for 2-5 years, 4- for 5-10 years and 5- for greater than 10 years

Table 4.8 Statistics of borrower's business characteristics

	Borrower business type	Borrower's business age
Frequency	100	100
Mean	3.13	3.13
Std. Deviation	2.043	1.368
Minimum	1	1
Maximum	8	6

Source: Researcher, 2021

Out of the survey data analysis on the effect of borrower's business characteristics on MSME loan repayment, the borrower's business type had a mean of 3.13 indicating that most of the borrowers interviewed were from the Wholesale/retail trade, Transport services and Ict/mobile/comm/services sectors. In the same breath, borrower's business age had a mean of 3.13 indicating that most of the borrowers interviewed had businesses aged 2-5 years.

4.3.2.1 Relationship between Borrower's business type and current loan repayment

Table 4.9 Statistics of borrower's business type vis-à-vis current loan repayment

BORROWER BUSINESS TYPE	BORROWER CURRENT LOAN REPAYMENT					Total	Total defaults	% Defaults
	PAYING ON TIME	1-30 DAYS DELAY	31-60 DAYS DELAY	61-90 DAYS DELAY	91-180 DAYS DELAY			
WHOLESALE/RETAIL TRADE	21	1	5	2	1	30	3	10%
TRANSPORT SERVICES	5	4	2	1	0	12	1	8%
ICT/MOBILE/COMM/SERVICES	9	8	3	2	0	22	2	9%
MONEY TRANSFER SERVICES	7	5	3	3	1	19	4	21%
EXTRACTION BUSINESS	0	0	1	0	0	1	0	0%
CONSTRUCTION INDUSTRY	1	1	0	0	0	2	0	0%
EDUCATION AND TRAINING	6	3	2	1	0	12	1	8%
OTHERS	0	1	1	0	0	2	0	0%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 10 percent (3 out of 30) MSME borrowers' businesses which were in the wholesale and retail trade sector defaulted the current running loans, 8 percent (1 out of 12) which were in the Transport services sector defaulted the current running loans, 9 percent (2 out of 22) which were in the ICT/mobile/comm/services sector defaulted the current running loans, 21 percent (4 out of 19) which were in the Money transfer services sector defaulted the current running loans

0 percent out of 1 which were in the in the extraction industry defaulted the current running loans, 0 percent out of 2 which were in the Construction industry defaulted the current running loans, 8 percent (1 out of 12) which were in the Education and training sector defaulted the current running loans while 0 percent out of 2 which were in other sectors defaulted the current running loans. Therefore, the type of MSME loan borrower's business has an impact on the loan repayment. In this case,

ICT/mobile/comm/services Money transfer services and Wholesale/retail trade had higher instances of loan default compared to the rest.

4.3.2.2 Relationship between Borrower’s business age and current loan repayment

Table 4.10 Statistics of borrower’s business age vis-à-vis current loan repayment

BORROWER BUSINESS AGE	BORROWER CURRENT LOAN REPAYMENT					Total	Total defaults	% Defaults
	PAYING ON TIME	1-30 DAYS DELAY	31-60 DAYS DELAY	61-90 DAYS DELAY	91-180 DAYS DELAY			
0-1 YEARS	0	7	4	6	1	18	7	39%
1-2 YEARS	2	5	6	3	1	17	4	24%
2-5 YEARS	5	4	5	0	0	14	0	0%
5-10 YEARS	29	7	1	0	0	37	0	0%
GREATER THAN 10 YEARS	13	0	1	0	0	14	0	0%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 39 percent (7 out of 18) MSME borrowers’ businesses which had had existed between 0-1 years defaulted the current running loans, 24 percent (4 out of 17) businesses which had existed between 1-2 years defaulted the current running loans, 0 percent of 14 which had existed between 2-5 years defaulted the current running loans, 0 percent out of 37 which had existed between 5-10 years defaulted the current running loans while 0 percent out of 14 which had existed above 10 years defaulted the current running loans. Therefore, the age of MSME loan borrower’s business has an impact on the loan repayment. In this case, younger businesses had higher instances of loan default compared to the older ones.

4.3.3 Borrower’s borrowing history

Respondents indicated their responses to the effect of borrower’s borrowing history in terms of borrowing frequency on loan repayment using a scale of 1-6 where 1- previously borrowed once, 2 - previously borrowed twice, 3- previously borrowed thrice, 4- previously borrowed 4 times, 5- previously borrowed 5 times and 6-

previously borrowed more than 5 times. On the other hand, the ease of previous loans repayment was presented on a scale of 1-4 with 1- paid all loans without delay, 2- paid some with delay, 3- paid all with delay, 4- not paid at all.

Table 4.11 Statistics of borrower’s borrowing history

	Borrower’s borrowing history	Borrower’s ease of previous loan repayment
Frequency	100	100
Mean	3.31	1.62
Std. Deviation	1.656	.678
Minimum	1	1
Maximum	6	4

Source: Researcher, 2021

Out of the survey data analysis on the effect of borrower’s borrowing history in terms of frequency on MSME loan repayment; the borrower’s borrowing frequency had a mean of 3.31 indicating that most of the borrowers interviewed had borrowed around three times. In the same breath, borrower’s ease of previous loans repayments had a mean of 1.62 meaning the respondents had paid an average of one previous loan with delays.

4.3.3.1 Relationship between Borrower’s borrowing history (frequency) and current loan repayment

Table 4.12 Statistics of borrower’s borrowing history vis-à-vis current loan repayment

Borrower borrowing history	Borrower current loan repayment					Total	Total defaults	% defaults
	Paying on time	1-30 days delay	31-60 days delay	61-90 days delay	91-180 days delay			
Once	4	3	4	6	1	18	7	39%
Twice	2	8	7	2	1	20	3	15%
Thrice	5	4	4	1	0	14	1	7%
4 times	14	5	2	0	0	21	0	0%
5 times	13	2	0	0	0	15	0	0%
More than 5 times	11	1	0	0	0	12	0	0%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, 39 percent (7 out of the 18) MSME borrowers who had previously borrowed once defaulted in repaying the current running loans, 15 percent (3 out of 20) MSME borrowers who had previously borrowed twice defaulted in repaying the current running loans, 7 percent (1 out of 14) MSME borrowers who had previously borrowed thrice defaulted in repaying the current running loans, 0 percent out of 21 MSME borrowers who had previously borrowed four times defaulted in repaying the current running loans, 0 percent out of 15 MSME borrowers who had previously borrowed five times defaulted in repaying the current running loans and lastly 0 percent out of 12 MSME borrowers who had previously borrowed more than five times defaulted in repaying their current running loans. Therefore, borrowers who have a track record of historical borrowings will most probably repay their new loans without defaulting.

4.3.3.2 Relationship between Borrower’s borrowing history with ease of loan repayment and current loan repayment

Table 4.13 Statistics of borrower’s ease of previous loan repayments vis-à-vis current loan repayment

Borrower ease of loan repayment	Borrower current loan repayment					Total	Total defaults	% defaults
	Paying on time	1-30 days delay	31-60 days delay	61-90 days delay	91-180 days delay			
Paid all without delay	48	1	0	0	0	49	0	0%
Paid some with delay	0	22	16	2	0	40	2	5%
Paid all with delay	1	0	1	7	2	11	9	82%
Total	49	23	17	9	2	100	11	11%

Source: Researcher, 2021

From the above statistics, none of the 49 MSME borrowers who had previously paid all their historical loans without delays defaulted in repaying the current running loans, 5 percent (2 out of 40) MSME borrowers who had previously paid all their historical loans with some delays defaulted in repaying the current running loans and lastly 82 percent (9 out of 11) MSME borrowers who had previously paid all their historical loans with delays defaulted in repaying the current running loans. Therefore, borrowers who had repaid their historical loans without delays will most probably repay their new loans without defaulting.

4.4 Summary inferential statistics

The study also carried out inferential statistics on the data collected with focus on correlation and regression analysis.

4.4.1 Correlation analysis

The study undertook a Pearson correlation analysis to establish the nature and strength of relationship between the independent variables and the dependent variable. Table 4.4 presents the results obtained.

From the analysis, there is a negative but strong relationship between borrower's education level and loan repayment, positive but strong relationship between borrower's marital status and loan repayment, negative but strong relationship between borrower's age and loan repayment, negative but weak relationship between gender and loan repayment, positive but weak relationship between borrower's business type and loan repayment, negative but strong relationship between borrower's business age and loan repayment, negative but strong relationship between borrower's borrowing history and loan repayment and positive but strong relationship between borrower's ease of repayment of historical loans and loan repayment.

Table 4.14 Pearson's Correlation matrix

		Borrower gender	Borrower education level	Borrower marital status	Borrower age	Borrower business type	Borrower business age	Borrower borrowing history	Borrower ease of loan repayment
Borrower gender	Pearson correlation	1							
	Sig. (2-tailed)								
	N	100							
Borrower education level	Pearson correlation	.198*	1						
	Sig. (2-tailed)	0.049							
	N	100	100						
Borrower marital status	Pearson correlation	0.11	-.33**	1					
	Sig. (2-tailed)	0.273	0.001						
	N	100	100	100					
Borrower age	Pearson correlation	-0.0648	.611**	-.50**	1				
	Sig. (2-tailed)	0.521	0	0					
	N	100	100	100	100				
Borrower business type	Pearson correlation	0.1526	0.027	0	0.0153	1			
	Sig. (2-tailed)	0.13	0.789	0.954	0.879				
	N	100	100	100	100	100			
Borrower business age	Pearson correlation	0.16	.660**	-.48**	.711**	-0.017	1		
	Sig. (2-tailed)	0.112	0	0	0	0.869			
	N	100	100	100	100	100	100		
Borrower borrowing history	Pearson correlation	0.04	.582**	-.42**	.709**	-0.09	.842**	1	
	Sig. (2-tailed)	0.691	0	0	0	0.375	0		
	N	100	100	100	100	100	100	100	
Borrower ease of loan repayment	Pearson correlation	-.261**	-.610**	.459**	-.483**	.218*	-.722**	-.623**	
	Sig. (2-tailed)	0.009	0	0	0	0.029	0	0	
	N	100	100	100	100	100	100	100	1
Borrower current loan repayment	Pearson correlation	-.226*	-.623**	.470**	-.527**	0.095	-.695**	-.614**	.88
	Sig. (2-tailed)	0.024	0	0	0	0.349	0	0	
	N	100	100	100	100	100	100	100	1

Source: Researcher, 2021

*. Correlation is significant at the 0.05 level (2-tailed).

** . Correlation is significant at the 0.01 level (2-tailed).

4.4.2 Regression analysis

This part consists of a detailed output of the data analysis after conducting regression analysis between the independent variables and the dependent variable.

4.4.2.1 Co-efficient of determination

In order to determine the co-efficient of determination of the model, R (square) of 0.800 signifies that 80.0 percent change in the predicted variable (loan repayment) is explained by variations in the predictor variables which include borrower characteristics, business characteristics and loan history characteristics.

Table 4.15 Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.895 ^a	.800	.783	.511

Predictors: (constant), borrower ease of loan repayment, borrower business type, borrower gender, borrower marital status, borrower age, borrower education level, borrower borrowing history, borrower business age

Source: Researcher, 2021

4.4.2.2 Analysis of variance

In this section, the model tested the overall goodness of fit. From the results in table 4.14, it can be concluded that the fitted model is significant since P-value of F-statistic at 0.00 is less than the level of significance at ($\alpha = 5\%$)

Table 4.16 Analysis of variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	95.574	8	11.947	45.706	.000 ^b
Residual	23.786	91	.261		
Total	119.360	99			

Predictors: (constant), borrower ease of loan repayment, borrower business type, borrower gender, borrower marital status, borrower age, borrower education level, borrower borrowing history, borrower business age

Source: Researcher, 2021

4.4.2.3 Regression co-efficient

The results of the regression co-efficient were presented in table 4.15. They indicated that all the independent variables are significant in influencing the dependent variable except borrower's gender.

Table 4.17 Regression co-efficient

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	.196	.433		.453	.652	-.663	1.055
Borrower gender	-.008	.121	-.004	-.066	.948	-.249	.233
Borrower education level	-.098	.088	-.077	-1.113	.269	-.274	.077
Borrower marital status	.097	.130	.044	.745	.458	-.161	.355
Borrower age	-.055	.065	-.066	-.848	.399	-.183	.074
Borrower business type	-.042	.028	-.078	-1.515	.133	-.097	.013
Borrower business age	.028	.087	.035	.326	.745	-.145	.202
Borrower borrowing history	-.030	.061	-.045	-.492	.624	-.152	.092
Borrower ease of loan repayment	1.287	.130	.795	9.919	.000	1.029	1.545

Predictors: (constant), borrower ease of loan repayment, borrower business type, borrower gender, borrower marital status, borrower age, borrower education level, borrower borrowing history, borrower business age

Source: Researcher, 2021

In conclusion, the model intended to test the relationship between the dependent variables and the independent variable. From the model output, there is a relationship between borrower's age and loan repayment, borrower's education level and loan repayment, borrower's and borrower's marital status and loan repayment. However, borrower's gender and loan repayment are weakly related. In addition, there is a relation between borrower's business age and loan repayment with borrower's business type and loan repayment having a weak relationship. Lastly, there is a weak

relationship between both borrower's loan history (frequency of borrowings) and ease of historical loan repayments and current loan repayment.

The regression model was summarized as follows: -

$$Y=0.196 - 0.008X_1 - 0.098X_2 + 0.097X_3 - 0.055X_4 - 0.042X_5 + 0.028X_6 - 0.03X_7 + 1.287X_8 + \epsilon$$

Where Y= the loan default rate indicated by the total number of loans unpaid past 90 days divided by the total number of loans

X1= Borrower's gender has a negative and weak impact on loan repayment (t= -0.066, P=0.948). This means that a unit increase in borrower's gender results in 0.008 units decrease in loan repayment.

X2 = Borrower's education level has a negative and strong impact on loan repayment (t= -1.113, P=0.269). This means that a unit increase in borrower's gender results in 0.098 units decrease in loan repayment.

X3 = Borrower's marital status has a positive and strong impact on loan repayment (t= 0.745, P=0.458). This means that a unit increase in borrower's gender results in 0.097 units decrease in loan repayment.

X4 = Borrower's age has a negative and strong impact on loan repayment (t= -0.848, P=0.399). This means that a unit increase in borrower's gender results in 0.055 units decrease in loan repayment.

X5 = Borrower's business type has a negative and strong impact on loan repayment (t= -1.515, P=0.133). This means that a unit increase in borrower's gender results in 0.042 units decrease in loan repayment.

X6 = Borrower's business age has a positive and weak impact on loan repayment (t= 0.326, P=0.745). This means that a unit increase in borrower's gender results in 0.042 units decrease in loan repayment.

X7 = Borrower's borrowing history has a negative and weak impact on loan repayment (t= -0.492, P=0.624). This means that a unit increase in borrower's gender results in 0.003 units decrease in loan repayment.

X8 = Borrower's ease of loan repayment has a positive and very strong impact on loan repayment (t= 9.919, P=0.000, P<0.05). This means that a unit increase in borrower's gender results in 1.287 units decrease in loan repayment.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter covers the summary of the main findings from the research whose focus was on the relationship between borrower's non - financial information and loan quality. The chapter also covers the policy recommendations to banks and non-financial institutions involved in lending to MSMEs, conclusions from the research, areas of further research and limitations of the study faced by the researcher.

5.2 Summary of findings

The above research reveals that out of 100 MSMEs surveyed in Nairobi sub-county, 11 defaulted in repaying their current loan. This means that 11 percent of loans issued by banks and other lending institutions within the county could most probably be defaulted. This is way beyond the industry and regulator's allowable risk appetite of having less than 5 percent of total loan portfolio in default.

On borrower's gender vis-à-vis loan repayment, the research indicated that male borrowers are likely to default in repaying MSME loans compared to their female counter parts. From the analysis, 16 percent (10 out of 62) male MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. On the other hand, 3 percent (1 out of 38) female MSME borrowers had instances of loan defaults. Therefore, the gender of MSME loan borrowers has an impact on the loan repayment.

On borrower's education level vis-à-vis loan repayment, the research indicated that borrowers with higher education levels repaid their loans with less defaults compared to the less educated. From the analysis, 25 percent (8 out of 32) primary education level MSME borrowers had instances of loan defaults from all the loans they had borrowed

from commercial banks. Similarly, 12 percent (3 out of 26) secondary education level MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks while 0 percent (0 out of 42) tertiary education level MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. Therefore, the education level of MSME loan borrowers has an impact on the loan repayment.

On borrower's marital status vis-à-vis loan repayment, the research indicated that married borrowers repaid their loans comfortably compared to their single counterparts. From the analysis, 2 percent (1 out of 57) married MSME borrowers had instances of loan defaults from all the loans they had borrowed from commercial banks. On the other hand, 23 percent (10 out of 43) single MSME borrowers had instances of loan defaults. Therefore, the marital status of MSME loan borrowers has an impact on the loan repayment.

On borrower's age vis-à-vis loan repayment, the research indicated that younger borrowers had higher defaults compared to their older counterparts. From the above analysis, 26 percent (9 out of 34) MSME borrowers aged between 18-25 had instances of loan defaults from all the loans they had borrowed from commercial banks, 13 percent (2 out of 16) MSME borrowers aged between 26-35 had instances of loan defaults from all the loans they had borrowed from commercial banks, 0 percent out of 16 MSME borrowers aged between 36-45 had instances of loan defaults from all the loans they had borrowed from commercial banks, 0 percent out of 31 MSME borrowers aged between 46-60 had instances of loan defaults from all the loans they had borrowed from commercial banks. Finally, 0 percent of the MSME borrowers aged above 60 years had instances of loan defaults from all the loans they had borrowed from commercial banks. Therefore, the age of MSME loan borrowers has an impact on the

loan repayment. In this case, older borrowers repaid their loans without defaults compared to the younger ones.

On borrower's business type vis-à-vis loan repayment, the research indicated that some business types repaid their loans well compared to others. From the analysis, 10 percent (3 out of 30) MSME borrowers' businesses which were in the wholesale and retail trade sector defaulted the current running loans, 8 percent (1 out of 12) which were in the Transport services sector defaulted the current running loans, 9 percent (2 out of 22) which were in the Ict/mobile/comm/services sector defaulted the current running loans, 21 percent (4 out of 19) which were in the Money transfer services sector defaulted the current running loans, 0 percent out of 1 which were in the in the extraction industry defaulted the current running loans, 0 percent out of 2 which were in the Construction industry defaulted the current running loans, 8 percent (1 out of 12) which were in the Education and training sector defaulted the current running loans while 0 percent out of 2 which were in other sectors defaulted the current running loans. Therefore, the type of MSME loan borrower's business has an impact on the loan repayment. In this case, ICT/mobile/comm/services Money transfer services and Wholesale/retail trade had higher instances of loan default compared to the rest.

On borrower's business age vis-à-vis loan repayment, the research indicated that younger businesses struggled in repaying their loans compared to the older ones. From the analysis, 39 percent (7 out of 18) MSME borrowers' businesses which had had existed between 0-1 years defaulted the current running loans, 24 percent (4 out of 17) businesses which had existed between 1-2 years defaulted the current running loans, 0 percent of 14 which had existed between 2-5 years defaulted the current running loans, 0 percent out of 37 which had existed between 5-10 years defaulted the current running loans while 0 percent out of 14 which had existed above 10 years defaulted the current

running loans. Therefore, the age of MSME loan borrower's business has an impact on the loan repayment. In this case, younger businesses had higher instances of loan default compared to the older ones.

On borrower's borrowing history vis-à-vis loan repayment, the research indicated that borrowers who had previously borrowed more than once repaid their loans comfortably compared to the ones who had previously borrowed less times. From the analysis, 39 percent (7 out of the 18) MSME borrowers who had previously borrowed once defaulted in repaying the current running loans, 15 percent (3 out of 20) MSME borrowers who had previously borrowed twice defaulted in repaying the current running loans, 7 percent (1 out of 14) MSME borrowers who had previously borrowed thrice defaulted in repaying the current running loans, 0 percent out of 21 MSME borrowers who had previously borrowed four times defaulted in repaying the current running loans, 0 percent out of 15 MSME borrowers who had previously borrowed five times defaulted in repaying the current running loans and lastly 0 percent out of 12 MSME borrowers who had previously borrowed more than five times defaulted in repaying their current running loans. Therefore, borrowers who have a track record of historical borrowings will most probably repay their new loans without defaulting.

On borrower's borrowing history vis-à-vis loan repayment, the research indicated that borrowers who had previously borrowed and repaid their loans comfortably posted zero defaults in their current loans compared to those who struggled in repaying their previous loans. From the analysis, 0 percent (none of the 49) MSME borrowers who had previously paid all their historical loans without delays defaulted in repaying the current running loans, 5 percent (2 out of 40) MSME borrowers who had previously paid all their historical loans with some delays defaulted in repaying the current running loans and lastly 82 percent (9 out of 11) MSME borrowers who had previously

paid all their historical loans with delays defaulted in repaying the current running loans. Therefore, borrowers who had repaid their historical loans without delays will most probably repay their new loans without defaulting.

5.3 Policy recommendations

Commercial banks, financial institutions and lenders within Nairobi county have developed and implemented lending policies for customers operating in the MSME sector in order to manage the credit risk. Management of this risk is critical for all commercial banks and lending bodies since it accounts the major proportion of all risks. Some of the other risks faced by these bodies include foreign currency exposure, operational, market and other risks.

Institutions involved in lending to MSME's should therefore ensure that they have reviewed their MSME lending policies to not only take care of financial ability to pay but also the customer's willingness to pay which is majorly exhibited by non-financial information. The non-financial information includes but is not limited to personal borrower information including age, gender, marital status and education level. The other non-financial information includes business information on the business age and type. Lastly, the other critical non-financial information includes frequency of historical borrowings and the ease of repayment of the historical borrowings.

The review shall emphasize on the results of the above study where all these non-financial information have an impact on repayment of MSME loans although some have strong relationship with repayment while others have weaker relationships. For example, borrower's age, education level, marital status, business type, business age and repayment history have a stronger relationship with loan repayment compared to borrower's gender which has a weaker impact.

5.4 Conclusions

Based on the results of the foregoing study on the relationship between non-financial information and MSME loan repayment, there is a relationship between non-financial information and loan repayment. Borrower's age, education level, marital status, business type, business age and repayment history have a stronger relationship with loan repayment compared to borrower's gender which has a weaker impact.

5.5 Advocacy for further research

This research proposes further research on other variables influencing MSME loan repayment. Some of the variables include the impact of uncertainties, calamities and pandemics on the repayment of these MSME facilities. Yes, the analyzed personal characteristics, business characteristics and loan history may have an impact, however, some uncertainties may override both the ability and willingness to pay. The insurgence of Covid-19 from Dec 2019 to the time of this research has impacted the operation of so many businesses which has affected repayment ability. This is evidenced by the increased loan restructures announced by many tier one commercial banks.

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APPENDICES

Appendix I: Introduction Letter

TO WHOM IT MAY CONCERN

Dear Sir/Madam,

REF: Request to conduct a research on ‘Non-financial information and quality of MSME facilities among commercial banks in Nairobi City County’

I am a Kenyatta University student undertaking a research project as part of the course requirement for Masters degree in Business Administration with a bias in Finance. The research intends to find out how non-financial information influence repayment of MSME facilities among commercial banks in Nairobi City County.

The findings will be confidential strictly for academic use and at no time will your name be mentioned anywhere in the report. Yours honest participation will be highly appreciated.

Yours faithfully

MEMBA INDIAZI MARTIN

Appendix II: Questionnaire

This is an academic study seeking to establish the relationship between non-financial information at credit analysis and MSME loan quality among commercial banks in Nairobi City County. The information herein requested is for use to meet academic requirements and as such shall be treated with utmost confidentiality.

General Information

1. Name (Optional)

2. Section A: Effect of Borrowers personal characteristics on MSME loan quality among commercial banks in Nairobi City County

a) Please indicate your gender from the following:-

Male []

Female []

b) Please indicate your education level from the following:-

Primary []

Secondary []

Tertiary []

c) Please indicate your marital status from the following:-

Married []

Single []

d) Please indicate your age bracket from the following:-

18-25 [] 46-60 []

26-35 [] greater than 60 []

36-45 []

**Section B: Effect of Borrowers' business characteristics on MSME loan quality
among commercial banks in Nairobi City County**

a) Please indicate the type of business you engage in

- Wholesale/retail trade in consumer/household goods []
- Transport services []
- ICT/mobile/communication goods/services []
- Money transfer services []
- Extraction business []
- Construction industry []
- Education and training []
- Other []

b) Please indicate the age of your business in years

- 0-1 [] 5-10 []
- 1-2 [] greater than 10 []
- 2-5 []

**Section C: Effect of previous loan borrowing history on MSME loan quality
among commercial banks in Nairobi City County**

a) How many times have you borrowed loans from commercial banks before?

- Once [] 4 times []
- Twice [] 5 times []
- Thrice [] more than 5 times []

b) How easy did you repay the loan?

Paid all without delay []

Paid some with delay []

Paid all with delay []

Not paid any []

Section D: The quality of the loans borrowed by MSME businesses banking with commercial banks in Nairobi City County

How long have you delayed in repaying the current running loan?

Paying on time []

1-30 days delay []

31-60 days delay []

61-90 days delay []

91-180 days delay []

181-360 days delay []