

**MULTI-BORROWING PRACTICES AND LOAN REPAYMENT OF MICRO  
AND SMALL ENTERPRISES IN TRADE SECTOR IN MERU COUNTY,  
KENYA**

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**DECLARATION**

I declare that this research project is my original work and has not been presented for examination in Kenyatta University or in any other University. No part of this research project should be reproduced without my consent or that of Kenyatta University.

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**SUPERVISOR’S APPROVAL**

This research project has been submitted with my approval as the appointed University Supervisor.

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## **DEDICATION**

This research project is dedicated to my dear wife Mercy, for the support she has given me throughout the entire course. She understood the need to sacrifice our resources for this noble course. I also dedicate this work to my loving children Esther and David, for their understanding and encouragement during the course of this study.

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## OPERATIONAL DEFINITION OF TERMS

|                     |   |
|---------------------|---|
| Financial literacy  | This refers to the ability to understand the terms and conditions of a loan and the implications of repaying it. It will focus on borrower's formal level of education and the years of education experience on financial usage education.  |
| Interest payable    | Refers to the amount of interest due per period, as a proportion of the amount lent, deposited or borrowed. The total interest on an amount lent or borrowed depends on the principal sum, the interest rate, the compounding frequency, and the length of time over which it is lent, deposited or borrowed. |
| Loan Default Rate   | This is the percentage of loan borrowers who have failed to repay their loan amount.  |
| Loan Repayment Rate | This is a measure of the percentage of loan borrowers who have successfully repaid their loan amount.   |
| Loan repayment      | Refers to the capacity of the borrower to remit back the borrowed funds as agreed with the lender. The capacity to pay the required amount as per agreed time. The loan repayment capacity of the MSEs  |

|                            |  |
|----------------------------|--|
|                            | were assessed by three measures which include loan repayment rate, loan delinquency rate and loan default rate.  |
| Multi-borrowing practices: | This is a situation where clients either borrow from more than two financial institution or borrow several types of loans from one financial institution in a given period of time. Multiple borrowing was measured by assessing the number and the amount of loans borrowed, interest payable and the level financial literacy among the borrowers. |

## **ABBREVIATION AND ACRONYMS**

**MFIs** - Micro Finance Institutions

**MSE** - Micro and Small Enterprises

**SPSS** - Statistical Package for Social Sciences.

## ABSTRACT

In Kenya, the increase in multi-borrowing and its effects on loan repayment is a growing concern for microfinance institutions. The general purpose of this research was to establish the effect of multi-borrowing on loan repayment among MSEs in Meru County, Kenya. Specifically, the study aimed to determine how the number of loans borrowed, interest payable, and the financial literacy of borrowers influenced loan repayment within Meru County, Kenya. The research was anchored on information asymmetry, prospect theory, moral hazard, and adverse selection theories. The study targeted 6,000 MSE owners who were members of Meru County Microfinance, from which a sample of 200 borrowers was selected. A descriptive research design was employed to assess how multiple borrowings affected loan repayment. Cluster and random sampling methods were used to identify respondents across the seven branches of Meru County Microfinance. Primary data was collected using questionnaires, and analyzed by use of descriptive, correlational, and regression analysis techniques. Inferential analysis was conducted at a 0.05 significance threshold, utilizing the Statistical Package for Social Sciences (SPSS) version 28 for data analysis. Ethical standards were strictly observed throughout the study. The study revealed that the number of loans borrowed had a significant impact on loan repayment among MSEs in Meru County, Kenya. Effective management of borrowing was crucial for better repayment outcomes. Interest payable was identified as a critical factor affecting loan repayment; enterprises with well-managed credit risk practices, including the adjustment of interest rates and repayment schedules, exhibited better repayment performance. Furthermore, the level of financial literacy positively influenced loan repayment, with higher financial literacy levels leading to improved loan management and repayment behaviors. The study concluded that the number of loans borrowed significantly affected loan repayment, although its impact was less direct compared to other factors. Interest payable had the most substantial effect on loan repayment, with effective credit risk management correlating strongly with better repayment outcomes. Additionally, a higher level of financial literacy was found to significantly enhance loan repayment. Based on the findings, it is recommended that micro and small enterprises regularly review and manage their borrowing policies to improve loan repayment. Financial institutions should implement clear policies on irrecoverable loan provisions and adopt robust credit management practices to ensure better loan repayment. Moreover, enhancing financial literacy among borrowers is crucial for improving loan repayment, and thus, targeted financial education programs should be developed. Policymakers should also evaluate and update regulatory frameworks to support effective loan management and repayment practices within microfinance institutions.

## CHAPTER ONE: INTRODUCTION

### 1.1 Background to the Study

Due to flexible repayment periods and attractive interest rates, microfinance institutions have seen a sharp increase in the number of MSEs in Kenya engaging in repeated borrowing and multi- borrowing. (Alumasa & Muathe, 2021). However, poor loan repayment remains a pressing issue, as highlighted by Twesige *et al.* (2021), largely driven by the cumulative interest burden associated with multiple borrowing. This borrowing behavior overwhelms MSEs, leading to liquidity problems and eventual poor loan repayment. Afroze *et al.* (2016) noted that as debt obligations increase, businesses are forced to take out additional loans, perpetuating a cycle of indebtedness and further exacerbating repayment challenges. The poor loan repayment problem becomes even more severe when businesses cannot meet their scheduled payments due to mounting interest and reduced cash flow, leaving them vulnerable to default.

Multiple borrowing poses a significant risk of loan repayment issues, primarily because it can overwhelm borrowers and lead to default. Multiple borrowing carries an increased risk of loan default, particularly when clients lack sufficient financial literacy. Borrowers with little prior knowledge of loan usage often struggle with repayment as their debt burden increases (Alumasa & Muathe, 2021). According to Lusardi & Mitchell (2014), individuals with limited financial literacy are more likely to mismanage debt, leading to defaults. Gaudence *et al.* (2018) found that low educational experience also raises default risk. Karlan *et al.* (2018) noted that inadequate borrower assessment often leads to microfinance institutions facing delinquencies. High interest rates further constrain loan repayment for

MSEs (Muthuni, 2016; Twesige *et al.*, 2021), increasing the likelihood of auctioning off assets.

### **1.1.1 Loan repayment**

Loan repayment implies the ability of the borrower to repay the borrowed funds when due. In the instance that the borrower fails to pay loan then they will be defaulters. However, for borrowers that settle the loans on time are termed as compliant (Charles & Mori, 2017). The measures of loan repayment that were used to assess the loan repayment among the MSEs will be the loan repayment rate, loan default rate and loan delinquency rate. These measures have been used by past scholars such as Kiptum (2019), Endris (2022), Ssekiziyivu *et al.* (2018), Ntiamoah *et al.* (2014) and Chong (2021).

Loan repayment rate is the measure of percentage of loan borrowers who have successfully repaid their loan amount. Earlier research by Kiptum (2019) posits that loan repayment measure could be evaluated in terms of a binary variable to constitute borrowers that paid the loans on time following regular instalments soon after loan disbursements and those that did not comply with the agreed terms for payment of the loan. Endris (2022) established that loan repayment affects MSEs due to inconveniences of loan payback period and lack of financial literacy skills and planning among many operators of the MSEs. Additionally, Ssekiziyivu *et al.* (2018) established that the higher the loan repayment rate, the higher the probability of the microfinance institution collecting interest revenues and the lower the loan losses which enhance its sustainability. In addition, weak repayment rates affect negatively MSEs relations with the financial institutions and make them disinterested to engage in other financial transactions (Endris, 2022).

Loan default rate is the percentage of loan borrowers who have failed to repay their loan amount and have no indications to pay. According to Ntiamoah *et al.* (2014) and Endris (2022) loan default would imply a repayment that has not been made and shows very minimal or no chances of getting paid. Loan default rate would thus be evaluated as a binary variable for the repayment that is not entirely made and that which is either made timely or late. High default rates in MSEs lending should be a major concern to policy makers in developing countries, because of its unintended negative impacts on MSEs financing (Ntiamoah *et al.*, 2014; Kelchen & Li, 2017). Lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by Credit Officers are some of the causes of loan defaults (Ntiamoah *et al.*, 2014).

Loan delinquency rate is the percentage of loan borrowers who are behind on their loan payments. The measure will focus on the percentage of loans that are past due date for the loan repayment although the borrowers may have indicated the willingness to pay the loan. According to Chong (2021) a loan is delinquent when a payment is late and thus loan delinquency rate would be evaluated as a binary variable for the loans paid on time and those paid late. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predicting how much of the portfolio will eventually be lost because it never gets repaid (Chong, 2021). The cost of delinquency is not only felt by the lender but also the MSEs operators who gets to a trade-off between the penalties in lost reputation from delinquency versus the opportunity cost of forgoing investments due to working out the current loan as per agreed time (Ntiamoah *et al.*, 2014). As per Chong (2021) the resources for servicing the loan should be ascertained before lending so that the borrowers are not challenged when the loan is due. This study shall put

focus on the loan repayment capacity among the MSEs by estimating the percentages of repayment, default and delinquency.

### **1.1.2 Multiple Borrowing**

Multiple borrowing refers to the practice of obtaining loans from different sources within the same period (Diaz *et al.*, 2017). This phenomenon can occur when borrowers engage with both banks and non-bank lenders, such as microfinance institutions, within the same population. Factors from both the demand and supply sides contribute to multiple borrowing, which poses a credible threat to the long-term sustainability of the microfinance sector (Mia, 2017). According to Afroze *et al.* (2016), key reasons for multiple borrowing include client rustling and loan pushing from financial institutions, along with loan recycling by borrowers.

In this study, measures used to assess multiple borrowing included the number and amount of outstanding loans, interest payable, and the financial literacy levels of borrowers. Previous scholars have evaluated this variable by examining factors such as the number of outstanding loans, interest rates, and borrowers' financial literacy. For instance, Boatman and Evans (2017) highlighted that analyzing the number and amount of loans helps in understanding the prevalence of over-indebtedness. This study adopted similar measures, focusing on the number of outstanding loans, interest payable, and financial literacy, to gain insights into how multiple borrowing occurs and its impact on repayment capacities.

High interest rates can exacerbate repayment difficulties, as noted by Abu *et al.* (2017), while Kasoga and Tegambwage (2021) found that the number of loans is directly related to over-indebtedness, straining borrowers' financial stability. Kasoga and Tegambwage

(2021) also established that a high number of loans taken by MSEs from microfinance institutions may inhibit their repayment capacity, leading to an increased prevalence of loan defaults. An increased amount and number of loans typically indicate that clients are engaged in multiple borrowing, which significantly contributes to their inability to repay.

Furthermore, the interest rates associated with each loan taken by an individual can serve as a measure of the extent of multiple borrowing. Gaudence *et al.* (2018) found that borrowers' levels of financial literacy also influence loan repayment. Their research indicated that approximately one-third of American adults possess low financial literacy skills, hindering their ability to access and understand the information necessary to manage their loans effectively. Financial literacy plays a crucial role in helping individuals understand the risks and benefits of multiple borrowing (Boatman & Evans, 2017), enabling them to make informed decisions about their borrowing options and manage multiple debt payments through effective budgeting.

### **1.1.3 Micro and Small sized Enterprises**

Micro and Small sized Enterprises refer to business enterprises that have a specific range of turnover, employees as well as asset levels. Micro and Small Enterprises in Kenya are regulated by the Micro and Small Enterprise (MSE) Act No. 55 of 2012 (Rithaa *et al.* 2019). The Micro and Small Enterprises industry in Kenya is characterized by the employment of between zero to 50 employees for micro enterprises 0 -10 employees and for small businesses 10-49 employees. MSEs are enterprises whose annual sales are less than a million Kenya shillings (Felix & Wachira, 2018). The Micro and Small Enterprises sector in Kenya is considered as one of the major contributors to the economy by providing

income and employment to a significant proportion of the population (Nakhaima, 2016). In Kenya, MSEs is an important sub sector for the economy like many other developing countries since it employs about 85% of the Kenyan workforce (about 7.5million Kenyans of the current total employment) (Omondi & Jagongo, 2018). Mutuma (2020) revealed that Meru County, Kenya Business Licensing office had in their records 4,514 small enterprises operating as of 2020, the majority of which were sole proprietorships, and a handful were partnerships. Muriithi and Kinyua (2020) discovered that the majority of the businesses in Meru County, Kenya are generally indigenous and small; for instance, automotive repair shops, electronic appliance workshops, wooden fixture yards, dressmaking centers, retail shops, and bakeries, which qualify as MSEs.

Gichohi (2021) conducted a preliminary assessment of Meru town and its surrounding towns, revealing a prevalence of MSEs specializing in various products and services such as hardware, electronic appliances, groceries, cereal shops, eateries, and manufacturing, especially in dairy and soft beverages. There is also a high concentration of fuel and gas stations, beer and soft drinks distribution businesses. A number of these businesses are run within franchise agreements between owners and established large franchises. The owners of these businesses in the region are spread within the full range of social classes and demographics. Most of the MSEs in Meru County, Kenya are members of the Meru County Microfinance that has its branches distributed to the seven Sub Counties in the region.

However, the main branch in Meru town records the highest number of members of about 1500 out of the estimated member number of 6000 MSEs operators. Research has shown that 50% of the MSEs who borrow loans from the Meru County Microfinances experience loan under performance. (Kobia *et al.* 2021). Recently, Meru County (2018) report shows

that out of 200 loan applicants only 10% of them end up getting loans and this is due to either not fulfilling the requirements from the loaning institutions or non-repayment. Most of the MSEs have a history of either delinquency or defaulting the loan which bars them from ease access of the loan due to their poor repayment behaviors. Other than loans from the MFI, they also have loans from Saccos and banks in the region that deters them to comply with the loan repayment terms due to the huge interests on the loans that has to be settled in the different lending institutions.

## **1.2 Statement of the Problem**

Loan repayment is still a major challenge in many lending institutions like the microfinance institutions (Murigi & Thuo, 2023). Meru Microfinance faces the same problem (Kobia *et al.* 2021). The challenge affects the economic conditions of the country and family relationship as many entrepreneurs in micro and small enterprises end up by losing their assets and income. Earlier researches have shown that MSEs in Meru County, Kenya are not able to repay their loans to financial institutions when due (Kobia *et al.* 2021). This non-repayment has different facets such as rates of loan defaults, delinquency, and poor credit appraisal mechanisms, which exacerbate financial stress on both the borrowers and the lending institutions (Nguta & Huka, 2022). Most of the MSEs engage in multi-borrowing and are caught up with the inability to service the loans when due. Kiano (2022) established that most of the people in Meru region are not able to pay their loans owing to the unfavorable interest charged. Boiwa and Bwisa (2014) found that multiple borrowing among clients at Kenya Women Finance Trust, Trans Nzoia Region, resulted in high loan defaults due to insufficient loans from single institutions, loan recycling, and family obligations. The study emphasized the need for improved loan policies and better

coordination among microfinance institutions to reduce defaults. Similarly, Mathai (2020) discovered that microfinance institutions in Kajiado County faced high delinquency rates due to multiple borrowing, undermining their capital growth efforts. Both studies highlight inadequate legal frameworks and coordination between MFIs as key contributors to the issue of multi-borrowing. Kiano (2022) attributed the challenge of inability to repay loans to deficiency in entrepreneurial training, information and revised interest rates

The challenge of loan repayment among borrowers can significantly reduce their chances of accessing credit from microfinance institutions. Limited access to credit for small and medium enterprises (MSEs) is recognized as a major barrier to the performance, sustainability, and growth of MSEs globally (Micheni, 2021). According to the World Bank (2020), access to finance is frequently cited as a primary obstacle to the performance, sustainability, and growth of MSEs. Additionally, a study by Mutune (2018) highlighted that many women-owned MSEs in Meru County, Kenya engage in multiple borrowing; however, the reasons and consequences of this phenomenon remain unclear. Furthermore, various studies have indicated that factors such as interest rates and borrowers' financial literacy levels play a crucial role in loan repayment. For example, Kiano (2022) identified a link between the lack of entrepreneurial training and loan repayment difficulties faced by borrowers. Since very scarce information exists on the factors behind the inability of MSEs to repay loans, this study will focus on establishing the effects of multiple borrowing on the loan repayment by MSEs in Meru County, Kenya.

### **1.3 Objectives of the Study**

This study was guided by general and specific theories.

### **1.3.1 General Objective**

The general objective of this research was to establish the effect of multi-borrowing on loan repayment among micro and small sized enterprises in Meru County Microfinance.

### **1.3.2. Specific Objectives**

In order to determine multiple borrowing effect on the loan repayment, the study focused on the number of loans, interest payable and financial literacy sub variables which formed the following specific objectives:

- i. To determine the effect of number of loans borrowed on the loan repayment among micro and small sized enterprises in Meru County, Kenya.
- ii. To establish the effect of interest payable on the loan repayment among micro and small sized enterprises in Meru County, Kenya.
- iii. To determine the effect of level of financial literacy on the loan repayment among micro and small sized enterprises in Meru County Kenya.

### **1.4. Research Questions**

The study will answer the following research questions:

- i. What is the effect of the number of loans borrowed on the loan repayment among micro and small sized enterprises in Meru County, Kenya?
- ii. What is the effect of interest payable on the loan repayment among micro and small sized enterprises in Meru County, Kenya?

- iii. What is the effect of the level of financial literacy on the loan repayment for micro and small sized enterprises in Meru County, Kenya?

### **1.5. Significance of the Study**

The findings of this study will be of value to the management of micro and small enterprises who may use the findings to determine strategies that may be adopted on the issues of multiple borrowing, interest payable and financial literacy levels and loan repayment. Financial institutions may also use the findings to develop effective policies on multiple borrowing by micro and small enterprises. The findings of the study may also be of significance to policymakers who may use the findings to come up with policies and strategic mechanism on multiple borrowings and effective ways to improve the performance of micro and small enterprises. The findings of the study will be of benefit to the microfinance institutions who will determine the amount of interest payable to various loans to prevent possible default cases among clients due to unfavorable interests' charges. The findings will be of benefit to the micro finance institutions on determining the training needs of the borrowers. The findings of the study will also add on to the available theoretical and empirical literature on the performance of micro and small enterprises. The study will therefore be beneficial to other scholars and academicians as it will document key information for reference about MSEs and microfinance loan repayment.

### **1.6. Scope of the Study**

This research focused on multi-borrowing and loan repayment by micro and small-sized enterprises in Meru County. The independent variable was multiple borrowing, and the dependent variable was loan repayment. The number of loans, interest payable, and the

level of financial literacy were sub-variables for multiple borrowing. The study involved Meru County microfinance, which had seven branches, and the various MSEs with memberships in the microfinance institutions. The respondents were the MSE owners in Meru County, Kenya who had borrowed from the microfinance and whom the microfinance had determined to have engaged in multiple borrowing. The period of borrowing was between 2019 to 2023.

### **1.7. Limitations of the Study**

The target population of the study included MSE owners who were frequently occupied with their business operations. As a result, the sample respondents had limited time to respond to the questions due to their busy schedules. The researcher was therefore tasked with allotting more response time to individual respondents to address this challenge. Additionally, the study used a questionnaire, and respondents might have felt uneasy about answering the questions due to concerns about confidentiality, which could be a significant issue in data collection from individuals unwilling to provide information. To overcome this challenge, respondents were assured that the survey was solely for academic purposes and that their information would remain confidential. Moreover, self-reporting bias emerged as MSE owners and operators tended to provide socially acceptable and desirable answers rather than truthful ones. To address this issue, the researcher first conducted a pilot study to identify any ambiguities in the questions or potential sources of bias. Secondly, the researcher employed a peer comparison by providing respondents with information about the average loan repayment of similar businesses in their industry, creating a benchmark against which they could assess their own performance more

objectively. The researcher also provided a letter from the University to introduce the study to the respondents.

### **1.8. Organization of the Study**

The project is structured as follows: Chapter one provides the research background, problem statement, research objectives, significance of the study, scope, and the limitations encountered during the study. Chapter two presents the theoretical framework anchoring the study, a literature review on the effects of multi-borrowing, interest payable, and financial literacy on loan repayment ability for micro and small entrepreneurs, and a conceptual framework. Chapter three deals with the methodology employed in the study. Chapter four presents data analysis, including the response rate, demographics, and descriptive and inferential statistics on the study variables. Chapter five contains the summary, conclusions, recommendations, and suggestions for further research.

## **CHAPTER TWO: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents various theories used for the study, the empirical literature review, the conceptual framework and the summary of the literature reviewed.

### **2.2 Theoretical Review**

Theoretical review consists of the theories related to the study. The information asymmetry theory, prospect theory, moral hazard and adverse selection theories formed the theoretical underpinning for the study.

#### **2.2.1. Information Asymmetry Theory**

This theory was first introduced by Akerlofs (1970) in his paper entitled “The markets for Lemons: Quality Uncertainty and the Market Mechanism”. The theory states that each party of an economic transaction needs to possess sufficient knowledge about the other party to be able to make accurate decisions (Akerlof, 1970). Lending and borrowing transaction involve two parties which is the lender and the borrower. The existence of asymmetric information between borrower and lenders create confusion for players about credit lending. Information imperfection or asymmetry occurs when one party to a transaction has more and timely information than the other party. The availability of credit information is important to both parties, Lenders and lendees who assist in making educated decisions about how much and to whom a loan will be given (Kaugi, 2020). Where the banks exchange their clients 'creditworthiness knowledge, they may recognize the legitimate clients to reduce delinquency. The lenders use the credit background to

assess the collateral status of the borrowers. When the borrower gets a loan, he makes the promise to pay within the stipulated time, information exchange is essential as it helps the lenders to create an information capital by compiling and maintaining database used to generate reports from customer information database, which assists in credit analysis, execution, administration and review (Kaugi, 2020).

Financial literacy is a key variable in this study and the level of knowledge that the borrowers possess have a significant effect on the lending process. The expectation of the microfinance is that the borrowers are well informed and have the requisite formal education, loan usage education, entrepreneurial training on how to drive the MSEs and the needed business mentoring. The expectation of the microfinance also extends to the fact that the borrowers will pay the debt when due since they are aware of the loan terms. On the other hand, the borrower perceives the microfinance to understand any probable reason that may lead to late loan repayment. The borrower will also fail to disclose the needed information by the microfinance in fear of failure to be given the loan. The borrower in addition also fails to ask on the various loan terms that will apply to the loan including the interest payable which makes them lack knowledge on the repayment terms increasing their inability to settle loans when due. Such information asymmetry where one party to the transaction fails to disclose information or clarifications have negative impacts including adverse selection and moral hazards (Abdelhafid & Mohammed, 2019). In the case of adverse selection, the lender lacks information on the riskiness of its borrowers (Amran & Mwasiagi, 2019). Riskier borrowers are more likely not to pay loans than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk of default.

Unlike the adverse selection problem that can occur prior to a transaction, the problem of moral hazard appears only after the contract, so that the borrower uses the finance obtained in unproductive or high-risk activities, which increases the likelihood of not paying the loan. The reason for a lender's or investor's exposure to risk of moral hazard remains the inability to consistently monitor the activities of the borrower or issuer due to high monitoring costs (Kanyare & Mungai, 2017). The process requires the costs of time and effort. Abdelhafid & Mohammed (2019) denotes that the problem of moral hazard can be summed up as a problem with the behavior of the borrower, which the lender cannot predict and it is more likely present in financing of small and medium-sized enterprises compared to financing big enterprises because of their lack of financial transparency, ownership structure and their owners' concealment of the real purpose of the project. Due to asymmetry information between the borrowers and lenders, each of the party needs to mitigate the risk of the decision made while transacting with each other (Rithaa *et al.*, 2019). The lenders may request for collateral as a way of mitigating the risk involved. In case of default due to such asymmetry information, they may dispose the collateral attached to recover their investments. However, very limited options are available to the MSES in case of information asymmetry. This theory supports the variable of level of financial literacy, as it emphasizes the importance of knowledge and information exchange between borrowers and lenders to ensure accurate decision-making and reduce the risks associated with adverse selection and moral hazard.

### **2.2.2. Prospects Theory**

Prospect theory was developed by Kahneman and Tversky (1979) as a theory of decision-making under conditions of risk and uncertainty. The theory asserts that decisions are based

on judgment, where it is difficult to foresee the consequences or outcomes of events with clarity. Kahneman and Tversky's 1979 study tested financial choices under risk, concluding that such judgments deviate significantly from the assumptions of expected utility theory, which had remarkable impacts on science, policy and industry (Ruggeri *et al.*, 2020). Prospect theory is a theory about how people make choices between different options or prospects, is designed to better describe, explain, and predict the choices that the typical person makes, especially in a world of uncertainty (Nzomo, 2017). The theory describes such decision processes as consisting of two stages, editing and evaluation.

People choose which results they regard to be essentially equivalent, they establish a reference point, and they treat smaller results as losses and larger results as wins. According to the theory, decision-makers first assess their options in relation to some sort of benchmark, usually the status quo or the existing situation (Nzomo, 2017). People typically use a risk-averse approach when deciding between options that seem to increase relative to that reference point, while taking a risk-seeking approach when deciding between options that seem to decrease compared to that reference point. As per Estrin *et al.* (2017), the prospect theory provides additional insights to aid in the credit evaluation of borrowers and aids in the comprehension of individual decision-making processes. The prospect theory can be used to create a suitable system to limit the borrower's multiple borrowings and to more accurately determine the credit risk of their clients. This theory supports the variable of interest payable, as it highlights how borrowers' decision-making under risk and uncertainty influences their willingness to take on debt and manage loan repayments, particularly when faced with changing financial conditions and the perceived impact of interest rates.

### **2.2.3 The Moral Hazards Theory**

The theory of moral hazard was first explored by economist Kenneth Arrow in 1963. Moral hazard in microfinance occurs when lenders cannot confirm if the borrower uses the loan as intended (Khandker, 2005). This also includes uncertainty about whether the borrower applies necessary inputs, like effort and entrepreneurial skill, to fulfill the loan terms (Armendáriz & Morduch, 2010). The borrower may subsequently be less able to repay if he receives fewer inputs than anticipated (Ghatak & Guinnane, 1999). The moral hazard also refers to banks' diminished ability to monitor borrower conduct when they are dealing with lower-income borrowers. Therefore, moral hazard develops when borrowers fail to uphold their end of the bargain between the financial institutions and the beneficiaries. The majority of business loans are solely provided to promote business expansion and increase operating capital. However, it occasionally occurs that some loan borrowers are unreliable in upholding the agreement reached with the financial institutions (Mukono, 2015). Since the loan was diverted from its intended commercial purpose, moral risks can arise that may undermine micro and small businesses loan repayment. This theory supports the variable of number of loans borrowed, as it emphasizes the challenges lenders face in ensuring that borrowers use multiple loans for their intended purposes and apply the necessary effort to meet repayment obligations.

### **2.2.4 The Adverse Selection Theory**

Stiglitz and Weiss (1981) are credited with developing the adverse selection theory. According to the theory, adverse selection happens when borrowers possess qualities that are invisible to the lender but have an impact on their likelihood of being able to repay the loan. The theory is predicated on two key premises: that lenders are unable to distinguish

between borrowers with varying levels of risk, and that loan agreements are subject to limited liability. This means the borrower is not required to make any out-of-pocket payments if project returns are less than debt obligations. The adverse selection theory explains the circumstance where a financial institution is unable to distinguish between safe and risky borrowers. In the case of adverse selection, the lender is unsure of how risky the borrowers are. Riskier borrowers should be charged higher interest rates to offset the higher default risk compared to safer borrowers who are less likely to default. Safer borrowers ought to pay less, given that each type can be correctly identified. Due to the lender's insufficient knowledge of the risk profile of its borrowers, all borrowers, regardless of their risk profile, are subject to higher average interest rates (Mukono,2015). To mitigate adverse selection problems, lenders take their borrowers through an elaborate screening procedure before granting a loan however, this has been able to reduce loan default among MSEs.

## **2.3 Empirical Review**

This section provides available literature on multiple borrowing and loan repayment among MSEs. The section focuses on the number of loans borrowed, interest payable, financial literacy and loan repayment in microfinance institutions. The section explores previous studies on the aspects considered in this study and provides any empirical relations among them.

### **2.3.1 The Number of Loans Borrowed and Loan repayment**

Micro and Small Enterprises (MSEs) borrow significantly, often due to loan recycling, insufficient loan amounts, and family obligations. This leads to increased debt burden,

financial strain, and inadequate returns to meet repayment obligations thus diverting them to other purposes, as per Ravichandran (2016). This misuse of funds is corroborated by recent studies that highlight how financial mismanagement and lack of financial literacy contribute to poor loan repayment (Karanja *et al.*, 2021; Kinyua & Muturi, 2020). Moreover, the cumulative effect of multiple loans not only heightens the debt burden but also diminishes cash flow, thereby reducing MSEs' capacity to repay their loans (Twesige *et al.*, 2021). Research by Kinyuru (2022) supports this view, showing that MSEs with higher loan amounts experience more difficulty in meeting their repayment schedules, as the increasing debt load becomes unsustainable relative to their revenue streams. This highlights the critical need for better loan structuring and financial literacy interventions to ensure that MSEs can manage their debts effectively and improve loan repayment rates.

Ali *et al.* (2022) in a logistic regression model to assess the determinants of multiple borrowing established that the number and amount of loan acquired by the borrower has a positive relationship with multiple borrowing. More recently, the issue of multiple borrowing has become rampant in the microfinance industry, thus calling for the dire attention of practitioners and researchers (Mia, 2017). Generally, multiple borrowing signifies simultaneous acquisition of loans from more than one financial institution (Van Tassel, 2017). The growing trend of borrowers acquiring many loans cast doubt on the efficacy of microfinance programs (Mia, 2017; Charles and Mori, 2017). Studies have highlighted that having high number of loans to pay adversely impacts borrowers' welfare (Charles and Mori, 2017; Green and Liu, 2021) and MFIs (Mia, 2017). Some of the common undesirable risks associated with many loans include poor and late repayment, fewer savings, over-indebtedness and loan default and delinquency (Mia, 2017). Moreover,

borrowing many loans raises opportunity cost, as borrowers tends to expend more time and undergo stress in forming various group, attending meetings and repaying loans.

Having a high number of the total loans borrowed, to some extent, was not an issue in the early days of microfinance when service providers were limited and group-based lending technique was predominantly followed to filter bad/multiple borrowers. Unfortunately, with the mushrooming of MFIs in recent years, competition has increased significantly, forcing many MFIs to discard joint liability scheme in favor of individual loans (Ali *et al.*, 2022). As such, it becomes difficult for the loan officers to conduct extensive background check on potential loan applicants (many of whom lack credit history), which was initially mediated by the group members. Ali *et al.* (2022) also dictates that information asymmetry also plays an important role, as many borrowers secretly take multiple loans and fail to disclose them for the fear of their new application being rejected. Such laxity in loan application coupled with information asymmetry might be one of the supply side factors contributing to clients' multiple borrowing. Mia (2017) established that the growing competition and aggressive expansion of MFIs also inspire MSEs to take loans from multiple lenders. Additionally, lack of monitoring and the weak regulatory framework of MFIs are also partially responsible for multiple borrowing increasing cases of delinquency. It's evident from the literature that the total number of loans borrowed has an effect on loan repayment by MSEs which this study sought to establish in Meru County.

### **2.3.2 Interest Payable on the Loan repayment**

Interest payable is the cost a borrower will incur when taking a loan from a bank. Interest payable is an important element in the demand for and supply of loan and credit. Salifu *et*

*al* (2018) argues that loanable funds are not without cost (i.e., interest) and the interest element of a loan is as important as other determinants of loan repayment. Borrowers who are able to repay their loans together with interest are those who are likely to be given preference in subsequent lending exercise. Abu *et al.* (2017) established that the amount of interest payable and the amount of loan taken by the borrower are the simultaneous determinants of the rate and the probability of loan repayment. Higher interest rate increases the cost of loan and therefore deteriorates loan repayment. The elements considered under the interest payable in this current research are the average interest rate, the loan application fee and insurance charges. Salifu *et al* (2018) defines loan application fee as the cost that is incurred by a borrower in the process of applying for a loan.

The loan application cost in the form of processing fees is usually non-recoverable even when the loan application is unsuccessful and can vary widely depending on the type and the loan being borrowed (Ferrari *et al.*, 2018). These processing fees increase the cost of borrowing and more often borrowers have to rely on money from their friends and relatives in order to meet such cost. When the loan is eventually granted, part of it is used to service the debt owed to friends and relatives (Salifu *et al.*, 2018). As a result, borrowers are left with insufficient funds that cannot be adequately applied to the intended purpose, and thus reducing loan repayment. Akingunola *et al.* (2018) established that businesses that access microcredit have grown averagely regarding business expansion however microfinance banks should increase the size of loan and interest charged to MSEs, so that they have enough funds to finance their operation. Typically, MSEs growth may be determined by the ease of accessibility of loans to enable their expansion. However, the failure by the

borrowers to use the funds for the intended MSEs expansion may increase the in-loan repayment when due.

The borrowers are not able to accumulate the needed principal amount and interest to be paid when due and therefore end up defaulting. Murage (2021) examined how interest rates affected the financial performance of MSEs in Mathare Sub- County and found that low-interest rates impact MSEs' willingness to apply for loans. Owing to the reasonable interest rates, the MSEs in Mathare Sub County were able to pay off their loans without difficulty that improved their performance. Odhiambo (2019) sought to assess if interest rates have an impact on MSEs' demand for credit in Kenya, as well as whether interest rates have an impact on MSEs' loan repayments and established that high interest rates did not have an effect on the demand of loans by the MSEs but yielded serious repercussions on loan repayment. Msomi & Olarewaju (2022) revealed that exorbitant lending rates deter MSEs from seeking loans from financial entities because the repayment of that kind of loans might effectively eliminate all the profits generated by their businesses or in the opposite lead to loans default. It's behind this literature that this study seeks to establish the effects of interest payable on microfinance loan repayment among micro and small sized enterprises in Meru County, Kenya.

### **2.3.3 The Level of Financial Literacy on the Loan repayment**

Financial education of the borrower forms a key determinant of the loan repayment to the microfinance by the MSEs. Abera & Asfaw (2019) established that among the determinants that affects loans repayment is financial education. Typically, education refers to the knowledge capacity of the borrower. The elements considered under financial literacy in

this study includes formal education, loan usage education, entrepreneurial training and business mentoring. Santoso *et al.* (2020) established that higher educated borrowers are more likely to increase their assets from the provision of microcredit and increase their loan repayment. Endris (2022) in a logit regression showed that enterprise manager education level and financial literacy positively and significantly affected loan repayment. Endris (2022) findings implied that borrowers who had higher level of formal education as well as knowledgeable in financial literacy were more compliant in repayment of microfinance loans as opposed to them that had little or no formal education. However, the existing literature often overlooks the specific dimensions of financial literacy that contribute to repayment compliance, indicating a need for a more nuanced understanding of these elements in the context of MSEs.

Melese and Asfaw (2020) established that financial literacy of the borrower has a positive and statistically significant effect on loan repayment. The findings implied that as the level of education increases, borrowers enhance their ability to access business information, evaluate and understand the information and use it for different activities. Therefore, a borrower will likely have greater loan repayment ability when he or she has a higher financial literacy and vice versa, *ceteris paribus*. Melese and Asfaw (2020) findings also implied the higher educational level enable borrowers to realize more complex information, go on business records, perform basic cash flow analysis and make the right business decisions that enables them become more compliant than defaulters. Nevertheless, these studies primarily focus on the correlation between education and repayment without addressing how financial education directly influences repayment behaviors, highlighting the necessity for further research into this causal relationship.

Teka (2022) revealed that education level, lack of prior experience in accounting and business management, lack of business knowledge, lack of entrepreneurial mindsets or entrepreneurship competency among the operators of MSEs, and a lack of technical and managerial experience all influenced the sustainability and growth of MSEs. Alene (2020) established that MSEs that were operated by individuals who had a greater degree of education and prior experience expand quicker than their counterparts could do better financially than their peers in terms of loan acquisition and repayment. While these studies underscore the importance of education and experience, they often fail to explore how these factors interact with other variables, such as emotional intelligence or risk tolerance, thereby underscoring a research gap regarding the multifaceted influences on loan repayment in MSEs.

Entrepreneurial knowledge and business mentorship may have an effect on the microfinance loan repayment by the MSEs. The development of a business cannot solely rely on the funds of the business but also the entrepreneurs should be motivated in the correct path to achieve enterprise development and facilitate loan repayment. Microfinance institutions are helpful in provision of entrepreneurship skills and knowledge on capital, risks and empowerment in economic activities (Danstun & Harun, 2019). Rajapakshe (2021) argues that MFIs offer entrepreneurial training and mentorship with the objective of imparting knowledge and skills to business persons to enhance their behavior and how they perceive their daily business activities efficiently and effectively. Rajapakshe (2021) revealed that training sessions to gain skills such as finance management, human resource management, marketing management, capital management and technological skills and information are constantly valuable to micro scale business people as they would promptly

expand development of business exercises and the repayment of loans taken in the long run. The borrowers become aware of the prerequisites needed prior to taking the loan guarantee timely loan repayment. Despite these insights, the existing literature tends to overlook how variations in the quality and content of entrepreneurial training affect loan repayment outcomes, indicating a clear gap that this study aims to address by examining the relationship between education level and loan repayment among MSEs in Meru County, Kenya.

#### **2.3.4 Loan repayment**

The expectations of both lenders and borrowers in microfinance institutions (MFIs) revolve around successful loan repayment. Lenders anticipate that borrowers will utilize loans effectively, leading to timely repayments, while borrowers expect to improve their financial stability through the acquired loans. According to Jote (2018), high loan repayment rates benefit both parties, fostering a relationship built on trust. When repayment rates are high, MFIs strengthen their financial position, and borrowers gain access to additional credit. Conversely, low repayment rates negatively affect both the borrower and the institution, leading to increased operational costs, potential liquidity issues, and loss of future credit access.

Jote's (2018) research identified several critical factors influencing loan repayment, including borrower education level, the lending method employed, proximity to the lending institution, family size, income derived from financed activities, and access to training. These factors highlight that both personal characteristics and situational circumstances shape borrowers' repayment behaviors. Further supporting these findings, Twesige *et al.*

(2021) emphasized that borrower education and effective loan utilization significantly improve loan repayment rates.

Loan delinquency, characterized by delayed or overdue payments, is another critical challenge in MFIs. As of mid-2023, delinquency rates for microfinance banks in Kenya were approximately 32.9%, while credit-only MFIs recorded a rate of 11.6% (Agusto & Co., 2023). Globally, delinquency remains a concern, particularly with group lending models, where borrower capacities can vary, leading to inconsistent repayment (Mody, 2024). Zainuddin and Yasin (2019) noted that information asymmetry, along with the absence of collateral, contributes to adverse selection and moral hazard, further exacerbating delinquency issues. However, delinquent loans do not always result in default. Athreya *et al.* (2018) found that about 85% of borrowers who were delinquent by 2-3 months managed to repay within the next quarter, with 40% reducing their debt burden.

Chong (2021) identified borrower education and financial literacy as crucial determinants of loan delinquency, indicating that formal education and training on loan usage lead to better repayment outcomes. However, Chong (2021) also noted that factors such as gender and income level do not significantly impact delinquency rates. Loan delinquency is thus a crucial metric in evaluating borrower repayment behaviour, as it reflects their inability to meet repayment obligations on time.

In cases where delinquent loans remain unpaid, they ultimately become defaulted. Loan default, defined as the failure to repay a loan (Agbemava *et al.*, 2016), is particularly prevalent in MFIs compared to other financial institutions. For example, in Kenya, as of June 2023, the non-performing loan (NPL) ratio for microfinance banks stood at 32.9%,

with credit-only MFIs experiencing a default rate of 11.6% and wholesale MFIs recording a default rate of 6.2% (Agusto & Co., 2023). Macroeconomic shocks, inconsistent cash flows among low-income borrowers, and a lack of entrepreneurial skills are key contributors to these high default rates (Mody, 2024; Kiano, 2022).

Loan defaults significantly affect MFIs' financial health, leading to reduced lending capacity, impaired financial returns, and diminished ability to raise capital (Twesige *et al.*, 2021). Kiano (2022) emphasized that most defaulters lack formal education, entrepreneurial training, and a clear loan plan, contributing to their inability to repay. Consequently, the loan default rate will be a critical measure of loan repayment performance in this study, as it indicates the percentage of borrowers who have failed to meet their repayment obligations.

## **2.4 Summary of Literature and Research Gaps**

The bulk of research included several industries rather than just the banking sector, which revealed contextual gaps that the empirical evaluation discovered. Literature studied has also demonstrated the conceptual gaps exist since the study had not integrated all the operational indicators employed in this study. Methodological deficiencies have been highlighted in the literature review, indicating that several of the closely examined studies were unable to provide enough justification for their study design, sampling strategy, and data processing techniques. Table 2.1 presents a thorough synopsis outlining the gaps in the current literature, giving a succinct summary of the gaps found in the research.

**Table 2.1: Summary of Literature and Research Gaps**

| <b>Researcher(s)</b>            | <b>Study Focus</b>                           | <b>Results</b>  | <b>Gap</b>  | <b>Study Focus</b>   |
|---------------------------------|--|---|---|--|
| Ravichandran (2016)             | Misuse of Borrowed Funds                     | Some borrowers fail to use borrowed funds for their intended purpose, impacting repayment.      | This study addresses misuse of funds; our research focuses on the general effects of multiple borrowing on repayment.   | Effect of number of loans borrowed on loan repayment among MSEs in Meru County, Kenya. |
| Mia (2017)                      | Causes of Multiple Borrowing                 | Cited mushrooming MFIs as a reason for increased multiple borrowing, leading to poor repayment. | This study highlights causes of multiple borrowing; our research focuses on its direct effects on repayment.            | Effect of number of loans borrowed on loan repayment among MSEs in Meru County, Kenya. |
| Abu <i>et al.</i> (2017)        | Effect of Interest Payable on Loan Repayment | Higher interest payable results in lower loan repayment rates.                                  | This study is in the area of interest rates and repayment, while our study focuses on the effect of multiple borrowing. | Effect of interest payable on loan repayment among MSEs in Meru County, Kenya.         |
| Akingunola <i>et al.</i> (2018) | Interest Charged to MSEs                     | Increased interest charged leads to low chances of loan repayment.                              | This study is in the area of interest rates, whereas our study examines multiple borrowing effects on repayment.        | Effect of number of loans borrowed on loan repayment among MSEs in Meru County, Kenya. |
| Santoso <i>et al.</i> (2020)    | Importance of Financial Education            | Higher financial literacy correlates with better loan repayment compliance.                     | This study emphasizes financial education; our study looks into multiple  | Effect of financial literacy on loan repayment among MSEs in Meru, Kenya.              |

|                          |  |   |   |  |
|--------------------------|--|---|---|--|
|                          |  |   | borrowing's overall impact on repayment.  |  |
| Alene (2020)             | Borrowers' Knowledge on Loan Terms               | Higher levels of formal education lead to better understanding of loan terms and improved repayment compliance. | This study is focused on education and compliance; our study investigates the broader effects of multiple borrowing on repayment. | Effect of financial literacy on loan repayment among MSEs in Meru County, Kenya.       |
| Murage (2021)            | Recommendations on Interest Payable              | Recommended low and reasonable interest rates to facilitate loan acquisition and repayment.                     | This study recommends practices to improve repayment; our study examines the effects of multiple borrowing.                       | Effect of interest payable on loan repayment among MSEs in Meru County, Kenya.         |
| Rajapakshe (2021)        | Role of Entrepreneurial Skills in Loan Repayment | Borrowers with entrepreneurial skills and training show high compliance during loan repayment.                  | This study is focused on entrepreneurial skills; our study investigates the broader impact of multiple borrowing.                 | Effect of financial literacy on loan repayment among MSEs in Meru County, Kenya.       |
| Ali <i>et al.</i> (2022) | Multiple Borrowing and MSE Growth                | Multiple borrowing results in late and poor loan repayment, despite possible business growth.                   | This study investigates the implications of multiple borrowing; our research examines its effects on loan repayment specifically. | Effect of number of loans borrowed on loan repayment among MSEs in Meru County, Kenya. |
| Endris (2022)            | Financial Literacy and Compliance                | Borrowers with higher financial literacy exhibit better compliance  | This study is in the area of financial literacy; our research   | Effect of financial literacy on loan repayment among MSEs in                           |

|                          |                                      |   |   |   |
|--------------------------|--------------------------------------|---|---|---|
|                          |                                      | during loan repayment.  | examines multiple borrowing effects on repayment.   | Meru County, Kenya.   |
| Msomu & Olarewaju (2022) | Interest Rates and Borrower Behavior | Higher interest rates may deter borrowers from acquiring loans. | This study explores the deterrent effect of interest rates, whereas our study focuses on multiple borrowing's effects on repayment. | Effect of interest payable on loan repayment among MSEs in Meru County Kenya. |

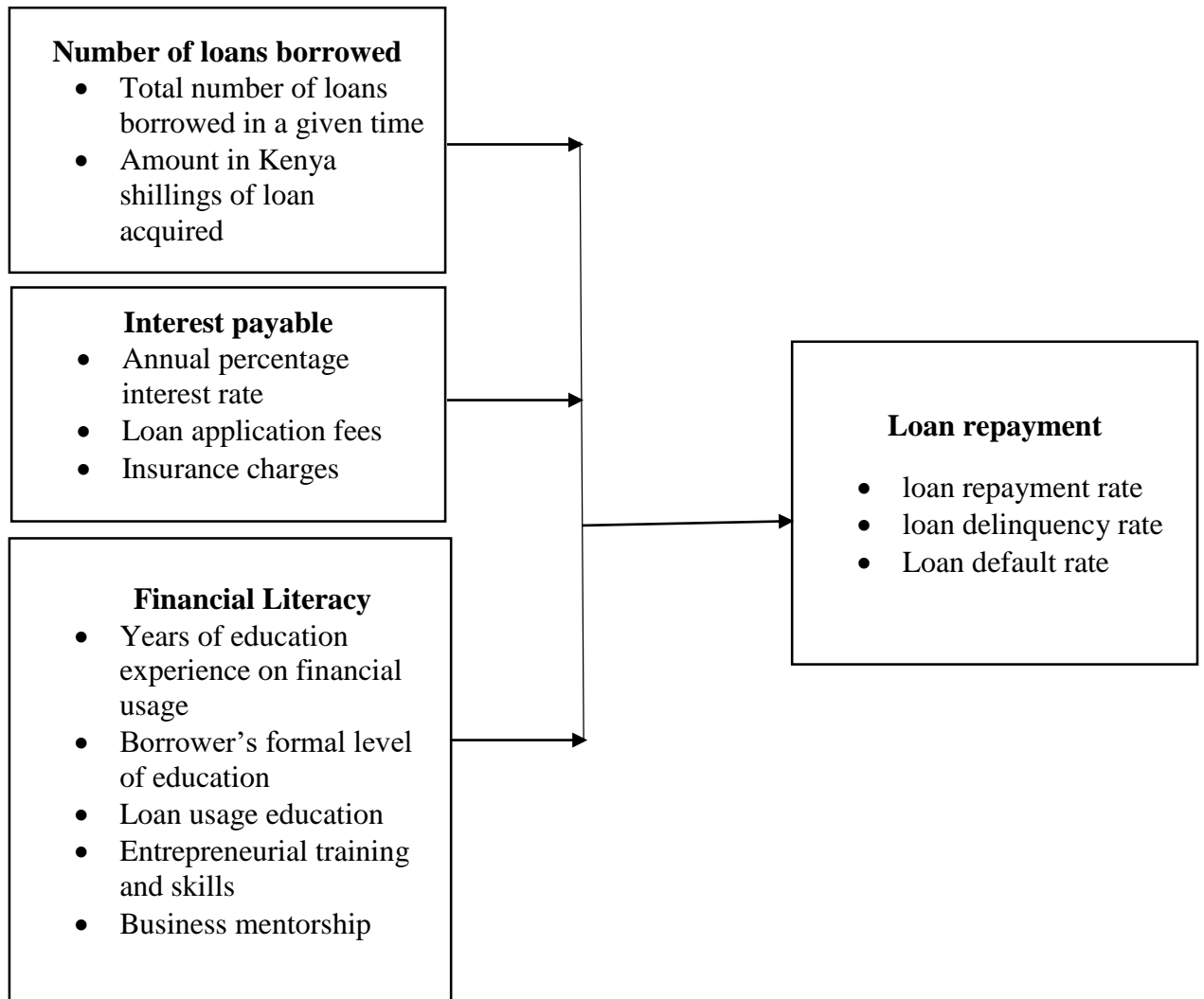
**Source: Researcher (2024)**

## 2.5 Conceptual Framework

A conceptual framework consists of a set of ideas and principles that are used to create and examine various relations between certain elements (Njagi, 2019). Generally, the conceptual framework depicts relationships between the dependent variable and the independent variables. Figure 1 shows the conceptual framework of the study variables. The independent variable that is multiple borrowing including number and amount of loans, interest payable and the borrowers' financial literacy in relation to microfinance loan repayment the dependent variable.

**Independent variable**

**Dependent variable**



**Figure 2.1: Conceptual Framework**

**Source: Researcher (2024)**

## **CHAPTER THREE: RESEARCH METHODOLOGY**

### **3.1 Introduction**

This section describes research design, study population, sample size and sampling procedure, research tools, and reliability of instrument validity, information collection processes, and ethical consideration methods.

### **3.2 Research Design**

A descriptive research design was used in this study. The descriptive research design is a scientific process that entails monitoring and describing a subject's behavior without affecting it in any form (Martyn, 2021). It answers the questions of how, when, where, and what. This study adopted a descriptive research design. The design was helpful in determining how multiple borrowing affected loan repayment among MSEs of Meru County, Kenya. It provided answers to the research questions and addressed the study objectives. Murage (2021) indicated that the design was preferable because it helped explain causal relations based on various data sources, such as questionnaires used in this study. The design also applied multiple methods of analysis, such as correlation and simple regression analysis, which were used to test the relationship between the study variables.

### **3.3 Target Population**

A population is a well-defined set of people, services, elements, events, groups, or households that are being investigated (Kaugi, 2020). In this study, the target population was composed of MSE operators in Meru County, Kenya who were members and borrowers of Meru County microfinance. The study focused on 6,000 borrowers from the

seven branches of Meru County Microfinance. The data was obtained from the Meru County Microfinance report (2022). Typically, the borrowers were MSE operators who borrowed from Meru County Microfinance between 2019 to 2023. The 6,000 borrowers had active accounts with the microfinance and were distributed among the seven branches of the institution. They had a history of engaging with the microfinance for a considerable period, seeking financial aid for their various business operations. The length of multi-borrowing varied, depending on when the MSE owners joined the microfinance and the frequency with which they sought financial aid.

### 3.4 Sampling Formula and Sample Size

Kothari (2004) sampling formula was employed to compute the desired sample size. The sample size of the borrowers was calculated as follows:

$$n = \frac{N}{1 + N(e^2)} = \frac{6000}{1 + 6000(0.07^2)} = 200 \dots \dots \dots (1)$$

Where,

**n** = desired sample size

**N** =population size

**e** = acceptable error.

A sample of 200 borrowers who were engaged in MSEs, are members of the microfinance and have a multi-borrowing profile were used.

### 3.5 Sampling Procedure

The sample size was distributed proportionately to the seven microfinance branches based on the estimated number of the entire target population (6,000 MSE owners), as shown in Table 1. From the target population, a sample size of 200 MSE managers was obtained using cluster stratified simple random sampling methods. Cluster and simple random methods were employed to select the sample. The selected respondents, who were MSE operators borrowing from the microfinance institution, responded to the questionnaire.

Sample for microfinance branch 
$$= \frac{\text{Total sample size}}{\text{Entire population}} \times$$
 population of the microfinance branch....2

**Table 3.1: Distribution of the Sample Size in the Seven Microfinance Branches**

| Microfinance branch | Target population | Sample size |
|---------------------|-------------------|-------------|
| Maua                | 1200              | 40          |
| Muriri              | 600               | 20          |
| Timau               | 700               | 23          |
| Meru Town           | 1500              | 50          |
| Nkubu               | 900               | 30          |
| Laare               | 600               | 20          |
| Mikinduri           | 500               | 17          |
| <b>Total</b>        | <b>6000</b>       | <b>200</b>  |

**Source: Meru County Microfinance Report (2022)**

Therefore, a total of 200 respondents were involved in the study.

### **3.7 Data collection Instruments**

Primary data was collected from borrowers operating various MSEs in Meru County, Kenya who were members of the microfinance institution. The instrument for collecting data was a semi-structured questionnaire. Amran and Mwasiaji (2019) stated that a semi-structured questionnaire was ideal for a descriptive study as it contained both closed-ended and open-ended questions. Benson (2018) supported the use of a questionnaire as an efficient means of data collection due to its standardization and high time efficiency. The questionnaire was addressed to the borrowers operating various MSEs in Meru who were members of the microfinance institution. The questionnaire (Appendix I) consisted of five sections: Section A on general information about the respondent, Section B on the number of loans borrowed, Section C on interest payable, Section D on financial literacy, and Section E on loan repayment. Additionally, the researcher used an interview guide (Appendix II) to collect data from the credit officers.

### **3.8 Pilot Study**

A pilot test was conducted on a small scale to test the practicality of the research tool for a large research project. A pilot test was therefore conducted prior to the main research to ensure that the questionnaire was reliable and adequate for use in the study. The questionnaire was administered to 20 randomly selected MSE owners who were borrowers with Meru County Microfinance and who were not included in the main survey. The 20 MSE owners engaged in small businesses involving electronics, dressmaking, eateries, and retail shops. Meru County, Kenya was chosen because it had a majority of MSEs, many of which depended on microfinance credit facilitation to operate. Similarly, Meru County, Kenya, where the main study was intended to be conducted, was characterized by several

MSEs that also relied on microfinance credit services to thrive. The data collected was subjected to analysis to test whether the research questions were adequate and whether the questionnaire was fit for use in the large-scale project.

### **3.9 Validity and Reliability Test**

#### **3.9.1 Test for Validity**

According to Taherdoost (2016), a valid research tool should measure what it was designed to measure. Thus, the research questionnaire included all essential elements needed to yield objective findings, while any undesirable elements were eliminated. The study employed a judgmental approach to content validity, which involved an in-depth review of available literature to determine relevant items for inclusion in the questionnaire. The research supervisor, along with other experts from the Department of Business Administration and stakeholders in the microfinance sector, assisted in the validation of the questionnaire.

#### **3.9.2 Test for Reliability**

A reliable research questionnaire should produce reliable findings (Loru, 2020). To enhance reliability, consistency and stability of the data were examined through an intensive literature review and consultations with relevant experts in the microfinance sector. Additionally, the questions were kept short and simple to facilitate understanding and avoid confusion among respondents, ensuring reliable findings. The study conducted a Cronbach alpha test to determine the scale reliability coefficient of the questionnaire. George and Mallery (2018) provided the following rule of thumb for testing reliability: if  $\alpha > 0.9$  – excellent,  $\alpha > 0.8$  – good,  $\alpha > 0.7$  – acceptable,  $\alpha = 0.6$  – questionable,  $\alpha = 0.5$  –

poor, and  $\alpha < 0.5$  – unacceptable. The alpha coefficient was the scale reliability value of the questionnaire, and the threshold for this study was set at an alpha of 0.7 and above.

### **3.10. Data Collection Procedures**

Data was collected from the sampled population over a period of thirty days. Before the start of data collection, the researcher informed the management of the seven microfinance branches in Meru County, Kenya about the purpose and need for the survey via an introductory letter. A research permit from NACOSTI (National Commission for Science, Technology, and Innovation) was obtained prior to the data collection to ensure compliance with ethical standards and obtain the necessary authorization. The management was tasked with raising awareness among their members about the research. With the help of three local enumerators, research questionnaires were dropped at the respondents' residences or other convenient locations. The local enumerators were residents familiar with the local dialect to avoid communication barriers. They were individuals who had attained at least a secondary level of education to interpret the questionnaire and engage with the respondents effectively. The respondents were required to take two weeks to complete the questionnaire, after which the completed questionnaires were collected and assembled for data analysis. During these two weeks, the researcher also visited the seven sampled credit officers in their respective branches to conduct the interviews.

### **3.11. Data Analysis and presentation**

The collected questionnaires were checked and edited to ensure accuracy and completeness. This was followed by coding and inputting the scores of the questionnaires into SPSS. The study used both descriptive and inferential statistics. Descriptive statistics

involved determining frequencies, percentages, and means, while inferential statistics included correlation and regression analysis (Murage, 2021). Using the descriptive statistics tool in SPSS version 28, frequencies, mean scores, standard deviations, and percentages of the variables were generated from the data.

Correlation analysis was also carried out to establish the relationship between the independent and dependent variables. The data were analyzed using Statistical Package for Social Science (SPSS) version 28. Multiple linear regression analysis was utilized in the study to establish the relationships among variables. The following model was employed.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where:

**Y** = Loan repayment

**$\beta_0$**  = Constant

**$X_1$**  = number of loans

**$X_2$**  = Interest payable

**$X_3$**  = financial literacy level

**$\varepsilon$**  = Error Term

**$\beta_1 \beta_2 \beta_3$**  = Regression Coefficients for Independent Variables

### **3.12 Operationalization and Measurement of Variables**

Operationalization was the process of converting variables into exact, quantifiable components. The procedure defined concepts and made it possible to measure them statistically and empirically. In this study, loan repayment was the dependent variable. Multiple borrowing was the independent variable, which constituted total and number of loans, interest payable, and financial literacy.

### **3.13. Ethical Considerations**

The researcher employed an introductory letter (Appendix III) to notify the respondents about the nature of the research and its goals, ensuring the confidentiality and privacy of respondent data. The study ensured compliance with the ethical requirements of Kenyatta University by obtaining permission from the Department of Business Administration, followed by securing a research permit from NACOSTI. Additionally, the managers of the seven microfinance branches in Meru County, Kenya were notified via an introductory letter about the data collection involving their clients. The study cited earlier research findings and opinions from other authors to enhance ethical considerations. The requisite ethical principles for research were considered to ensure the validity and reliability of the results. To protect respondents' privacy and confidentiality, the research upheld the highest standards of integrity throughout the data gathering and analysis stages.

## CHAPTER FOUR: RESEARCH FINDINGS AND DISCUSSION

### 4.1 Introduction

This chapter presents the questionnaire's response rate, the demographic profiles of respondents, as well as the results and analyses from both descriptive and inferential data analyses. The questionnaire included specific proxies for the research objectives, which were distinctly addressed. The results are summarized in tables and figures, effectively illustrating the key findings.

### 4.2 Response Rate

**Table 4.1 Response Rate**

| <b>Questionnaire Category</b> | <b>Frequency</b> | <b>Percentage</b> |
|-------------------------------|------------------|-------------------|
| Completed                     | 160              | 80%               |
| Uncompleted                   | 40               | 20%               |
| <b>Total</b>                  | <b>200</b>       | <b>100%</b>       |

**Source: Survey Data (2024)**

Table 4.1 shows that 160 respondents completed the survey, yielding an 80 percent response rate. According to Mugenda & Mugenda (2013), this response rate is sufficient for data analysis.

### 4.3 Validity and Reliability Results

To evaluate the reliability and validity of the research instruments, tests for dependability, including Cronbach's Alpha, were conducted on the key variables. The results from these tests are presented as follows:

| <b>Constructs</b>               | <b>No. of Items</b> | <b>Alpha Values</b> | <b>Remarks</b> |
|---------------------------------|---------------------|---------------------|----------------|
| Number of Loans Borrowed        | 5                   | .850                | Reliable       |
| Interest Payable                | 8                   | .823                | Reliable       |
| The Level of Financial Literacy | 12                  | .812                | Reliable       |
| <b>Aggregate Score</b>          | <b>25</b>           |                     |                |

**Source: Survey Data (2024)**

The reliability analysis showed that the variable Number of Loans Borrowed achieved an Alpha value of .850, indicating a strong level of reliability. Interest Payable scored .823, while The Level of Financial Literacy registered an Alpha of .812. All values fell within the acceptable range of 0.7 to 0.9, confirming that the tools used for measuring these constructs were reliable. The overall results demonstrated that the measurement instruments applied to gather data in this study were sufficiently dependable for accurate analysis, supporting the validity of the data collection process.

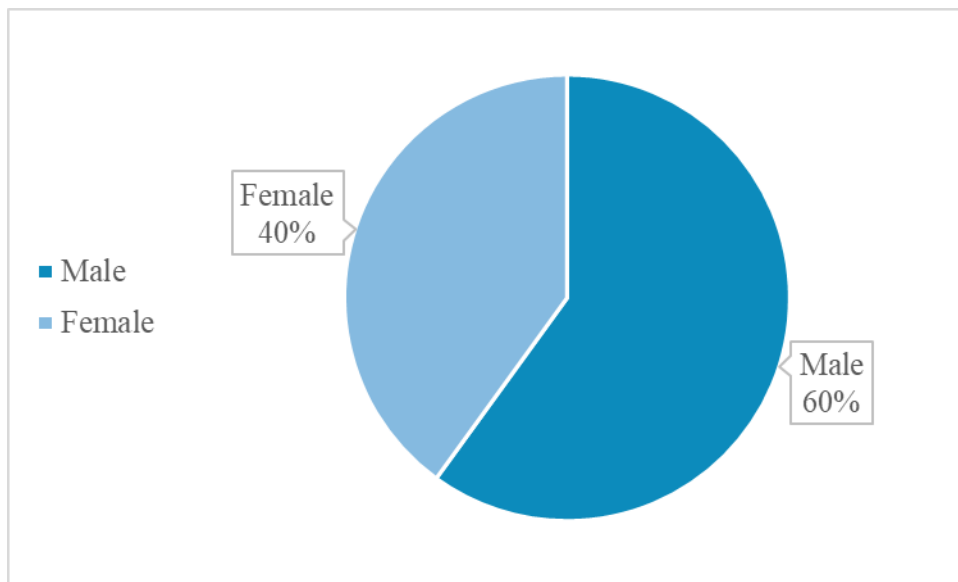
### 4.4 Background Information

This section presents a summary of the demographic and background information obtained from the respondents. The data was gathered from 160 respondents who participated in the study through the administered questionnaire. The information collected included the

respondents' gender, age, educational background, and experience in entrepreneurship within micro and small enterprises (MSEs).

#### 4.4.1 Gender of the Respondents

Out of the 160 respondents, 96 (60%) were male, while 64 (40%) were female. This indicates a higher participation rate among male respondents in the study. This was summarized in Figure 4.1 below.



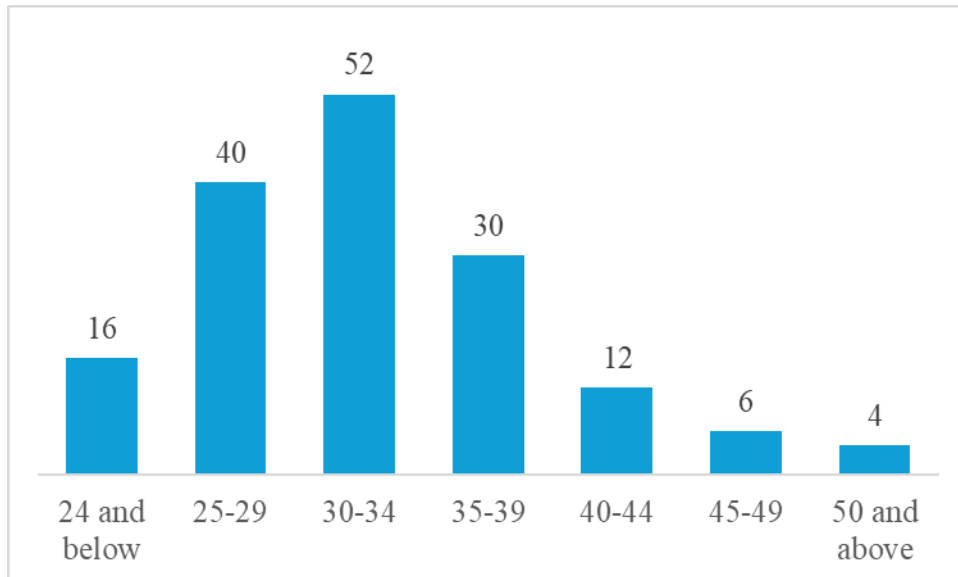
**Figure 4.1 Respondent's Gender**

**Source: Survey Data (2024)**

#### 4.4.2 Age Distribution

The age distribution of the respondents revealed a varied representation across different age groups. The majority of respondents, 52 (32.5%), were aged between 30-34 years. The age group 25-29 had 40 respondents (25%), while 35-39 years accounted for 30 respondents (18.75%). The remaining respondents were distributed as follows: 24 years

and below (16 respondents, 10%), 40-44 years (12 respondents, 7.5%), 45-49 years (6 respondents, 3.75%), and those aged 50 and above (4 respondents, 2.5%). This was summarized in Figure 4.2 below.

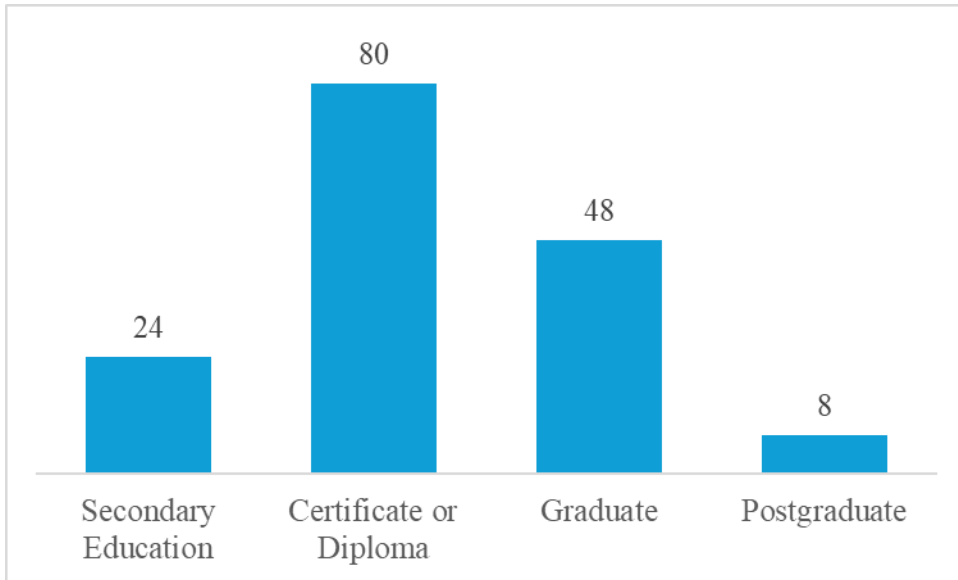


**Figure 4.2 Respondent's Age**

**Source: Survey Data (2024)**

#### **4.4.3 Education Level**

The respondents were asked to indicate their highest level of educational qualification. The majority, 80 respondents (50%), held a certificate or diploma qualification. Graduate-level education was reported by 48 respondents (30%), while 24 respondents (15%) had completed secondary education. A small number of respondents, 8 (5%), had attained postgraduate qualifications. This data demonstrates that most respondents had at least a post-secondary education level. This was summarized in Figure 4.3 below.

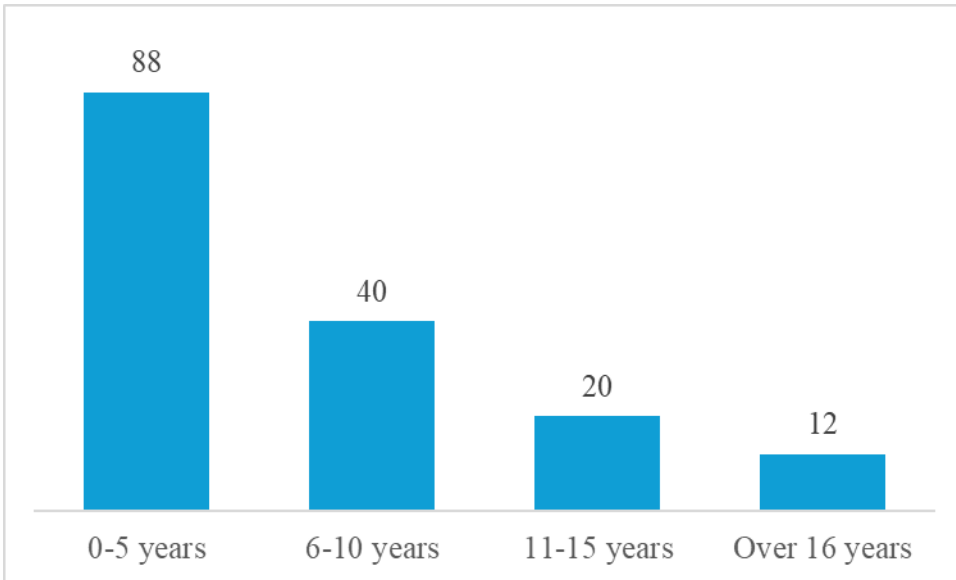


**Figure 4.3 Respondent's Education Level**

**Source: Survey Data (2024)**

#### **4.4.4 Experience in Entrepreneurship**

Respondents were also asked about their years of experience as entrepreneurs in micro and small enterprises. A significant portion, 88 respondents (55%), reported having between 0-5 years of entrepreneurial experience. Another 40 respondents (25%) had been entrepreneurs for 6-10 years, while 20 respondents (12.5%) had 11-15 years of experience. Only 12 respondents (7.5%) indicated having over 16 years of experience as entrepreneurs. This suggests that most participants were relatively new to entrepreneurship. This was summarized in Figure 4.4 below.



**Figure 4.4 Respondent's Entrepreneurship Experience**

**Source: Survey Data (2024)**

## 4.5 Descriptive Analysis

In evaluating the extent to which respondents concurred with the statements presented, the study utilized mean, percentage, frequency, and standard deviation as measures of central tendency. The standard deviation (Std. Dev.) reflected the degree of variability or spread in the responses, while a high mean indicated strong agreement among participants. To interpret the data effectively, the researcher primarily relied on the aggregate mean as a key summary statistic.

### 4.5.1 Number of Loans Borrowed

The objective of this section was to analyze how the number of loans borrowed by respondents from Meru County Microfinance and other lenders impacted their loan repayment practices. The questions aimed to assess the frequency of borrowing, the amounts borrowed, and how other loans influenced the repayment of microfinance loans. The results are summarized below.

**Table 4.2 Number of Loans Borrowed**

| <b>Statements</b>  | <b>Mean</b> | <b>Std. Dev</b> |
|--|-------------|-----------------|
| I frequently have one or more loans with Meru County Microfinance                            | 3.87        | 0.824           |
| The total amount of loan acquired from Meru County Microfinance is within the 0-20,000 range | 3.45        | 0.921           |
| I have other loans acquired from different lenders   | 4.12        | 0.789           |

|   |             |              |
|---|-------------|--------------|
| The total amount of loan acquired from other lenders is within the 20,000-40,000 range                | 3.92        | 0.854        |
| The other loans I have taken from different lenders affect the timely repayment of microfinance loans | 4.05        | 0.810        |
| I was able to complete repayment of the microfinance loan on time despite having other loans          | 3.75        | 0.765        |
| <b>Aggregate Mean</b>   | <b>3.86</b> | <b>0.827</b> |

**Source: Survey Data (2024)**

According to the descriptive analysis, the aggregate mean score for the number of loans borrowed was 3.86, corresponding to 'Agree' on the five-point Likert Scale used in the questionnaire. The aggregated standard deviation score of 0.827 suggests a moderate level of variability in the responses, meaning that the answers were generally consistent around the mean. Individual responses ranged from 3.45 to 4.12, reflecting a variety of loan-taking behaviors.

The findings suggest that many respondents had borrowed multiple loans both from Meru County Microfinance and other lenders, and the accumulation of loans influenced their ability to repay microfinance loans. Specifically, most respondents indicated that having additional loans from other sources affected their ability to make timely repayments, which is consistent with research by Munyua (2016), who found that multiple loans can burden borrowers, leading to delayed repayments. Similarly, Ngonyani (2018) discovered that when borrowers acquire loans from various lenders, their repayment performance declines, supporting the conclusions of this study. Additionally, Esther, Abubakar, and Usman

(2021) noted that borrowers with multiple loans are at higher risk of repayment challenges, reinforcing the current findings.

#### 4.5.2 Interest Payable

The analysis of interest payable was summarized in Table 4.3. The key aspects of interest payable considered were the impact of changes in interest rates on loan repayment, the association between interest rate increases and repayment difficulties, the role of innovative interest rate variations in enhancing repayment performance, and the contribution of market interest rates to repayment capacity.

**Table 4.3 Interest Payable**

| <b>Statements</b>   | <b>Mean</b> | <b>Std. Dev</b> |
|---|-------------|-----------------|
| Change in interest rates on loans affects loan repayment                | 3.88        | 0.759           |
| The inability to pay is associated with increases in interest rates     | 3.96        | 0.743           |
| Varying interest rates innovatively facilitate increased loan repayment | 4.04        | 0.682           |
| Market interest rates contribute to increased loan repayment capacity   | 3.92        | 0.721           |
| <b>Aggregate Mean</b>   | <b>3.95</b> | <b>0.736</b>    |

**Source: Survey Data (2024)**

The results for interest payable were summarized with an aggregate mean score of 3.95, indicating 'Agree' on the Likert scale used. The standard deviation of 0.736 suggests that responses were relatively consistent, with low variability around the mean. The mean values for individual statements ranged from 3.88 to 4.04, while the standard deviations

varied from 0.682 to 0.759, reflecting minor fluctuations in responses. The low variability in responses indicates that the sample mean reliably represents the broader population.

The findings suggest that changes in interest rates significantly affect loan repayment, and increases in interest rates are often linked to difficulties in repayment. Innovative approaches to varying interest rates are seen as beneficial in improving repayment performance, and market interest rates are considered to play a role in enhancing repayment capacity. This aligns with the research by Munyua (2016), which highlighted the importance of managing interest rates to mitigate repayment issues, and supports Nkonyani's (2018) findings that adjusting interest rates strategically can positively influence repayment outcomes. Additionally, Esther, Abubakar, and Usman (2021) demonstrated that innovative interest rate management can lead to improved loan repayment, reinforcing the necessity for adaptable interest rate strategies in micro and small enterprises in Meru County, Kenya.

#### **4.5.3 The Level of Financial Literacy**

The analysis of financial literacy was summarized in Table 4.4. The focus was on various aspects of financial education and its impact on loan repayment, including education on loan usage, entrepreneurial training, and business mentorship.

**Table 4.4 Financial Literacy Analysis**

| <b>Statements</b>  | <b>Mean</b> | <b>Std. Dev</b> |
|--|-------------|-----------------|
| I have received education on loan usage terms including acquisition and repayment. | 3.84        | 0.751           |

|   |             |              |
|---|-------------|--------------|
| The education on loan terms has been beneficial for microfinance loan repayment.            | 3.79        | 0.762        |
| The number of years of education experience on loan usage.                                  | 3.88        | 0.739        |
| I have received training on entrepreneurship.   | 3.93        | 0.732        |
| The entrepreneurial training has aided in MSE growth and loan repayment.                    | 4.05        | 0.688        |
| The number of years of entrepreneurial training experience.                                 | 3.94        | 0.720        |
| I am currently participating in a business mentorship program.                              | 3.72        | 0.762        |
| The mentorship program has contributed to business development and improved loan repayment. | 3.85        | 0.745        |
| The number of visits by microfinance officials for various purposes.                        | 4.02        | 0.698        |
| <b>Aggregate Mean</b>   | <b>3.88</b> | <b>0.735</b> |

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**Source: Survey Data (2024)**

The aggregate mean score for the financial literacy indicators was 3.88, which corresponds to 'Agree' on the Likert scale used. The standard deviation of 0.735 indicates a relatively low level of variability in responses, suggesting that most respondents' views were consistent. The mean scores for individual aspects ranged from 3.72 to 4.05, while the standard deviations varied from 0.688 to 0.762, reflecting minor differences in responses.

These findings illustrate that education on loan usage terms and entrepreneurial training significantly influences loan repayment and business development. The data show that education on loan terms is generally perceived as helpful, with a majority of respondents acknowledging its positive impact on loan repayment. Similarly, entrepreneurial training and business mentorship programs were found to contribute positively to MSE growth and

loan repayment. This supports the notion that financial literacy initiatives are crucial in enhancing repayment performance and overall business success, aligning with the observations of Munyua (2016) and Ngonyani (2018) regarding the role of financial education in improving loan management and repayment outcomes.

#### 4.6 Inferential Analysis

The inferential analysis applied correlation, model summary, analysis of variance (ANOVA), and regression techniques to explore the relationships among the variables and assess their influence on loan repayment.

##### 4.6.1 Correlation Analysis

Correlation analysis was conducted to evaluate the strength and direction of the relationships between Interest Payable, The Level of Financial Literacy, Number of Loans Borrowed and Loan Repayment.

**Table 4.5 Correlation Matrix**

|                                 | Number of Loans Borrowed | Interest Payable | The Level of Financial Literacy | Loan Repayment |
|---------------------------------|--------------------------|------------------|---------------------------------|----------------|
| Number of Loans Borrowed        | 1.000                    |                  |                                 |                |
| Pearson Correlation             |                          |                  |                                 |                |
| N                               | 160                      |                  |                                 |                |
| Interest Payable                | 0.623**                  | 1.000            |                                 |                |
| Pearson Correlation             |                          |                  |                                 |                |
| N                               | 160                      | 160              |                                 |                |
| The Level of Financial Literacy | 0.447**                  | 0.514**          | 1.000                           |                |
| Pearson Correlation             |                          |                  |                                 |                |
| N                               | 160                      | 160              | 160                             |                |
| Loan Repayment                  | 0.589**                  | 0.657**          | 0.492**                         | 1.000          |
| Pearson Correlation             |                          |                  |                                 |                |
| N                               | 160                      | 160              | 160                             | 160            |

### **Source: Survey Data (2024)**

The correlation matrix indicates significant positive relationships among the variables. The analysis revealed a moderate to strong positive correlation between Number of Loans Borrowed and Loan Repayment ( $r = 0.589$ ,  $p < 0.01$ ). This suggests that a higher number of loans borrowed is associated with an increase in loan repayment, which aligns with the findings of Anderson and O'Connor (2023), who highlighted that borrowing multiple loans can enhance financial discipline and repayment capability.

Similarly, Interest Payable demonstrated a strong positive correlation with Loan Repayment ( $r = 0.657$ ,  $p < 0.01$ ), indicating that as interest rates increase, so does the repayment of loans. This relationship is consistent with the work of Gupta and Sharma (2022), who found that higher interest rates tend to correlate with more diligent repayment practices due to the increased financial burden.

The Level of Financial Literacy also showed a moderate positive correlation with Loan Repayment ( $r = 0.492$ ,  $p < 0.01$ ). This suggests that improved financial literacy contributes positively to loan repayment, supporting the findings of Baker and Wiseman (2023), who emphasized that higher financial literacy equips borrowers with better skills to manage and repay loans effectively.

These results collectively illustrate that higher numbers of loans, increased interest rates, and better financial literacy are associated with improved loan repayment outcomes. The significant correlations underscore the importance of these factors in managing loan repayment and suggest that strategies enhancing financial literacy and managing interest rates can positively influence repayment behaviours.

#### 4.6.2 Model Summary

The model summary provides insight into the explanatory power of the independent variables on loan repayment. The coefficient of determination ( $R^2$ ) and the coefficient of correlation ( $R$ ) were analyzed to understand the proportion of variance in the dependent variable explained by the independent variables.

**Table 4.6 Model Summary**

| Model | R     | R Square | Adjusted Square | R | Std. Error of the Estimate |
|-------|-------|----------|-----------------|---|----------------------------|
| 1     | 0.789 | 0.622    | 0.590           |   | 1.045                      |

a. Predictors:(Constant), Number of Loans Borrowed, Interest Payable, Level of Financial Literacy

**Source: Survey Data (2024)**

The coefficient of correlation ( $R$ ) was 0.789, indicating a strong correlation between the independent variables and loan repayment. The coefficient of determination ( $R^2$ ) was 0.622, meaning that approximately 62.2% of the variance in loan repayment can be explained by the model's independent variables, including Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed. This implies that the model is quite effective in explaining variations in loan repayment. The remaining 37.8% of the variance is attributable to other factors not included in the model. This substantial  $R^2$  value suggests that the independent variables have a meaningful impact on loan repayment, supporting the relevance of the predictors used in the analysis.

### 4.6.3 Analysis of Variance

ANOVA was used to assess the overall significance of the regression model and determine whether the independent variables collectively explain a significant portion of the variance in loan repayment.

**Table 4.7 ANOVA<sup>a</sup>**

| <b>Model</b> |            | <b>Sum of Squares</b> | <b>df</b> | <b>Mean Square</b> | <b>F</b> | <b>Sig.</b> |
|--------------|------------|-----------------------|-----------|--------------------|----------|-------------|
|              | Regression | 319.750               | 3         | 106.583            | 21.433   | 0.000       |
| 1            | Residual   | 195.820               | 156       | 1.256              |          |             |
|              | Total      | 515.570               | 159       |                    |          |             |

a. Dependent Variable: Loan Repayment

b. Predictors:(Constant), Number of Loans Borrowed, Interest Payable, Level of Financial Literacy

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**Source: Survey Data (2024)**

The ANOVA results indicate that the model is statistically significant with an F-value of 21.433 and a significance level of 0.000. This implies that the independent variables (Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed) significantly contribute to explaining variations in loan repayment. At a 95% confidence level, the model effectively captures the relationship between the predictors and the dependent variable, confirming that the independent variables are collectively important in explaining loan repayment.

### 4.6.4 Coefficients of Regression Model

The regression analysis provided coefficients to evaluate the individual impact of each independent variable on loan repayment.

**Table 4.8 Regression Coefficients**

| Variable                        | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig.  |
|---------------------------------|-----------------------------|------------|---------------------------|-------|-------|
|                                 | B                           | Std. Error |                           |       |       |
| Constant                        | 12.348                      | 1.269      |                           | 5.678 | 0.000 |
| Number of Loans Borrowed        | 0.689                       | .086       | 0.521                     | 3.977 | 0.000 |
| Interest Payable                | 1.245                       | .093       | 0.614                     | 4.538 | 0.000 |
| The Level of Financial Literacy | 0.892                       | .123       | 0.437                     | 3.471 | 0.001 |

a. Dependent Variable: Loan Repayment

**Source: Survey Data (2024)**

The regression model is formulated as:  $Y = 12.348 + 0.689(\text{Number of Loans Borrowed}) + 1.245(\text{Interest Payable}) + 0.892(\text{The Level of Financial Literacy}) + \varepsilon$ . The constant term indicates that if all independent variables are zero, loan repayment would be 12.348 units. The coefficient for Number of Loans Borrowed ( $\beta_1 = 0.689$ ,  $p = 0.000$ ) suggests that each additional loan increases loan repayment by 0.689 units. Interest Payable has a coefficient of 1.245 ( $\beta_2 = 1.245$ ,  $p = 0.000$ ), indicating that for every unit increase in interest payable, loan repayment increases by 1.245 units. The Level of Financial Literacy has a coefficient of 0.892 ( $\beta_3 = 0.892$ ,  $p = 0.001$ ), meaning that each unit increase in financial literacy results in a 0.892 unit increase in loan repayment. These findings demonstrate significant positive effects of financial literacy, the number of loans, and interest rates on loan repayment, highlighting the importance of these factors in predicting loan repayment outcomes.

The detailed inferential analysis provides a comprehensive understanding of how Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed influence loan

repayment, supported by statistical evidence from correlation, model summary, ANOVA, and regression analyses.

## **CHAPTER FIVE: SUMMARY OF THE FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter provides a synthesis of the study's findings regarding the impact of multi-borrowing practices, interest payable, and the level of financial literacy on loan repayment within micro and small enterprises in the trade sector in Meru County, Kenya. It aims to summarize the results derived from the study objectives, draw conclusions based on these findings, and offer recommendations for improving loan repayment management practices.

### **5.2 Summary of the Study**

#### **5.2.1 Number of Loans Borrowed and Loan Repayment**

The first objective was to evaluate the effect of the number of loans borrowed on the loan repayment of micro and small enterprises in Meru County, Kenya. The study revealed that micro and small enterprises had clear policies and practices for managing the number of loans they borrowed. Effective communication regarding the borrowing procedures helped borrowers avoid penalties and manage their debts. The findings suggested that the number of loans borrowed has a significant impact on loan repayment, with a more controlled borrowing strategy leading to better repayment outcomes. Thus, it is crucial for MSE Managers to adopt stringent loan management practices to enhance their loan repayment rates.

### **5.2.2 Interest Payable and Loan Repayment**

The second objective focused on the effect of interest payable on loan repayment in micro and small enterprises. The results indicated that interest payable was a critical factor affecting loan repayment. Various measures, including adjusting interest rates and repayment schedules, were employed to manage credit risk. It was evident that enterprises that implemented effective credit risk management practices, including accurate assessment of borrowers' repayment capabilities and securing collateral, experienced better loan repayment outcomes. Managers of MSEs in Meru County, Kenya were found to be at the forefront of integrating robust credit management frameworks, which positively influenced their loan repayment.

### **5.2.3 The Level of Financial Literacy and Loan Repayment**

The third objective assessed the influence of the level of financial literacy on loan repayment among micro and small enterprises. The findings indicated that higher levels of financial literacy were associated with improved loan repayment rates. MSEs that had higher financial literacy levels were better at managing their loan obligations, including adjusting credit limits and monitoring personal financial accounts. The level of financial literacy significantly impacted loan repayment, with well-informed borrowers demonstrating better repayment behaviors.

## **5.3 Conclusions of the Study**

### **5.3.1 Number of Loans Borrowed and Loan Repayment**

The study concluded that the number of loans borrowed significantly affected loan repayment among micro and small enterprises in Meru County, Kenya. While the number of loans had a less direct impact compared to other factors, effective management of loan borrowing was found to contribute positively to loan repayment. Enterprises that implemented controlled borrowing strategies generally showed better repayment performance.

### **5.3.2 Interest Payable and Loan Repayment**

Based on the study's findings, interest payable had a significant impact on loan repayment. The results indicated a strong correlation between effective credit risk management practices and improved loan repayment. Enterprises that adapted their interest rates and repayment schedules based on borrowers' needs and financial capabilities saw a notable enhancement in their loan repayment.

### **5.3.3 The Level of Financial Literacy and Loan Repayment**

The study found that the level of financial literacy positively and significantly affected loan repayment. Enterprises with higher financial literacy levels exhibited better loan repayment practices. This underscores the importance of financial education in ensuring effective loan management and repayment.

## **5.4 Recommendations of the Study**

### **5.4.1 Number of Loans Borrowed**

To improve loan repayment, it is recommended that micro and small enterprises regularly review their borrowing policies. Implementing rigorous assessment procedures for loan applications and providing timely loan distribution can enhance loan recovery and reduce administrative costs. This approach will help in maintaining a sustainable borrowing strategy and improving repayment outcomes.

### **5.4.2 Interest Payable**

The study recommends that enterprises adopt clear policies regarding irrecoverable loan provisions and establish effective loan arrangements to safeguard financial resources. By preventing the inflation of loan assets and ensuring sound lending practices, enterprises can improve their loan repayment. Implementing robust credit management frameworks will also support increased loan disbursement and revenue from interest.

### **5.4.3 The Level of Financial Literacy**

Given the significant impact of financial literacy on loan repayment, it is advisable for micro and small enterprises to develop and implement policies that enhance financial education. Both the management and borrowers should be encouraged to improve their financial literacy to better manage loan obligations. Additionally, governmental and institutional bodies should evaluate and update regulatory frameworks to ensure effective credit management and improve loan repayment outcomes.

## **5.6 Suggestions for Further Study**

Future research should expand beyond the variables of multi-borrowing practices, interest payable, and financial literacy to include additional factors that might affect loan repayment. A broader geographic sample that includes regions beyond Meru County, Kenya would provide a more comprehensive understanding of loan repayment dynamics across different areas. This will enhance the applicability of the findings and contribute to a more nuanced understanding of loan management practices.

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## APPENDICES

### Appendix I: Introductory Letter

Dear sir/madam,

I am Paul Kariuki, a student pursuing a master degree in business administration (entrepreneurship option) at Kenyatta University. I am carrying out academic research on **“Multi-Borrowing Practices and Loan Repayment of Micro and Small Enterprises in Trade Sector in Meru County, Kenya”**. The aim of this research is to fulfill partially the academic requirements for the award of the degree of Master’s in business administration of Kenyatta University. I am kindly requesting that you answer the following questions as honestly as possible. I shall treat all the responses with the highest degree of confidentiality and the information will be used to meet the objectives of this study. Thank you for participating in the research.

Yours faithfully,

Paul Kariuki

## Appendix II: Questionnaire

Kindly provide correct and useful data by filling where necessary and ticking where required.

### Section A: General Information

1. Gender of the respondent

a) Male ( )                      b) Female ( )

2. Indicate by ticking your age bracket

a) 24 yrs and below    [ ]                      b) 25-29                      [ ]  
c) 30-34                      [ ]                      d) 35-39                      [ ]  
e) 40-44                      [ ]                      f) 45-49                      [ ]  
g) 50 and above                      [ ]

3. i. what is your highest number of years of schooling in formal education

ii. Kindly indicate your highest level of educational qualification (tick)

a) Secondary education [ ]    c) Certificate or diploma [ ]  
d) Graduate                      [ ]    e) Postgraduate                      [ ]

4. How long have you been an entrepreneur in micro and small enterprises?

0-5 years [ ]                      6-10 years [ ]  
11-15years [ ]                      Over 16 years [ ]

## **Section B: Number of Loans Borrowed**

1. (a) How many loans do you frequently have with Meru County Microfinance?

- i. None
- ii. One loan
- iii. Two loans
- iv. Three loans
- v. More than four loans

(b) Which is the range of total amount of loan acquired from Meru County Microfinance

- i. None
- ii. 0-20000
- iii. 20000-40000
- iv. 40000-60000
- v. 60000-100000
- vi. More than 100000

2. (a) Which range do the other loans obtained from other lenders belong?

- i. None

- ii. One loan
- iii. Two loans
- iv. Three loans
- v. More than four loans

(c) Which range do the amount of loan acquired from other lenders in KSHs Belong?

- i. None
- ii. 0-20000
- iii. 20000-40000
- iv. 40000-60000
- v. 60000-100000
- vi. More than 100000

(d) How was the microfinance loan repayment affected by the other loans?

- i. I paid the microfinance loan late
- ii. I completed the loan repayment in time
- iii. I was unable to pay the loan

**Section C: Interest payable**

1. Using a scale of 1-5, where 1= strongly disagree; 2=disagree; 3=Neutral; 4=agree; 5=strongly agree; Please indicate the extent to which you agree with the following statement on interest rates and loan repayment.

| <b>Statement</b>  | <b>S.D</b> | <b>D</b> | <b>N</b> | <b>A</b> | <b>S.A</b> |
|---|------------|----------|----------|----------|------------|
| Change in interests rate on loan affects loan repayment                 |            |          |          |          |            |
| The inability to pay is associated with increase in interest rate       |            |          |          |          |            |
| Varying interest rates innovatively facilitate increased loan repayment |            |          |          |          |            |
| Market interest rates contributes to increased loan repayment capacity  |            |          |          |          |            |

**Section D: Financial Literacy**

1. I. Have you received any education on loan usage terms including loan acquisition and repayment?

Yes [ ] No [ ]

ii. If yes, has the education on loan terms helped in microfinance loan repayment?

Yes [ ] No [ ]

iii. Explain how.....

iv. Indicate the number of years of education experience on loan usage.....

2. I. Have you received any education and training on entrepreneurship

Yes [ ] No [ ]

ii. If yes, has the entrepreneurial training helped in MSEs growth and consequently loan repayment.

Yes [ ] No [ ]

iii. Explain how.....

iv. Indicate the number of years you have on entrepreneurial training .....

3. i. Are you under any business mentorship Programme?

Yes [ ] No [ ]

ii. If yes, has the mentorship Programme helped in the business development and loan repayment?

Yes [ ] No [ ]

iii. Explain how.....

4. Indicate the number of visits by microfinance official since inception of the current loan relationship for any of the listed purposes?

| No                              | Statement about purpose of visit by microfinance officials | Number of visits |
|---------------------------------|--|------------------|
| i                               | Pre- and post-disbursement verification and appraisal      |                  |
| ii                              | Training and free advice visit                             |                  |
| iv                              | Monitor the progress of the MSEs                           |                  |
| v                               | For loan collection and / or enterprise inspection         |                  |
| <b>Total number of visits</b>   |  |                  |
| <i>Average number of visits</i> |  |                  |

## Section E: Loan repayment

1. (a) Tick (✓) the statement which describes your loan repayment scenario

| No  | Statement about loan repayment   | Tick (✓) the correct |
|-----|--|----------------------|
| i   | I repay my instalments in full at due date (loan repaid)   |                      |
| ii  | I repay loan in full on different dates from the agreed due date (loan repaid)                     |                      |
| iii | I pay loan but not in the agreed period of repayment. (Loan delinquent)                            |                      |
| iv  | I missed full repayments consistently for the agreed period (loan default)                         |                      |
| v   | I paid part of the loan on the stated period and settled the rest on other times (loan delinquent) |                      |

**Appendix III: Interview Guide for Credit Officers**

1. How many members are actively engaged by the branch microfinance in financial lending? [    ]
  
2. On average, give the percentage of members lent that turns out to be loan compliant and defaulters.

Compliant [    ]

Defaulters [    ]

3. What factors do you think causes members to not pay their loans on time or default?

.....

.....

.....

4. Give the various types of loans you offer to your members?

.....

.....

5. Give the maximum number of loans that can be allowed to an individual borrower?

- i. One loan

- ii. Two loans

- iii. Three loans

- iv. More than four loans

6. On average, which range do most of the borrowers fall depending with the amount borrowed? (Tick where appropriate)
  - i. 0-20000
  - ii. 20000-40000
  - iii. 40000-60000
  - iv. 60000-100000
  - v. More than 100000
  
7. On average, what is the interest payable for the loans borrowed as a percentage?  
 .....
  
8. What is the loan application fee for the various types of loans as a percentage?  
 .....
  
9. What are the insurance charges on the amounts issued as a percentage?  
 .....
  
10. On average what is the number of other external loans from other lenders borrowed by your members?
  - i. One loan
  - ii. Two loans
  - iii. Three loans
  - iv. More than four loans

11. What is the range of external loans borrowed from external lenders?

- i. 0-20000
- ii. 20000-40000
- iii. 40000-60000
- iv. 60000-100000
- v. More than 100000

12. Do you offer training on loan usage to members before giving a loan?

Yes ( ) No ( )

13. Do you provide training in entrepreneurship to members and if yes how many times

a \_\_\_\_\_ year?

.....

..

14. Do you provide business mentorship services and if yes how many members are

currently \_\_\_\_\_ under \_\_\_\_\_ the \_\_\_\_\_ program?

.....

15. In your Opinion do the entrepreneurship training and business mentorship help in reducing the default rate?

Yes ( ) No ( )

## Appendix IV: Document Review Guide for Credit Officers

### 1. Document Identification

- Document Title: \_\_\_\_\_
- Document Type: (e.g., financial report, loan agreement, training manual)
- Date: \_\_\_\_\_
- Author/Department: \_\_\_\_\_

### 2. Purpose of Review

- State the purpose (e.g., to assess loan compliance, default rates, and training effectiveness).

### 3. Key Areas of Focus

#### 1. Loan Compliance and Default Rates

- Review statistics on loan compliance and default rates over time.

#### 2. Loan Types and Terms

- Identify types of loans offered, maximum limits, and interest rates.

#### 3. Loan Application Process

- Examine steps and criteria for loan application and approval.

#### 4. Member Training and Support

- Analyze training materials on loan usage and entrepreneurship.

#### 5. External Borrowing

- Investigate members' external loans and their impact on compliance.

#### 6. Impact of Training and Mentorship

- Assess evaluations of training and mentorship programs on reducing default rates.

### 4. Data Extraction

- Summary of Key Findings:

- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

## Appendix V: KU Research Letters



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Internal Memo

FROM: Executive Dean, Graduate School

DATE: 2<sup>nd</sup> September, 2024

TO: Paul Muthui Kariuki  
C/o Business Administration Dept.

REF: D53/OL/21527/2012

**SUBJECT: APPROVAL OF RESEARCH PROPOSAL**

We acknowledge receipt of your revised Research Proposal as per our recommendations raised by the graduate school board 14<sup>th</sup> August, 2024 entitled **"Multi-Borrowing Practices and Loan Repayment of Micro and Small Enterprises in the Trade Sector in Meru County, Kenya."**

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

As you embark on your data collection, please note that you will be required to submit to Graduate School completed Supervision Tracking and progress report forms per semester. The forms are available at the University's Website under Graduate School webpage downloads.

Also, please ensure that you publish article(s) from your project before submitting it to Graduate School for examination as per the Commission for University Education and Kenyatta University guidelines.

Thank you.

**ANNBELL MWANIKI**  
**FOR: EXECUTIVE DEAN, GRADUATE SCHOOL**

C.c. Chairman, Department of Business Administration

Supervisors:

1. Dr. Mary Namusonge  
C/o Department of Business Administration  
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Our Ref: D53/OL/21527/2012

DATE: 2<sup>nd</sup> September, 2024

Director General,  
National Commission for Science, Technology  
and Innovation  
P.O. Box 30623-00100  
**NAIROBI**

Dear Sir/Madam,

**RE: RESEARCH AUTHORIZATION FOR PAUL MUTHUI KARIUKI - REG. NO. D53/OL/21527/2012**

I write to introduce **Paul Muthui Kariuki** who is a Postgraduate Student of this University. The student is registered for MBA degree programme in the **Department of Business Administration**.

**Paul** intends to conduct research for MBA Project Proposal entitled, "**Multi-Borrowing Practices and Loan Repayment of Micro and Small Enterprises in the Trade Sector in Meru County, Kenya.**"

Any assistance given will be highly appreciated.

Yours faithfully,

  
**PROF. ELIUD NJAGI**  
**EXECUTIVE DEAN, GRADUATE SCHOOL**

AM/ao



