FACTORS INFLUENCING REPAYMENT OF LOANS AMONG GROUP BORROWERS.

A CASE STUDY OF GROUP BUSINESSES IN BUNGOMA DISTRICT.

BY

SUNGWACHA STEPHEN M.

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UNIVERSITY.
DECLARATION

This research work is my original work and has not been presented for any Degree in any University.

Signed ...................................

SUNGWACHA STEPHEN M.

Reg. No. D/53/OL/14087/05

Date ......... 31/8/2011 .................

This is to certify that this project has been submitted for consideration with my Permission as the University supervisor.

Signature ................................ Date ......... 24/8/11 .................

DR. AMBROSE JAGONGO,

DEPARTMENT OF ACCOUNTING AND FINANCE.

This is to certify that this project has been submitted for consideration with my permission as the chairman of Department.

Kenyatta University.

Signature ................................ Date ......... 24/8/11 .................

MR. FRED NDEDE

CHAIRMAN - DEPARTMENT ACCOUNTING AND FINANCE.
DEDICATION

This work is dedicated to my loving wife Zippy, daughters Peace, Gloria, Eucabeth and Jemimah.
AKNOWLEDGEMENT

I'm grateful to my supervisor Dr. Jagongo Ambrose for his guidance and support. His timely advice was valuable. Deep appreciation and sincere gratitude to all groups and leaders who provided me with information I needed for the project. To my brother Jack thanks for his moral and financial support.
ABSTRACT

Micro financing plays a key role in enabling small business organizations to expand their businesses and fund their operational costs. Financial institutions lend small businesses both short term and long term loans. The purpose of this research was to investigate and establish factors influencing loan repayment ability of entrepreneurs accessing credit through groups and make necessary recommendations to policy makers. Factors studied included market conditions, the effect client evaluation loan repayment, and the contribution of credit camps to loan repayment and how implementation procedures impact on loan repayment.

The objectives of the research were to investigate how market conditions influence repayment ability of groups in servicing their loans, to establish the effect of client evaluation on repayment of loan credit, to determine the contribution of credit camps on servicing of business loans among businesses and to assess the impact of credit implementation procedures on loan repayment by small businesses accessing credit through groups. The significance of this study is to credit policy makers, peer group leaders and individual borrowers in clearly appreciating the environment in which loan credit may be misappropriated hence default. Lending institutions may utilize results generated here for further research. The scope of the study was limited to Bungoma district.

The target population were the social groups formed by borrowers to enable them access loan finance and the financial institutions that lend these borrowers. The study design adapted was descriptive and utilized the questionnaire in collecting data. Random sampling was used to generate a sample size of fifty respondents. Stratified random sampling was used in which a 50 size sample of respondents was reached. Data was analyzed with the aid Statistical Package for Social Science (SPSS) to establish the relationship between the factors studied and the loan repayment performance.

The study shows that poor loan repayment results from lack of clients to identify key market conditions prior to investing. Evaluating clients before giving out loans, increases the probability of repaying as it minimizes loaning potential defaulters. Participating in credit camps by group members increases repayment discipline as members utilize the forum to encourage each other to repay and evaluate new members. Lastly loan disbursement procedure has an impact on loan repayment with cash disbursement being recommended because clients get a chance to select suitable investment projects.
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<td>Central Bank of Kenya</td>
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<tr>
<td>IDS</td>
<td>Institute of Development Studies</td>
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<td>ILO</td>
<td>International Labor Organization</td>
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<td>K-Rep Bank</td>
<td>Kenya Rural Enterprise Program Bank</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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<td>SACA</td>
<td>Small Holder Agricultural Credit Administration</td>
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<td>CBK</td>
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<td>SSIDO</td>
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<td>ROSCAS</td>
<td>Rotating Savings and Credit Associations</td>
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OPERATIONAL DEFINITION OF TERMS

**Cell or club** - A small group formed by potential borrowers to access credit.

**Chattel mortgage** - Moveable resource or property right other than freehold land.

**Collateral** - Documents giving title to property rights which are deposited with a creditor as security for a loan. The documents are returned on repayment of the loan.

**Credit in kind** - The provision of assets, property to customers by means loans. Financial institutions may give these assets to borrowers on the advice of the borrower.

**Gestation period** - Time taken before a project starts generating returns from the investment.

**Micro Enterprises** - Term covers the range of activities that include one or more persons and enterprises in the formal and informal economy employing up to 50 persons (ILO). Employment here refers to people working in the enterprise whether paid or not. Also, this is an economic unit producing goods or services for example a kiosk or a shop.

**Micro finance** - The association of Micro Finance Institutions (MFIs) defines microfinance as the provision of microcredit as well as other services such as savings, deposits, insurance services and other financial instruments/products aimed a poor or low income people. This project focuses on the micro credit aspect.
<table>
<thead>
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<td>Peer Groups</td>
<td>- An organization formed by members with similar economic and gender backgrounds.</td>
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<td>Portfolio investment</td>
<td>- A list of investments that an institution or person has made.</td>
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<td>Client</td>
<td>- A borrower of funds from a financial institution</td>
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<td>Return on investment</td>
<td>- Total income generated from an investment</td>
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<tr>
<td>Marketing Facilities</td>
<td>- All those support systems that contribute to efficient distribution</td>
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<td>Loan disbursement</td>
<td>- Giving out a loan to a client</td>
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<td>Cash disbursement</td>
<td>- Giving out a loan in form of cash</td>
</tr>
<tr>
<td>Defaulting</td>
<td>- Failing to pay a loan when payments are due</td>
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<td>Loan leakage</td>
<td>- Diverting a loan to other uses other the intended plan</td>
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<td>Latitude</td>
<td>- Freedom excised by the borrower in deciding how to invest</td>
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CHAPTER ONE

INTRODUCTION

1.0 BACKGROUND TO THE STUDY

The success of The Grameen Bank of Bangladesh to reach the poor and the marginalized few in the rural areas and raise their status through micro financing has proved that micro financing is a feasible tool for creating economic empowerment among the poor. This success has seen the emergence of financial institutions in the financial sector to fill the gap where commercial banks do not venture. Target beneficiaries of these financial institutions are women, small scale business enterprises and the youth who can not provide adequate collateral. This is frequently attributed to the lack of property rights in land or to limited ownership of physical or financial assets.

Lending programs by these financial institutions either make use of existing social structures or have formed peer groups through which individual members access credit. Groups ensure appropriate borrower selection and screening. Screening helps in determining the likelihood that a borrower will not default on the loan and provide incentives for the borrowers to repay and enforce repayment. However there are potential problems that lenders continue to face while dealing with group clients. These problems result directly from imperfect information on the projects and the credit worthiness of the clients. This may be attributed to distorted information prevalent in rural areas because of market segmentation by village and kinship groups. The weak legal system and the lack of enforcement mechanisms lead to difficulties in monitoring borrowers and obtaining enforcing repayment of loans. Politicization of rural credit; lack of supervision; lack of knowledge about the borrowers affairs over the lifetime of the loan; lack of technical
ability among credit lenders to analyze and evaluate the borrowers and erratic changes in relative prices which affect disposable incomes adversely affect returns on investments. Additionally relative rate of inflation associated with unstable economy would make small scale borrowers vulnerable. They fail to get maximum cash flows from their investments rendering them unable to service their debt credit.

Group lending becomes a viable mechanism to minimize these problems. The cost of screening and monitoring for creditors can be low as a result of close familiarity with borrowers. In this case information is easy to get because of living near the borrower or being part of the same group. Furthermore, social pressure among members of the same group may be high and more efficient means of motivating loan repayment. Consequently many financial institutions apply group lending principles to achieve the advantages of peer groups when extending and recovering credit from clients. They are intermediaries between clients and money market.

Their strategy is making banking services accessible and affordable to the vast majority of Kenyans who do not consume banking services. These financial institutions target small business enterprises that are generally considered poor and high-risk by the mainstream banks. They have developed affordable products that are accessible to the sector. In general, the average loans are fairly low and the default rate is also very low. Strategies used in risk management include: acceptance of chattel mortgage as part of security requirements, conservative loans classification and ageing criteria. Strengthening Credit Department by recruitment of a sizeable number of Micro Credit Officers and seasoned credit managers. Risks are attributable to their loans and advances. They
structure the level of credit they undertake by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a regular basis and are subject to monthly or more frequent reviews. Risk management strategies include: analysis of the ability of borrowers and potential borrowers to meet interest and principal repayment obligations, obtaining collateral and corporate guarantee where considered necessary, these banks have no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers.

There is also diversity in various sector exposures; there is a comprehensive loan appraisal system, which highly focuses on cash flows. Lending process is guided by Branch, Head Office, Executive and Board credit committees with graduated risk limits, collaterals are taken for all business loans, their loan classification is 30 days, instead of the recommended 90 days by central bank of Kenya for substandard loans, credit department staffing is strengthened by experienced credit managers and micro finance officers in charge of various portfolios and finally the banks comply with all CBK regulations.

1.1 Statement of the Research Problem

The purpose of this study was to investigate factors influencing repayment performance of clients accessing credit through groups. In the informal sector, there exist a variety of different institutions, and many arrangements between depositors, lenders and borrowers. There are indigenous banks that finance lending from deposits, such as agricultural development banks and cooperatives. There are other institutions, such as mobile branch banks and post office savings banks that just receive deposits without making loans.
Kenya has rural savings movements unique to itself. Such Rural Cooperatives in Kenya, started in 1963. There are also a variety of credit arrangements between relatives and friends and between borrowers and professional moneylenders such as landlords, merchants, storekeepers and pawnbrokers. In Kenya the Rotating Savings and Credit Associations (ROSCAS) have a long history (Okello, 1973). These financial arrangements in the informal sector are important for several reasons. First, they may satisfy needs not met by the formal sector.

The informal sector predates of course the formal sector and continues to flourish because it fulfils needs not met elsewhere. Second the costs of lending and depositing tend to be lower than in the formal sector. In this sense they are economically efficient. Default costs also tend to be low because moneylenders and indigenous bankers have a good local knowledge of customers and conditions, and borrowers do not want to be disgraced locally. The institutions can be flexible and responsive to customers needs. Third, the informal sector is not subject to strict interest rate regulations, liquidity requirements or credit allocation guidelines, which contrasts with the financial repression of the formal sector.

Financial institutions lend credit to entrepreneurs on the premise of mutual trust that they will respect the terms of credit. When clients default on loans, it affects future willingness of these creditors to finance small scale enterprises. This research will investigate factors that affect the capacity of group clients to service their debt. A case of business groups in Bungoma were be considered.
1.2 General objective

The general objective of the research was to investigate factors that influence repayment of business loans by entrepreneurs accessing credit through groups in Bungoma District. The research aimed at establishing factors that influence repayment of loan debt by group borrowers.

1.2.1 Specific objectives

a) To investigate how market conditions influence loan repayment by group clients.

b) To establish the effect of client evaluation prior loan disbursement on the client’s repayment performance.

c) To determine the contribution of credit camps to repayment of business loans among group borrowers.

d) To assess the impact of implementation procedures on repayment of loans.

1.2.2 Research Questions

a) To what extend do market conditions influence loan repayment by group clients?

b) How does evaluation of clients prior to loan disbursement contribute to improved loan servicing by small scale entrepreneurs?

c) What significant contribution do credit camps play in repayment of business loans by group borrowers?

d) What is the impact of implementation procedures on repayment of loans among group members?
1.3 Significance of the study

This study attempts to analyze factors that influence repayment performance by borrowers accessing credit through groups. The survey data will assist credit policy makers, peer group leaders and individual borrowers in clearly understanding possible causes of loan defaulting among small scale enterprises in rural areas. The new approach to rural finance market friendly government interventions that address clearly defined market failures demand for policies aimed at removing the causes of market failures (Krahnen and Schmidt (1995). Lending institutions can use the results generated in this research to address causes of market failures that many group customers continue to face. Poor repayment performance by borrowers is a concern to many financial institutions (Pulley 2000). Lack of financial prudence in clients and ineffective management information systems in groups contribute significantly to poor screening of loan applicants. Bank staff can use survey data to evaluate potential applicants. This assists financial institutions staff to improve delivery strategy, recovery, and group education. Peer leaders and committee patrons can use data to develop client profiles to improve loan applicant selection and screening to improve repayment discipline and financial management policies. Individual clients can use the survey data to appreciate the environments in which loan credit may be misappropriated. This may help them identify and cushion themselves against potential risks that may threaten possible returns on their investment. Expansion of the financial sector and its entrenchment into the economy presents new challenges. There is need for new knowledge on issues surrounding supply and demand of credit in this ever expanding sector. Existing studies in developing economies concern themselves with improving the effectiveness on the supply side.
without addressing the shortcomings that undermine repayment of loan credit. This makes both lenders and borrowers unable to sustain their operations. One important contribution of this study is to use empirical tools of research to identify key factors that contribute to default by group borrowers. Data generated will help them in decision making.

1.4 Scope and limitation

The research study aimed at establishing factors that influence repayment of loans by group entrepreneurs. The study targeted all registered financial institutions and youth and women group borrowers for study. This was a very large population to study within the given time frame and budget. To overcome this constraint a sample of only five financial institutions and fifty groups were sampled for the research.
CHAPTER TWO
LITERATURE REVIEW

2.0 INTRODUCTION

Programs to promote assured access to banking services for the poor in rural areas have been evolving since the early 1950s (Yaron 1999). Financial Institutions provide credit and organizational help to the poor, who are otherwise excluded from formal credit system because they lack material collateral. Target beneficiaries include women, small micro enterprises and the youth who can not provide adequate collateral due to the lack of property rights in land or to limited ownership of physical or financial assets (Bell 2001 Stevenson 2007). These institutions have replaced physical collateral requirements with group responsibility, by organizing poor individuals into groups creating social and financial conditions enabling them to receive loans.

Group lending promotes social development by making the poor individually and socially accountable. Such intermediation improves the productivity and income of the poor. In turn it also improves their loan repayment rate, and hence, contributes to the lending institutions financial viability. The cost of screening and monitoring for banks can be low as a result of close familiarity with the clients. Information can be easy to get because of living near the borrower or being part of the same kinship group (Hoff and Stiglitz 1990). Social pressure among members of the same group may be high and more efficient means of motivating repayment.
2.1 Group Characteristics

Many financial institutions have structured their lending programs on the principles of The Grameen Bank of Bangladesh. They integrate group organization with credit delivery to assist the borrowers. Individuals take the first step in the banking process by organizing themselves into groups. Membership varies from one group to another. Small groups (25-29) members have performed better (Hoff and Feder 1990). Membership in a group is strictly limited to people who have limited resources, are not members of the same household, have similar economic resources, and have equal bargaining strength, enjoy mutual trust and confidence and live in the same village (Grameen Bank). Special and social cohesiveness developed among individuals residing in the same village and having similar economic backgrounds are important factors in the smooth functioning of these groups (Shahidur R. Khandker 1998). Each group elects a person, who is responsible for the discipline of group members and a secretary. Both hold office for one year. Each group member has a chance to be elected. Office holders can be re-elected. Members have weekly meetings where they practice and learn and discuss the rules of the lending institution and other group activities.

2.2 Credit Delivery and Recovery Mechanisms.

Two to three weeks after the formation of a group, all members make small deposits - sh. 100 per week (Faulu Kenya) and are trained by bank employees. Credit is issued to individual group members if they conform to the discipline of the institution. If members who have accessed credit pay their installments and maintain group discipline, new loans are given for six months (new members) and one year for old members. If any member...
defaults, the whole group becomes ineligible to receive additional loans from the financial institution. This rule compels group members to pressure one another to keep up with regular payments. Thus, although credit is given to an individual member, the group is ultimately responsible for repaying loans, as well as for maintaining financial and social discipline. Group leaders monitor the utilization of the loan together with the bank staff. Loans are provided for activities identified and selected by each member, and members are expected to guide one another. Some financial institutions lend credit in kind. Under this arrangement a member identifies an investment project which the financial institution finances on his/her behalf. Women groups prefer livestock, grinding mills and poultry projects. In this case, financial institutions finance them by buying the identified project asset(s). Financial institutions focus on the reputation, savings and credit history of the customers. In Faulu Kenya the borrower must have deposited some money to their savings for at least six months. Loan approval is decentralized, and a committee formed at the village level screens the loan applications and makes recommendations to the institution. Loaning is done at very many rural regional offices meant to reach members at low costs. (Faulu Kenya).

2.3 Repayment Performance.

Repayment performance is measured by the ability of individual beneficiaries to repay the principal loans outstanding together with the interest within the agreed period set out in the terms of the loan. Different institutions apply different procedures tailored to their different clients. Repayment may be collected weekly by the group leader. However
wholesale repayments and even daily repayments schedules are permitted when justified (Michael Pulley 2000).

Since their clientele are homogeneous a standardized and rigid repayment pattern is a reasonable way to save on administrative costs per shilling lent. It also assists to avoid potential conflicts of interest among group members when the loan is jointly secured by all members. Repayment is rated good if the client services the loan within the agreed time hence qualifying for future credit. A member who fails to meet the repayment dateline is rated poor and risks missing on the next loan disbursement schedule (Yarun 1996).

2.4 Factors that Contribute to Repayment Performance

2.4.1 Time taken to realize cash flows

A case study of the Integrated Rural Development Program in India carried out by Robert V. Pulley with the support of the World Bank found out that 54% reported that delays in income generation from the Projects had led to poor repayment, 33% claimed repayment schedules were too tight. Borrowers receiving credit from financial institutions invest their loans mainly in self-liquidating projects (Robert V. Pulley 1999). These projects are core finance generators which eventually provide funds for servicing loans in the long and short run periods. Income flows may take long before they are realized. In the mean time clients may lack funds to service their loans.
2.4.2 Repayment Schedules

There are flexible loan schedules that financial institutions impose on their clients. Depending on the institution the period ranges between six months for new clients and one year for old members (Faulu Kenya). Clients are expected to service debt on a weekly period and also make nominal contributions to the savings. Clients with investments with long gestation periods may be time barred as they fail to meet the scheduled period of debt repayment (Faulu Kenya: Robert V. Pulley). Financial institutions structure their loan repayment schedules per the repayment ability of their clients. For example repayments may be made within a short installment period while others stretch repayments for six Years. This helps clients to make less monthly installments although long credit periods entail heavy interest rates on loans which also depend on the fiscal and monitory policies of the day. Frequent loan repayment prevents an accumulation of cash among borrowers who may be tempted to spent their money rather than use it to meet their loan repayment obligations (Canara Bank 1986).

2.4.3 Risks

At one level repayment performance is affected by unexpected events that were not forecast by the investor during a project’s design and planning stage. Among many entrepreneurs projects risks often include bad agricultural seasons, unforeseen increase in the cost of production and lack of markets for products and services produced. Opportunistic behaviors by clients who refuse to pay and unwillingness or inability of lenders to exert meaningful sanctions against such entrepreneurs undermine repayment.
Additionally potential catastrophic situations such as political upheaval or collapse of civil order also contribute to poor performance by group members (Von Pische 1991).

2.4.4 Loan Implementation Procedures

The other variables relate more to implementation features of credit. The mode of disbursement variable has a strong impact. Loans which have in-kind components can be contrasted with those disbursed in cash. There is evidence that cash disbursement significantly improves the probability of recovery. The cash disbursement may be correlated with those types of investments that yield higher cash flows hence this may have a positive impact on recovery. Secondly borrowers receiving cash have the latitude to invest funds according to their preferences thus increase their bargaining power and the possibility of purchasing a quality asset. Cash disbursement may also imply greater legitimacy of debt obligations. Micro finance institutions generally disburse in cash and trust the borrowers to make the right decision when faced with the certainty of strict repayment obligations. Cash disbursement gives borrowers freedom to negotiate price and greater discretion over the type of investment that would generate funds quick enough to meet debt obligations. There is also evidence that integrated rural program loans recorded improved recovery if they were cash disbursed (Canara Bank 1986).

2.4.5 Group Credit Camps

Household participation in a "credit camp" prior to credit sanctioning increased the likelihood of payment. Micro finance institutions and group officials are requested in the program guidelines to hold credit camps once in a week (Faulu Kenya). Officials inform
beneficiaries of the loans benefits and discuss the viability of different investment options, repayment obligations and facilitate disbursement. Lenders are expected to achieve greater efficiency in rural credit extension by handling applications of numerous and scattered small borrowers simultaneously. The transparency of the camp environment also helps to prevent corruption and leakage from taking place. Measures of follow up by both institutions staff and group officials are significant. They visit individual clients subsequent to receiving a loan. This significantly contributes to recovery. The failure of one group member to repay blocks further access to credit by all members in the group. This enhances financial discipline. The requiring of group lending in Faulu Kenya and Kenya Women Finance Trust illustrates that credit can be granted without the use of tangible assets as collateral. The threat that no new loans will be provided to group members as long as unpaid balances remain in the group is a deterrent to future credit and this encourages repayment discipline.

2.4.6 Return on Investment and Marketing Facilities

The return on the investment and existence of adequate marketing facilities increase the probability of repayment. The return on the investment reflects real net return on the asset or loan after original investment. This underlies the need for borrowers and financial institutions to exercise greater care in assessing market potential and local demand prior to investing, particularly in competitive markets (World Bank Paper No. 58). Repayment performance is also associated with effective borrower selection and screening procedures. Borrowers financial credit worthiness need to be established in order to determine a viable loan structure. Relevant information is needed by financial institutions
management staff group leaders and clients to make informed decisions. Successful rural financial institutions have developed effective management information systems and have built client data profiles that help deal with individual applications and only finance those who merit. Accurate information enables lenders to extend credit as per the repayment capacity of the borrowers. Also the amount of credit is proportional to the borrower’s ability. Inaccurate information may lead to default. Many ROSCA (Rotating Savings and Credit Associations) members belong to groups. They are indebted to many lenders and keep transferring cash from one financial institution to another in order to avoid being blacklisted. In an event where a client is faced by more than two creditors and the returns are poor, such a client is overwhelmed and the capacity to repay is undermined (Afya Sacco Manager Kakamega Branch-Unrecorded interview).

2.4.7 Staff Efficiency and free riding.

Many financial institutions with large defaults on loans suffer from Staff complacency. This is a frequent cause of bad loans decisions. Complacency is manifested in a lack of adequate supervision of old, familiar borrowers. Dependence on oral information rather than reliable and complete financial data and an optimistic interpretation of known credit weaknesses because of survival and distress situations in the past. In addition financial institutions staff may ignore warning signs regarding the entrepreneur, economy, region, industry or other relevant factors or fail to enforce repayment agreements including a lack of a prompt legal action (Harmme Van Granning et al). Free riding by members who do not contribute fully to group activities, knowing that they will be able to reap all of the benefit also affect repayment of old debt. According to Stiglitz (2000) the members of the
peer group should be provided with incentives to monitor the actions of their peers (Stiglitz 2000). Free riders are members who do not take an active part in the activities of the peer group in which they belong. Free riding encourages and contributes to poor repayments, as members do not help to exert pressure on peer defaulters.

2.4.8 Loan terms
Loan terms may also affect repayment performance. Flexible and transparent terms enhance repayment performance. It makes it easy for staff and clients to calculate the repayment amounts required. Simplistic and understandable loan terms are cheap to understand by the inexperienced often-illiterate clients (Stiglitz 2000).

Stable economic conditions contribute to improved repayment performance. A stable economy ensures reduced uncertainty, higher returns on investments hence impressive repayment rates. An unstable economic environment with erratic changes in relative prices affects disposable incomes and affects returns on investments. A relative rate of inflation associated with an unstable economy increases the cost of credit, which ultimately affects repayment.

2.4.9 Gender, politics and group Credit
An international labor organization report has observed that women may simply be used as low cost and reliable intermediaries between loan program staff and male family members. Women may not have a say or even an effective use of the loan. Male dominant influence will sway the loan use to their side with the minimal effect of misappropriation. Where the client is a woman and has no control over the returns, she
may be reluctant and less enthusiastic to work hard to recoup resources to pay back. (Linda Mayaux 1998). Politicians and the political environment also contribute to low repayment performance. According to the findings of a case study in India conducted by the Agricultural credit Review Committee, during the election years and even at other times, there is a lot of propaganda from the political platform for postponement of loan recovery or pressure on the credit institutions to grant extensions to avoid or delay the enforcement process of recovery. Political factor are responsible for widespread defaults on the ostensible plea of crop failures in various groups. Therefore, if the political platform is not supportive of loan repayment it breeds “willful defaulters”. The willful defaulters are in general socially and, politically important people whose example others are likely to follow. Where a group is prone to political manipulation or a politician influenced its formation, members take refuge in political protection and substitute their loan obligations with the politicians’ hence become reluctant to actively pay when payment dates are due. (Robert V. Pulley 2000).

2.5 Conceptual framework

The success witnessed in the financial sector where micro financiers avail various financial products to reach the poor and the marginalized few in rural areas and raise their status through micro financing has proved that micro financing is a feasible tool for creating economic empowerment among the poor. Target beneficiaries of rural financial institutions are women, Small business enterprises and the youth who can not provide adequate collateral. This is frequently attributed to the lack of property rights in land or to limited ownership of physical or financial assets (Bell 2001. Stevenson 2007). Based on
the principles of the Grameen Bank: many rural financial institutions extend credit to the poor through groups. Physical collateral requirements are replaced with group responsibility. This has created social and financial conditions enabling them to receive loans. Financial institutions also promote social development and make the poor individually and socially accountable. Such intermediation improves productivity and income of the poor. In turn this improves their loan repayment rate and, hence contributes to the institutions financial viability. Equity Bank for example has a loan recovery rate consistently above 90%, one of the highest among the development finance institutions providing rural credit (Daily Nation. May 26 2006). However this success has to be appreciated together with factors that affect repayment performance that account for the loss of 10% on the repayment schedule of this bank and correlate it with other institutions in this sector. Lending programs by these institutions either make use of existing social structures or have formed peer groups through which member’s access credit. There are potential problems faced by financial institutions when lending to these peer groups. First, Screening - determining the likelihood that a borrower will not default on the loan-, providing incentives for the borrower to repay and enforcing repayment. (Hoff and Stiglitz 1990). Poor repayment of loans results directly from poor client information, poor project appraisal , a weak legal system and lack of enforcement mechanisms that lead to difficulties in motivating and obtaining repayment of loans, politicization of rural credit and deteriorating market conditions also influence repayment of rural credit.
Factors influencing repayment performance by group clients
- Market conditions
- Repayment schedules
- Gestation period
- Politicization of rural credit
- Mode of loan disbursement
- Evaluation of clients credit worthiness
- Gender and rural credit
- Risks

Repayment performance
- Timeliness
- Installments amounts
- Credit discipline

Intervening variables
- Economic conditions
- Government policies
- Technology
- Management systems
- Entrepreneurial capability
- Social/cultural factors
- Physical infrastructure

Source: Author 2007

Economic conditions, government policies, market conditions, technology, management systems, entrepreneurial capability, social-cultural factors, and the physical infrastructure etc are the intervening variables that contribute to loan repayment difficulties.
2.5.1 Gaps in literature review

While one would appreciate efforts by financial analysts in highlighting their efforts in alleviating the poverty problem by organizing poor individuals into groups, and creating the social and financial conditions enabling them to access credit, their work has some gaps which need attention. They are inadequate on the magnitude of poverty eradication levels among the poor. Analysts like Okello, Yarun and Lynda Mayaux expansively write on rural finance design, policy framework, Institutional sustainability, gender and rural finance etc yet they inadequately analyze the drop in poverty levels, entrenchment of the programs, geographical spread and the total impact per sector: agricultural, service, retail trade in the countries they have studied (Bangladesh, Togo, Cameron Malawi, Kenya and Zimbabwe etc). Research needs to be carried out on the level of poverty alleviation on region or on household impact.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction

3.1 Study Design

The study involved investigation of the factors influencing loan repayment ability of group clients. The research design adapted was descriptive. Descriptive studies are undertaken when the characteristics or the phenomenon to be tapped in a situation are known to exist and one wants to be able to describe them better by offering a profile of factors (Sekaran 2003). Descriptive research was undertaken for its ability to answer the research questions and describe these factors vividly. A descriptive study also helped the researcher to understand the impact of these factors on group borrowers and appreciate the environment which precipitates groups to fail to service their loan credit.

3.2 Target population

The target population of the research was registered groups and financial institutions in Bungoma district. The targeted registered groups draw their members from women and youths who form small social groups (20 -30 members). These social groups provide social collateral which enables them acquire short term loan finance from financial institutions to meet their operation costs and also utilize the funds on investment ventures. One hundred and twenty groups were studied. The second category of the sample consisted of financial institutions that lend loan credit to these social groups. Five financial institutions were studied by the researcher.
3.2 Sampling technique and the sample size.

Stratified random sampling was used to obtain the sample of group borrowers and financial institutions that represent the target population of this study. The reason for adapting this sampling technique is that the target population was composed of two main categories of borrowers and financial institutions that finance their activities. The first category was made up of women borrowers who access credit by forming groups. The second category consisted of the youth. To qualify, a group membership of between 20 - 30 members had to be ascertained. The third set of sample was financial institutions that deal with the above clients. Mugenda (2003) postulates that stratified random sampling ensure inclusion in the sample subgroups or elements which could have otherwise been omitted because of their small number in population. The sample size constituted fifty respondents. 54% women group borrowers, 26% youth group borrowers and 20% of the sample were financial institutions that lend funds to the above clients.

Table 3.2: Sample size

<table>
<thead>
<tr>
<th>Category of respondents sampled</th>
<th>Number of elements</th>
<th>Percentage representation in the sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>Women group borrowers</td>
<td>27</td>
<td>54%</td>
</tr>
<tr>
<td>Youth group borrowers</td>
<td>13</td>
<td>26%</td>
</tr>
<tr>
<td>Financial institutions</td>
<td>10</td>
<td>20%</td>
</tr>
<tr>
<td>Total</td>
<td>50</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Researcher 2007
3.2.1 Data collection technique and tools.

Primary data collection technique was used to collect information from respondents. The questionnaire was adapted in collecting this data. Questionnaires were prepared and piloted prior to the actual data collection and responses were used as a guide in the standardization of the questionnaires.

Drop and collect technique was utilized because it entails lower costs of administration. And considering that the population under study was spread over the whole district, under the circumstances the cost of interviewing could have been prohibitive and therefore the drop and pick method was the only practicable instrument. Secondly drop and pick method was preferable because the questions demanded considered (rather than immediate) answer. It was a suitable technique as some respondents needed to consult personal documents and other group members to be able to respond to the questionnaire.

Questions in the questionnaire were closed-ended. Respondents were offered a set of answers and asked to choose one that most closely represented their views. These were easy to ask and quick to answer questions (David Nechamias 2005). They needed no writing by the respondent or the researcher except the one open-ended question where the respondent was asked to give personal opinion under the item: “any other reason”. The respondent was only to tick.

3.3 Data analysis and presentation.

The study used both descriptive and inferential statistics to analyze data and interpret information. The chi-square distribution analysis was used to establish how evaluation of
clients influences their ability to service loans. Chi-square analysis was also used to show the relationship between changing market conditions and their influence on loan repayment among group borrowers. Market conditions influence the amounts of cash flows and by extension loan repayment capability. Therefore chi-square correlation analysis indicated the degree of influence they have on loan repayment. Pearson correlation analysis was used to determine the impact of client evaluation on loan repayment. Analysis of variance (ANOVA) was used to analyze the requirements needed to be met by an applicant before being admitted as a new member. Bar graphs and tables were used to present data. Computer statistical Package for the Social Sciences (SPSS) software was utilized in the various data analysis exercises.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.0 Introduction

This chapter deals with analysis of data gathered from group borrowers studied in this research. Data collected via questionnaire is also presented. The chapter is divided into four sections, each addressing one of the four objectives of the study, namely:

1. To investigate how market conditions influence loan repayment by group clients
2. To establish the effect of client evaluation on repayment performance
3. To determine the contribution of credit camps to repayment of business loans among group borrowers.
4. To assess the impact of implementation procedures on repayment of loans among group members.

4.1 Market conditions that influence repayment of loans

The findings and analysis on the effect of market conditions on repayment of loans show that certain market conditions influence the ability of group clients in repaying loans in a number of ways. Significant market conditions surveyed included: low market demand; competition, high costs of production, surplus product, and adequate marketing facilities. In order to determine the market conditions that contribute to differential loan recovery performance among borrowers, Wald Chi-Square model was fitted to the sample data set. The results are shown in the tables 4.0
Table 4.1: Effect of market conditions on repayment of loans by group borrowers studied.

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>coefficients</th>
<th>Wald Chi-Square Statistic</th>
<th>p</th>
<th>r</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>-.37</td>
<td>.26</td>
<td>.6</td>
<td>.13</td>
</tr>
<tr>
<td>Surplus product</td>
<td>-1.4</td>
<td>6.1</td>
<td>.01</td>
<td>.13</td>
</tr>
<tr>
<td>Low market demand</td>
<td>-.11</td>
<td>.04</td>
<td>.83</td>
<td>0</td>
</tr>
<tr>
<td>Competition</td>
<td>-.8</td>
<td>2.3</td>
<td>.13</td>
<td>.03</td>
</tr>
<tr>
<td>High costs of production</td>
<td>-.67</td>
<td>3</td>
<td>.08</td>
<td>.07</td>
</tr>
<tr>
<td>Marketing facilities adequate</td>
<td>.74</td>
<td>3.4</td>
<td>.06</td>
<td>.08</td>
</tr>
<tr>
<td>Return on investment</td>
<td>.65</td>
<td>3.6</td>
<td>.05</td>
<td>.08</td>
</tr>
<tr>
<td>Mode of disbursement</td>
<td>2.08</td>
<td>11.6</td>
<td>.0007</td>
<td>.02</td>
</tr>
<tr>
<td>Participating in credit camps</td>
<td>1.1</td>
<td>3.3</td>
<td>0.6</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Model Chi sq = 49w/9 d.f. (-2 log LR) P = 0 R =36  Somers DYX=.57

Good repayment (over dues≤5%) =1(84%)  Bad repayment =0 (16%)
Table 4.1.1: Expected and Actual outcome of loan repayment

<table>
<thead>
<tr>
<th>Expected</th>
<th>Did not repay</th>
<th>Did repay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Would not pay</td>
<td>48*</td>
<td>27</td>
</tr>
<tr>
<td>Would repay</td>
<td>21</td>
<td>83*</td>
</tr>
<tr>
<td>Total</td>
<td>69</td>
<td>110</td>
</tr>
</tbody>
</table>

* Correct prediction = 131 (73%)

False positive rate = 25%
False negative rate = 30%

Negative signs on the coefficients in table 4.0 indicate that low market demand; high costs of production and competition reduce the probability of good recovery. This implies that with an increase in the above factors borrowers’ ability to repay loans goes down. The return on the investment itself and existence of adequate marketing facilities increase the probability of repayment. These have a positive coefficient of .65 and .74 respectively. Return on investment reflects real annual net return on the business after original investment. This implies that continued positive returns contribute to increased cash flows to the investors which help to service part of the outstanding debt. Adequate marketing facilities help to promote consumer awareness and ease distribution hence a higher turnover. Market facilities also promote product distribution which improves sales. The analysis predicts success accurately in 73% of cases (success=1 when overdues≤5%).
4.2 Importance of client evaluation before giving a loan to a client

Majority of the groups studied attach a lot of importance to client evaluation before accessing a loan. Pearson correlation was used to analyze the relation between these two variables. Table 4.3 shows this analysis. When correlating loan repayment and evaluating a member before being admitted into a group there exists a strong relationship between the two variables with an r of 0.985 and significance of 0.000 revealing that increases or decreases in either variable significantly impacts on the other. Changes in client evaluation are strongly correlated with changes in loan repayment. There is Pearson’s r of 0.985. This value is very close to 1 therefore there is a strong relationship between evaluating a new member and loan repayment variable. An old member is also required to be assessed before getting a new loan. On correlating this condition before getting another loan and loan repayment performance r = 0.902 and significance of p<0.05 (0.00) showing a relationship between the two variables. Further there is significance shown between client evaluation criterion before giving a loan and repayment with the r = -0.145 and p = 0.000. When client evaluation criterion before giving a loan increases, loan repayment increases. A further correlation between client evaluation and avoiding loan defaulting revealed an r = -0.103 and a p = 0.000. Significantly there is a relationship in the two variables. Increased evaluation decreases chances of defaulting on loans. The above correlations reveal a relationship between client evaluation and repayment of loan credit.
Table 4.2: Correlations between evaluation and repayment of a loan

<table>
<thead>
<tr>
<th>Variables</th>
<th>Loan Repayment index</th>
<th>Pearson Correlation</th>
<th>Sig. (2-tailed)</th>
<th>N</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factors considered in admitting a new member</td>
<td></td>
<td></td>
<td>.985(**)</td>
<td>.000</td>
</tr>
<tr>
<td>Conditions required for an old member before getting another loan</td>
<td></td>
<td></td>
<td>.902(**)</td>
<td>.000</td>
</tr>
<tr>
<td>Client evaluation criterion before giving a loan</td>
<td></td>
<td></td>
<td>-.145</td>
<td>.000</td>
</tr>
<tr>
<td>Evaluation assisting in avoiding loan defaulting</td>
<td></td>
<td></td>
<td>-.103</td>
<td>.000</td>
</tr>
</tbody>
</table>

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

Source: Authors data 2010

4.3 Merit of Client Evaluation

Evaluation of a new member has several merits as enumerated in the table below.
Table 4.3: Merit of Client Evaluation

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>4</td>
<td>8.0</td>
</tr>
<tr>
<td>Helps understand past performance of the client</td>
<td>20</td>
<td>40.0</td>
</tr>
<tr>
<td>One understands nature of client business</td>
<td>6</td>
<td>12.0</td>
</tr>
<tr>
<td>To gauge commitment to loan repayment</td>
<td>20</td>
<td>40.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: - Authors data 2010

Results on merit of client evaluation exhibited a bimodal distribution with majority of the respondents (40%) in the first cluster feeling that client evaluation helped to understand past performance of the client while the second group believed that client evaluation gauged commitment of a client to loan repayment. 1/5 of respondents felt that evaluation gives a picture of the nature of clients’ business. This implies that if client evaluation is improved it would contribute significantly to loan repayment as it would help to reduce chances of loaning potential defaulters who eventually would fail to service their loans.

4.4 The contribution of credit camps to loan repayment

Credit camps play a significant role in motivating group members to repay their credit. The sample was subdivided into two categories: first groups that actively participated in credit camp meetings and secondly those that did not. Their loan completion performance was established as shown in the bar graphs below.
Bar graph 1: Credit camp attendance and loan repayment rates.  

<table>
<thead>
<tr>
<th>Response rate</th>
<th>Loan completion rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attended group meetings frequently</td>
<td>Did not attend group meetings frequently</td>
</tr>
</tbody>
</table>

All rates are in percentages.

Source: Author 2007

The above results were subjected to partial correlation analysis to determine the association between credit camp meetings and performance of a borrower on loan repayment. The first order partial correlation $r = .22$ was determined. Squaring this value reveals that 4.85% loan repayment rate was explained by attending group meetings after removing other factors. This implies there is a relationship between attending group meetings and loan repayment by group borrowers.
4.5 Major activities that take place in group meetings

The study established the following activities that take place when group meetings are held.

Table 4.5 Major activities that take place in credit camps

<table>
<thead>
<tr>
<th>Responses</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>No response</td>
<td>4</td>
<td>8.0</td>
</tr>
<tr>
<td>Revising rules and regulations</td>
<td>8</td>
<td>16.0</td>
</tr>
<tr>
<td>Encouraging each other</td>
<td>15</td>
<td>30.0</td>
</tr>
<tr>
<td>Learning new ways of production</td>
<td>15</td>
<td>30.0</td>
</tr>
<tr>
<td>Laying down plans for business improvement</td>
<td>8</td>
<td>16.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>50</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: - Authors data 2010

The main activities that take place in credit camps exhibit a modal distribution on a normal curve with an average mean of 25 and standard deviation of 4.93. Majority responses cited using these meetings to encourage each other to repay loans and learning new ways of production 30% in each case. This implies that members attach a lot of importance to encouraging each other and learning new ways of production in meetings.

4.6 The impact of loan implementation procedure on loan repayment.

Financial institutions use two common modes of loan disbursement while financing group clients. Loans in-kind form the first mode in which borrowers identify their proffered projects and the financier goes ahead to fund these projects. Cash disbursement
is the second mode. Under this arrangement borrowers are advanced loans which they
utilize in financing business ventures of their own choice. The two modes of loan
disbursement have profound effects on loan repayment as shown in the following
analysis.

Table 4.6: The nature of loan disbursement to small business borrowers

<table>
<thead>
<tr>
<th>Kind of loan</th>
<th>No. of respondents</th>
<th>Loan cleared</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-kind disbursement</td>
<td>Percentage</td>
<td>Percentage</td>
</tr>
<tr>
<td>Fertilizer and seeds</td>
<td>14</td>
<td>8</td>
</tr>
<tr>
<td>Motorbikes</td>
<td>13</td>
<td>28</td>
</tr>
<tr>
<td>Dairy animals</td>
<td>25</td>
<td>18</td>
</tr>
<tr>
<td>Subtotal</td>
<td>52</td>
<td>46</td>
</tr>
<tr>
<td>Cash disbursement</td>
<td>48</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Author 2007

The mode of disbursement variable has a strong impact and contrasts loans which had in-
kind components with those disbursed in cash. 52% of the sample had in-kind
components. The cash disbursement variable is correlated with those types of investments
that are disbursed in-kind. Cash disbursement had a higher positive impact of recovery
(54%). Fertilizer and seed, motorbikes and dairy animals were disbursed in kind by
requiring the borrower to identify the asset(s) to be financed. This kind of loans had a
lower recovery rate of 46%. The traditional justification for in-kind a loan is that many
poor borrowers will finance consumption if not held in check. This kind of arrangement
however may reduce the probability to clear loans for several reasons: first borrowers receiving cash have the latitude to invest funds according to their preferences of purchasing a quality asset. Cash disbursement may also imply greater legitimacy of debt obligations (Robert V Pulley 1999). Group lenders generally disburse in cash and trust the borrower to make the right purchasing decision when faced with the certainty of strict repayment obligations. Finally, in-kind transfers through purchase committees may also permit more leakage in the form of payoffs between suppliers, bankers and group leaders to creep into the loan disbursement (Pulley 1999).
CHAPTER FIVE
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0 Introduction
This chapter summarizes the major findings of the study in relation to the set objectives in chapter one. It also discusses the conclusions, recommendations and suggestions for further research.

5.1 Summary of the findings

5.1.1 Market conditions that influence repayment of loans
The main market conditions that influence loan repayment by groups include low market demand, surplus output, competition and high costs of production. These factors reduce the probability of loan repayment. Adequate marketing facilities and increasing positive returns on investment contributed to higher loan repayment.

5.1.2 The effect of client evaluation on repayment of loans
Evaluating borrowers prior to receiving loans increases the likelihood of repayment. Members get a chance to establish the credit worthiness of a new member and the viability of an applicant’s investment project. This helps to weed out potential defaulters before loans are disbursed.

5.1.3 The contribution of credit camps to repayment of business loans
Member’s participation in a “credit camp” prior to credit sanctioning increased the likelihood of repayment of loans. Bank officials use these camps to inform beneficiaries
of the loans benefits and discuss the viability of different investment options, repayment obligations and disburse loans. Increasing prevalence of credit camps would contribute to loan repayment.

5.1.4 The impact of implementation procedures on repayment of loans

The mode of disbursement variable has a strong impact and contrasts loans which had in-kind components with those disbursed in cash. Cash disbursement significantly improved the probability of recovery. Cash disbursement may be associated with those types of investments that yield higher cash flows hence this may have a positive impact on repayment. Borrowers receiving cash have the latitude to invest funds to his/her preferences thus increasing their bargaining power and the possibility of purchasing a quality asset. Cash disbursement may also imply greater legitimacy of debt obligations. Many group lenders generally disburse in cash and trust the borrower to make the right purchase decision when faced with the certainty of strict repayment obligations.

5.1.5 Conclusions

The study has shown that market conditions have a great impact on loan repayment. Credit officers and group leaders must be cognizant of these conditions and where they are prevalent they can vary the loan credit period to enable borrowers meet their repayment obligations. However this underlines the need for banks and borrowers to exercise greater care in assessing market potential and local market demand prior to investing. Secondly it is important to screen borrowers to ensure appropriate selection (when the groups are formed). This ensures adequate use of funds by only admitting
members with viable businesses to minimize defaulting. Third, participating in group activities has inbuilt merits both to the lenders and clients. Officials can identify the needs of the clients while members use such meetings to motivate each other to repay loans. There is need to increase credit camp meetings. Lastly, the loan disbursement procedure should be tailored to the needs of the borrowers. The borrower should be left to decide on the best use of funds and encouraged to use funds wisely and repay.

5.1.6 RECOMMENDATIONS

While group lending has become a viable strategy to meet the financial needs of the poor, certain guidelines should be adapted to reduce loan default. Clients must be carefully selected and screened, asking for character references and forming groups can offset the lack of information about potential borrowers. Alternative terms of collateral such as joint liability should be accepted. Lastly, loan performance should be monitored closely through a well-developed management information system—arrears must be investigated by the loan officers responsible for managing the account.

Potential borrowers should be allowed to form social groups so that social collateral replaces the more conventional security that is used in the formal sector. Micro financial institutions are also recommended to restructure their loans to accommodate individual-based loan schemes as opposed to group-based schemes currently practiced by majority of the MFIs. The loan schemes should also be restructured to allow for easier term of repayments with regard to interest rate on loans and duration of repayments. A conducive regulatory environment should be created for
the micro financial institutions by way of specific registration governing the affairs of the MFIs. A good policy environment would go a long way in ensuring that the micro finance industry thrives and is thus able to empower many poor people.

Micro financial institutions should increase capacity building programs to improve on service delivery and understand client needs to maximize loan delivery to potential borrowers.
APPENDIX I

Registered finance institutions in Bungoma District.

Barclays Bank

Eclof

Equity Bank Ltd.

Family Finance Bank Ltd.

Faulu Kenya

K-Rep Bank Ltd.

Kenya Women Finance Trust

Barbara

Bungoma Women Support Programme

Bungoma Organizations for Community Development

Youth groups

Barbara

Bungoma Women Support Programme

Bungoma Organizations for Community Development

Youth groups

Barbara
APPENDIX II

Registered Groups in Bungoma

Women groups
Mulembe Self Help
Bungoma Organization for Empowerment of Women

Youth groups
Bakoki Self Help
Bungoma Mji Youth Development and Rehabilitation
Nesco Self Help
Kholantie
Friends Income
Bungoma Home Based Support Programme
Bungoma Organization for Empowerment of Women

Youth groups
Mulembe Church Development Circle
Community Research in Environment Development Initiative
Nzoia Site Survivors Organization Divine Church
Mulima Ndala
Kituma
Women groups

Lusola

Heshimu

Women groups

Victory Community Based Organization

Mission Women

Weyela

Sunrise Women

Youth groups

Olimpic

Bungoma Family Helper

Women groups

Marakaru Huruma

Shangilia

Sisiaki

Youth groups

Kanduyi Upendo

Bungoma Herbalist

Kanduyi Star

Dorofu Orphan

Kanduyi Works Securit
APPENDIX III

QUESTIONNAIRE

1. What is the name of your group?

2. How old is your group?
   - 1 year
   - 2 years
   - 3 years
   - Above 3 years

3. How many members are there?
   - 1-9
   - 10-19
   - Above 20

Tick () your main business activity
   - Agricultural
   - Livestock selling
   - Shop keeping
   - Jua kali
   - Any other (specify)

The approximate number of sellers in the market is
   a) Below 5
   b) 5 - 10
   c) 10 - 15
There is

a) Moderate competition
b) Low competition
c) High competition
d) No competition

4. I am unable to repay my loan due to Tick (I)
   a) Large supplies in the market
   b) Low demand in the market
c) Poor location of the business
d) Low demand in
e) High costs of production

5. State other factors that affect your loan repayment objectives.
   a) Political
   b) Short repayment period
c) Delayed income from investment
d) High interest rate
e) Family commitment
f) Wrong choice of business enterprise

6. How many times do you attend group meetings in a week?
   a) Once
   b) Twice
c) Three times
d) four times
7. What activities take place in your group meeting?
   a) Revising rules and regulations
   b) Encouraging each other to repay loans
   c) Learning new ways of production
   d) Laying down plans for business improvement
   e) Meeting credit financiers

8. Do group meetings assist your in any way in repaying your loan?
   Yes/no

9. How would you improve on your loan repayment?
   a) Lengthening credit period
   b) Lowering interest charged
   c) Investing in a project that generates income fast
   d) Being financed in cash
   e) Being financed in kind
   f) Investing in an individual project

10. What factors consider before admitting a new member? (Tick)
    a) Age
    b) Of capital raised
    c) Political affiliation
    d) Stock volume
    e) Nature Of business activity

11. What conditions should an old member meet before getting another loan?
    a) Completion of first loan
b) Income generated

c) Compliance with group rules

d) Length of time in the group

12. Is client evaluation an advisable criterion before giving him/her a loan?

Yes/No


Yes/No

14. What is the merit of client evaluation?

a) Helps understand past performance of the client

b) One understands nature of client business

c) To gauge commitment to loan, repayment

d) To determine the amount of credit to lend

15. What is the nature of loan advanced to you?

a) fertilizer and seeds

b) a motorbike

c) a dairy animal

d) cash
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