

**EFFECT OF CREDIT MANAGEMENT PRACTICES ON LOAN REPAYMENT
PERFORMANCE IN MICRO FINANCE INSTITUTIONS IN KISUMU TOWN,
KENYA**

BY

RAPHAEL OMONDI ABUTO

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I thank God for his amazing grace that has enabled me to complete this proposal successfully

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I would also like to thank my wife and my family members who have given me moral support I needed during the period of writing research project.

DECLARATION

This research project was original work and has never been presented for a degree of any other university

Signed----- Date-----

Raphael Omondi Abuto

MBA/BE/0020/2014

Student

The research project has been submitted with the approval of the university supervisor

Signed----- Date-----

Dr. Benjamin O. Ombok

Lecturer

Maseno University

DEDICATION

The project was dedicated to my family for the love and faith they had in me through the period of study

I dedicated this research project to my wife Merceline and my daughter Sharlene who have remained my sources of encouragement.

I also dedicated this project to my friends who have encouraged, and supported me in many ways.

ABSTRACT

Loan Repayment Performance is the ability of a borrower to service his loan effectively as and when loan installments fall due. Whereas the existing microfinance institutions have contributed in bridging the credit access gap, a number of them face default challenges despite the fact that credits are granted on the basis of specific credit management practices carried out by the Commercial Banks and Microfinance Institutions (MFIs). Non-performing loans have become common phenomena in microfinance industry in Kenya; in a way that available information provides a fluctuating loan recovery trend for the MFIs. Loan repayment performance being a function of credit management practices requires attention if the MFIs are to sustainably provide their core function; especially in regions with minimal capacity to operate in mainstream commercial banking system. MFIs practice group lending and weekly loan repayment practices as effective means of credit management cycle. Despite credit management practices being in place, the fluctuating recovery trend and non-performing loans in Microfinance institutions in Kenya require further examination. The major objective of the study was to determine the effect of credit management practices on loan repayment performance in Micro finance institutions. Specifically the study sought to establish the effect of group lending practice and weekly repayment schedules on credit default, delinquency and timeliness of repayments in MFIs in Kisumu town. The study was guided by Grameen Solidarity and Moral Hazard Theory. The target population consisted of 75 respondents comprising of credit officers drawn from 15 Microfinance institutions operating in Kisumu town. The study design was correlation research design that attempted to determine whether, and to what extent an association exists between credit management practices and loan performance. A census survey method was used. The data for the study was collected using semi structured questionnaires. The data comprised both primary and secondary data. Pilot testing of the questionnaire consisting of 15 credit officers was conducted prior to undertaking the main study to enhance reliability and validity of the research instruments. The data was analyzed using multiple regression method and results were presented in tables. The study found that group lending and weekly repayment significantly influence credit default in MFIs, although the relationship is negative such that as group lending practices and weekly repayment schedules increase, credit default decreases ($P= 0.0214 < 0.05$). It was also found that group lending and weekly repayment practices significantly influence credit delinquency in MFIs, although as group lending practices and weekly repayment schedules increase, credit delinquency decreases ($p=0.0035 < 0.05$). The study also found that group lending and weekly repayment significantly influence timely repayments of loans such that as group lending practices and weekly repayment schedules increase, timely repayments of loans within the group also increase ($P=0.0018 < 0.05$). The study concluded that group lending practice and weekly repayment schedules are credit management practices that positively influence loan repayment performance in MFIs in Kisumu town. The study recommended that MFIs should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, loan defaults are projected accordingly and relevant measures taken to minimize the same. MFIs should also enhance periodic credit risk monitoring of their loan portfolio to increase the loan performance. This can be achieved by hiring qualified debt collectors and competent personnel. It is recommended that management should organize regular trainings in areas like credit management, risk management and financial analysis. There is need for a study to be conducted to determine the relationship between interests spread and loan performance of MFIs.

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ABBREVIATIONS AND ACRONYMS

6 Cs:	Character, Collateral, Capacity, Capital, Common Sense and Condition
CBD:	Central Business District
CBK:	Central Bank of Kenya
DECI:	Development Enterprise Community Initiative
DTMFIs:	Deposit Taking Micro finance Institutions
GGCA:	Consultative Group to Assist the Poor
GGST:	Grameen Group Solidarity Theory
GTZ:	German Technical Co-operation
IMF:	International Monetary Fund
MFI:	Micro finance Institutions
NPLs:	Non Performing Loans
OECD:	Organization for Economic Co-operation and Development
SMEs:	Small and Medium Enterprises

OPERATIONAL DEFINITIONS OF TERMS

Cash flow:	Real or the virtual movement of money or funds into and out of the firm's operations
Default:	The loan that remains unpaid by the borrower both in principal and interest after 90 days.
Delinquency:	Late repayment of loans in terms of principal and interest payment
Group lending:	The lending methodology where loan is granted to individual members of a given group but the group members retain repayment obligations in case the member defaults.
Losses:	These are non-performing loans which cannot be recovered within 90 days period or non-recoverable non-performing loans outstanding for more than 90 days period
Micro finance institutions:	These are financial institutions which offer micro credit services to poor and low income borrowers
Microfinance Institutions:	These are non-banking institutions that engage in the provision of micro-credit services to low income members of the society such as loans, savings, insurance among others
Non-performing loans:	These are loans in arrears which are not performing according to contractual terms of the loan contract, or 90 days lapses without both the principal and interest payment

- Performing Loans:** Occurs when there is repayment of loans according to contractual terms and conditions of time and amount
- Risks:** Probability of loss occurring from the expected outcome or the chance that actual return on investment would be different from the expected outcome.
- Small and Medium Enterprises:** These are businesses which are small in nature and which borrows money from micro finance institutions
- Timeliness of Repayment:** This is the repayment of credit on time in terms of principal amount and interest ie payment of loans as it falls due.
- Weekly Repayment schedules:** This is the repayment methodology in microfinance institutions where borrowers repay their loans on weekly basis

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Microfinance institutions (MFIs) have evolved overtime as an economic development approach intended to benefit low income part of the society (Mpunga, 2004 and Legderwood, 1999). MFIs are recognized as essential socio economic and financial mechanisms for alleviating poverty, promoting employment opportunities and economic entrepreneurial development especially for the Small and Medium Enterprises (SMEs). They are seen as the only hope for the poor who have been excluded from mainstream traditional banks due to lack of collaterals, low capital and poor repaying capacity (Gosa, 2014). MFIs are accepted as the viable policy options for alleviating poverty among the poor in the rural and urban centers. Microfinance institutions are therefore recognized as the banker to the poor; bringing banking services closure to the people, by providing them with the opportunity to access credit and mobilize their savings.

The success of microfinance operations has been attributed to the application of group solidarity and moral hazard theories (Edward, 2005). The theories provide a framework where MFIs allow potential clients to form groups and use the solidarity group principle to substitute collateral requirements for accessing credit from the institutions. The group solidarity theory and moral hazard theory reinforce credit management systems to manage credit risks associated with moral hazards of the customers, thus guaranteeing high repayment rates. The theories also provide effective models for mitigating problems associated with information asymmetry facing both the lender and the borrower in the business of lending operations; thus guaranteeing timeliness of loan repayments by microfinance clients.

The sustainability of microfinance institutions in Kenya and other parts of the world seem to be under threat from poor loan repayment (Githinji, 2008). Available information reveals late loan repayment obligations by customers, giving rise to delinquencies and defaults (non-performing loans). Non-performing loans have continued to characterize loan portfolio and erode profitability of MFIs, thus impairing microfinance objective of

financial outreach and inclusion of the poor into financial market system. Yuge (2011) while analyzing the current situation of microfinance in Bangladesh established that MFIs suffer from loan repayment problems arising from high interest rates and poor lending practices. Helms (1997) also in assessing banking the bottom of pyramid, from inclusive finance and beyond', established that African microfinance institutions face survival dilemma caused by incidences of increased risks of defaults. This can also be confirmed by remarks made by the Vice Chairman of Tanzania Association of Microfinance Institutions (TAMFI) during a microfinance breakfast meeting where he reiterated that there is a surge of non-performing loans in the microfinance sector. He attributed the repayment problems in Tanzanian microfinance industry to reliance on group lending, urbanization and lifestyle changes of the customers.

Ndungu (2010) reiterated the rising incidence of risks of delinquencies and default common in MFIs in Kenya. He highlighted that about 80%-90% of the MFIs in Kenya suffer from non-performing loans. This implies that MFIs might not be able to achieve their goal of financial outreach; yet they are designed to respond to the failures of commercial banks by addressing financial market imperfections facing the poor. Omonywa (2015) pointed out that loan repayment status has not been impressive among the MFIs in Nyanza region. Microfinance institutions in the region experience repayment problems associated with poverty, diversion of loans to non-core business and lack of capital and competition from credit and savings co-operative societies. Daily Nation Newspaper, DNA (2008) reported that a group of microfinance experts in Kisumu were appealing for international aid/funds to help them bring battered microfinance industry back on track. The closure of some of the MFIs in Kisumu such as Blue and Richman; the sale of Faulu Microfinance bank and opportunity Kenya to Old Mutual and Getbucks respectively citing operational un-sustainability, all point to repayment challenges being experienced by the microfinance institutions in Kenya as well as well as Kisumu town. As a result of this many employees in microfinance industry have been retrenched, and many lives affected, especially those who rely on these institutions for employment and credit facilities.

From the foregoing revelations on loan repayment performance, the majority of small scale traders in Kisumu town who rely on microfinance services have a cause to worry since the trend of operational problems in MFIs could curtail the provision of

microfinance services to the clients. The majority of the residents in Kisumu town are small scale traders whose livelihoods depend on microfinance services such as credit and savings and employment opportunities. It on this backdrop that the researcher developed an interest to study the effect of credit management practices on loan repayment performance in MFIs Kisumu town.

Financial institutions are sustained by timely repayment in order to manage its financial and operational credit obligations to the customers (Warue, 2012). Credit advanced to customers ought to be received back in time to facilitate credit management circle. Majeb (2009) established that there are three levels of loan repayment performance in financial institutions; they include timely repayment rates, credit delinquencies and default. Since the repayment level is a product of credit management practices and therefore effective management is expected to translate to timely loan repayment. Timely repayment shows that the loan is performing according to contractual terms and conditions, credit is repaid in time and the customer is meeting his or her repayment obligations in time to avoid penalties.

Joana (2006) and Warue described delinquency as the late repayment of loans, loans that are paid past due dates in both the principal and interests. Joana adds that delinquent loans warns management of repayment difficulties of the borrower, and unless controlled they will spread quickly into default. Silwan (2003), Joanna (2006) and Hoque (2010) pointed out that loans at default levels indicate serious repayment problems of the borrower or worst credit recoveries and such loans will result into a loss to the organization unless they are controlled. Defaults demonstrate repayment inability of the customer, a situation that shows signs of financial and operational sustainability problems, and taking away financial outreach away from the people.

Credit management plays a great role in improving loan repayment performance in financial institutions (Pandey, 2008). Credit management involves a lending process of identifying, screening, analyzing and evaluating potential borrowers, disbursing credit and recovery of that credit from the customers according contractual credit terms and conditions. Pandey also noted that the financial institutions should consistently review management practices and policies to safeguard the organization against risk of default, since they affect repayment of loans.

Bhatt& Tang (2002), Donald (2008), Moti, Masinde, Mugenda and Sindani (2014) while analyzing relationship between credit management practices and loan repayment performance established that credit management practices affect loan repayment and organizational performance in financial institutions. Credit management practices may include credit terms (lending terms), credit risk control, client appraisal, and repayment policy. These credit management practices form the basis of overall client appraisal processes involved in credit administration and creating client credit history for future credit evaluations for loan requests. Rosenberg (2009) in measuring results of MFI using cross-sectional design in USA realized that credit management affects repayment performance in financial institutions. Ditcher (2003) writing on corporate finance and investment decisions in financial institutions in England highlighted that credit management affects organizational performance and forms a critical factor in credit administration. This implies that credit management practices have significant impact on loan repayment. Implementing credit management and policies should impact positively on loan repayment and subsequently enhance sustainability of financial institutions. The management implication is that loan repayment performance is a function of credit management; that there ought to be a positive correlation between credit management practices and loan repayment performance. Effective credit management therefore requires the ability of the institution to intelligently and efficiently manage customer credit lines and their repayment obligations.

Rosenberg (2009) and Field et al(2010), (2012), analyzing the group lending and repayment schedules established that MFIs structure their credit management contracts on group lending practice (credit terms)and weekly repayment schedules (repayment policy) to increase timely repayment rates. Microfinance experts and academicians have highlighted that in group lending practice, the application of group screening, guarantee and monitoring of members loan repayment obligations by themselves enhances timely repayment rates (Zeller, 1996). Loan repayment by an individual member becomes a collective responsibility of all the group members and default by one member means that all other group members will be considered to have been in default and cannot access future loans unless the credit in default is fully repaid. This instills repayment discipline and puts pressure on the borrower to adhere to their repayment obligations, thus reducing the incidence of credit delinquencies and default. Silwa (2003) and Tesfaye (2009) also relate high loan recoveries of credit in MFIs to weekly repayment schedules where

customers are expected to honor their repayment obligations on weekly basis. The weekly repayment helps the customers to cultivate frequent repayment and saving culture from their business operations' returns/income. Field, Rohini, Rogol (2010) ascertain that this repayment method is an ideal repayment practice that is used to mitigate risks of delinquencies and default common in MFIs. Frequency of collection is desirable in small scale businesses which the institutions serve since they generate money on daily or weekly basis and should not wait for end month repayment; otherwise they may be tempted to divert the money to other personal commitments.

Ditcher (2003) while assessing corporate finance and investments decisions and strategies in financial institutions in England and results revealed that credit management influences repayment performance in financial institutions. Moti et al (2014) in analyzing the effectiveness of credit management systems on loan repayment in MFI in Kenya, using cross sectional survey design; their study revealed that loan repayment performance is positively influenced by credit management systems such as credit terms, collection period, credit policy, and appraisal. Muturi, E. (2016) investigated effects of credit management practices on loan repayment performance in Deposit Taking MFIs in Kenya using census survey. The findings of the study showed that credit management practices (credit standards, credit policy credit terms, repayment schedules) have a positive influence on loan repayment. Njenga (2014) also assessed the effect of credit management practices on loan performance in Deposit Taking microfinance institutions in Kenya using cross sectional survey design and established that although the loan portfolio increased, Non-performing loans also increased progressively. This implies that implementing credit management practices in his study did not increase repayment rates. This demonstrates that there is no positive relationship between credit management and loan repayment in MFIs.

Namuyaga & Jenipher (2009) investigated the clients' perception on loan default management on group lending, using a case study from Finga in Uganda and Matugaa in Tanzania. The study results revealed that clients in group lending are not more likely to default than their counterparts in individual lending contracts. They established that group guarantee makes repayment a collective responsibility, thus driving high repayment rates. Gine & Karlan (2009) compared group lending and individual lending liability for microfinance borrowers in Philippines. The study revealed that clients in individual

liability lending centers were not likely to default than their peers in group lending liability centers. This implies that individual lending yields better repayment than group lending in microfinance lending programs.

Mensa (2013) analyzed the relationship between loan defaults and repayment schedules (weekly and monthly repayments) in West Bengal in India. The study used cross-sectional design. The findings of the study revealed that there is no significant relationship between loan default and repayment schedules. This implies that both monthly and weekly has no relationship effect on either loan defaults, or delinquencies. Yogendrarajah & Semisighe (2015) also analyzed micro-credit repayment in Northern Sri-Lanka. The findings of the study established that monthly repayment showed better repayments rates than weekly method. This implies that weekly repayment is associated with delinquencies or default.

The analysis of the effect of credit management on repayment reviewed above clearly illustrates different and contrasting findings. Ditcher (2003), Moti, Masinde, Mugenda and Sindani (2014) and Donald (2008) are in agreement that credit management practices positively influences loan repayment in financial institutions. This implies that loan repayment is a function of credit management. Njenga (2014) study findings disagreed with the above findings of the above three researchers. His results revealed that there is a negative influence of credit management on loan repayment. This implies that loan repayment is not a function of credit management practices.

It can also be established from the reviewed literature that there are contrasting and varied findings on the relationship between group lending and weekly repayment in MFIs. Whereas Namuyaga and Jenipher (2009) results show that group lending yields better repayment rates than individual lending; Gine and Karlan (2009) findings disagree and reveal that group lending is associated with more defaults than individual lending programs. This implies that group lending is not associated high repayment rates. These contrasting and varied results therefore require further investigation on the effect group lending practice on loan repayment performance in micro-finance institutions.

Whereas Mensa (2013) research study established that there is no relationship between repayment rates and loan default in MFIs, implying that there is no effect of weekly repayment schedules on loan repayment performance in MFIs; Yogendrarajah and Semisighe (2015) study findings revealed that monthly repayment schedules yield better

repayment rates than weekly repayment schedules in MFIs implying that there is a positive relationship between monthly repayment schedules and repayment of loans in MFIs as opposed to weekly repayment of loans.

1.2 Statement of the Problem

The success of Microfinance institutions depend mainly on the effectiveness of credit management practices/systems because these institutions largely generate revenues from interest earned on loans granted to their clients. The majority of microfinance institutions' clients have low income and savings, low repaying capacity and with low or no collaterals to facilitate financial outreach. The institutions therefore structure their credit management contracts on group lending and weekly repayment schedules to substitute collateral and improve repaying capacity of borrowers' respectively purposely to enhance repayment rates. These micro-lending practices are meant to increase cash flows/liquidity and enhance financial and operational sustainability of the institutions. Despite the application of these credit management practices, the repayment problems caused by non-performing loans have been on the rise in Kenyan microfinance industry. The Central Bank of Kenya Annual Report of 2010 reveals increasing MFIs' sustainability problem attributed to increasing non-performing loans in Kenyan microfinance sector. The increased incidence of delinquencies and defaults seem to characterize loan repayment performance in MFIs which credit management practices seek to control through group lending and weekly repayment schedules. Low repayment rates hinder the provision of financial services to the microfinance clients in Kenya as well as Kisumu town. It is on this basis that the researcher seeks to determine the effect of credit management practices on loan repayment performance in micro finance institutions in Kisumu town.

1.3 Objectives of the Study

1.3.1 General Objectives

The major objective of the study was to establish the effect of credit management practices on loan repayment performance in MFIs in Kisumu town in Kenya.

1.3.2 Specific Objectives

The specific objectives of the study were;

- i. To establish the effect of group lending practice and weekly repayment schedules on credit default in MFIs in Kisumu town
- ii. To determine the effect of group lending practice and weekly repayment schedules on credit delinquencies in MFIs in Kisumu town
- iii. To analyze the effect of group lending and weekly repayment schedules on timeliness of repayments in MFIs in Kisumu Town.

1.4 Research Hypotheses

The study tested the following hypothesis:

- i. H_{01} : There is no effect of group lending practice and weekly repayment schedules on credit default in MFIs in Kisumu town
- ii. H_{02} : There is no effect of group lending practices and weekly repayment schedules on delinquency in MFIs in Kisumu town
- iii. H_{03} : There is no effect of group lending practices and weekly repayment schedules on timeliness of repayments in MFIs in Kisumu town

1.5 Scope of the Study

The study focused on the effect of credit management practices on loan repayment performance in MFIs in Kisumu town in Kenya. Kisumu town is in Kisumu County. Kisumu County is one of the 47 Counties in the country, situated along the Lake region Western part of the republic of Kenya. The data was collected from all the known 15 MFIs operating within the city center serving small scale traders in the town. Data was collected by the researcher using questionnaires, using drop and pick later method techniques.

1.6 Justification of the Study

In Kenya, micro finance sector contributes immensely to the development and growth of the Small and Medium Enterprises (SMEs), individual consumption and improved standard of living of the poor in the society. MFIs provide a framework for financial outreach and financial inclusion of the poor into the financial market systems. It is therefore hoped that the study will yield data and information on credit management practices useful in addressing the incidence of loan repayment performance problems in micro finance industry. The findings and recommendation of the study will be used by

credit managers in improving credit policy decisions and actions to enhance financial and operational sustainability of the MFIs. The results of the study will be useful to the academicians as it will highlight areas for further research and it will also contribute to the body of knowledge. The Government being the major stakeholder in terms of regulation of the micro finance industry will use the results of the study for further policy formulation to improve its participation in entrepreneurial and economic development in the country.

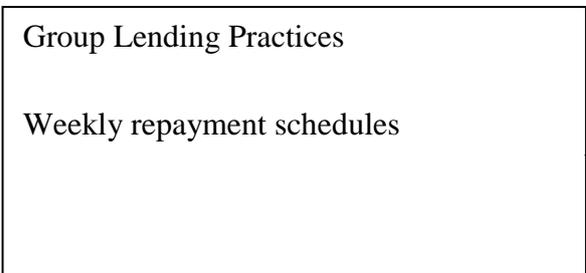
1.7. Conceptual Framework

The conceptual framework of this study sought to explain the relationship between credit management practices on loan repayment performance in MFIs in Kisumu County.

The study has been conceptualized by independent variables, dependent variables and intervening variables as shown below:

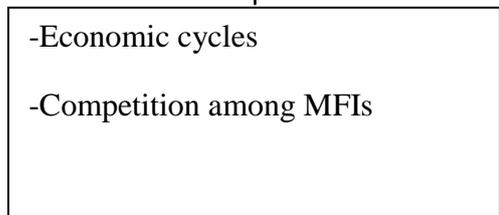
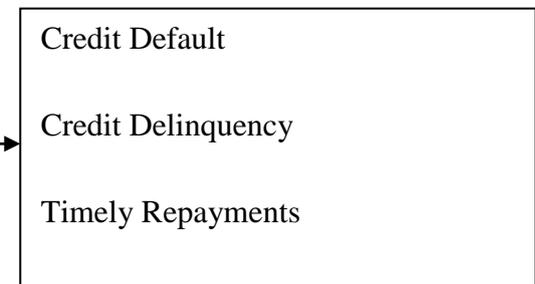
Independent Variables

Credit Management Practices



Dependent Variables

Loan Repayment Performance



Intervening Variables

Figure 1.1: Credit management practice and Loan Repayment Performance variables

Source: Self Conceptualization (2017)

CHAPTER TWO

LITERATURE REVIEW

2.1 Theoretical Review

This Chapter presents a detailed review of both the Theoretical and Empirical Literature, in a manner that it assists in the identification of existing contrasts, inconsistencies, conflicts or inadequacies in the existing literature in a bid to explain the constructs and concepts around credit management practices on loan repayment performance.

2.1.1 Grameen Solidarity Group Theory

Yunus (1976) used the theory to develop a micro finance model that addresses credit imperfections commonly found in micro finance industry. The theory is based on a workable approach that utilizes joint liability contract features which enables micro finance institutions to make small and un-collateralized or unsecured loans to the members of the group. With this theory, the group acts as a guarantee for the loan given to the members and all the group members are liable in case a member defaults in repaying the loan.

Edward (2005) holds that whereas the traditional banking institutions will need collateral facilities or assets as security for the loan before giving loans to their clients for fear of default, micro finance institutions would only apply the theory to give out loan on the basis of group guarantee. Group Solidarity theory is applied and used by both the MFIs and the borrowers in reinforcing credit management systems to enforce screening and monitoring of repayment of their peers and ensure that timely repayment obligations are met without default. Zeller (1996) points out that this theory makes loan repayment a collective responsibility of all the group members and is able to minimize risks of default. The theory is appropriate for this study because most of the low income people that the micro finance institutions seek to serve do not own property or assets that can be used as security for the loan and MFIs will apply the theory to advance loans to their customers and still expect high repayment rates because of group guarantee (Ruben, 2007).

2.1.2 Moral Hazard Theory

Financial institutions suffer from moral hazard problems and the situation is more serious in MFIs than banking institutions (Morduch, 2005). He defined moral hazard as the risk in which a party (customer) to a transaction provides misleading information about his or her assets, capital, credit capacity and liabilities in accessing credit. In this case, the lending institutions and the borrower will get into loan agreement guided by the concealed information by borrower. To safeguard the institution from experiencing repayment difficulties arising dishonest information the borrower gave during appraisal process, the MFIs apply Moral Hazard Theory by using moral hazard incentives such as such as peer monitoring, selection on strengthen credit management process of enhancing repayment rates (Ghatak, 1999). The theory is useful lending strategy to mitigate against default risks associated with micro-financing (Stieglitz, 1990, Morduch, 2005). The theory uses the same concept of group solidarity theory to increase repayments in MFIs.

2.2 Credit Management Practices.

Pandey (2008) described credit management as a lending process of identifying, screening, analyzing and evaluating potential borrowers, disbursing credit and recovery of that credit from the customers according contractual credit term. He explains that credit management is a very key factor in credit management circle. Financial institutions should consistently review its management practices and policies to safeguard the organization against risk of default. Batt & Tang (2002), Donald (2008) and Moti et al, (2014) established that credit management practices in financial institutions may include credit terms (lending terms), credit risk control, collection policy, Client appraisal and repaying policy. The credit management practices form the basis of client appraisal processes for effective credit administration and future credit history of the clientele. They aid in credit administration for establishing future credit history of the customer for future loan request.

Muturi (2016) studied the effects of credit management practices on loan repayment performance established that practices such credit standards, loan policy, loan appraisal procedures, credit terms, repaying policy have positive influence on repayment performance in MFIs. This shows that credit management is the major determinant of loan repayment, that the more effective the credit management, the higher the repayment

rates. Credit management practices and lending policies differ from one financial institution to another depending on the nature of customers and financial institution. Ditcher (2003) analyzed corporate finance and investment decisions and strategies in financial institutions in England. He established that credit management affects repayment performance in financial institutions. The reviews by Muturi and Ditcher show a positive relationship between credit management practices and loan repayment. This implies that loan repayment performance is a function of credit management practices. It therefore calls for their effective implementation to enhance credit recoveries from customers that will go a long way in improving credit management circle and making lending to the poor economically viable. Credit management practices therefore form a key requirement for effective management of customer credit lines and repayment obligations. Yuge (2011) highlights that MFIs put more emphasis on group lending terms and weekly repayment method as opposed to individual and monthly repayment common in banking institutions. This is informed by the nature of the clients that MFIs tend to serve. Microfinance clients are poor with low level of income and rely on group membership and weekly group meetings to reinforce their repayment obligations. Group lending terms and repayment method have been recognized as the most salient features of credit management practices that distinguish microfinance from banking institution's lending framework (Ericka, Rohini, and Rogol, (2010), Jordan, (2008). Group lending and weekly repayment schedules are credit management practices recognized as the key pillars upon which the concept of micro-financing is anchored. The researcher is therefore going to concentrate on repayment schedules and group lending practices (lending terms) as the independent variables of the study.

2.3 Loan Repayment Performance in Microfinance Institutions

Srinivasan (2012), Aryad (2006) and Sindani (2012) pointed out that repayment performance is an important consideration by management of any financial institution that carries out the business of financial intermediation. Sindani defined loan repayment as the rate at which loans issuance and recovery is at maximum levels in time and amount as it falls due. Financial institutions must strive to keep repayment performance at higher rates to ensure good collection, profitability and liquidity. Good repayment also improves operational and financial sustainability. In his study to determine a good repayment rate Marsland found out that 95% is the ideal collection rate to cover operational and

administrative costs incurred in credit administration. Majeb (2009) established that there are three levels of loan repayment performance in financial institutions; they include timely repayment rates, credit delinquencies and default. According to Hoque (2009) these levels of loan repayment performance are a product of credit management practices. Timeliness of loan repayment shows that the loan is performing according to contractual terms and conditions, credit is repaid in time and the customer is meeting his or her repayment obligations. Timely repayment rate is associated with liquidity and operational efficiency of the MFIs.

Delinquency refers to as the late repayment of loans (Joana, 2006, Beatriz, 2007). These are loans that are paid past due dates in both the principal and interests. Loans performing at delinquent levels should warn management of repayment difficulties of the borrower, and unless such loans are controlled, they will spread quickly into default. Silwan (2003), Joanna (2006) and Hoque (2000) pointed out that loans at default levels indicate serious repayment problems of the borrower or worst credit recoveries and such loans will result into a loss to the organization unless they are controlled. Defaults demonstrate repayment inability of the customer, a situation that shows signs of financial and operational sustainability problems. Such loans are referred to as non-performing loans, and at the end of the accounting period, they are written off to profit and loss account. Non-performing loans reduce profitability of the institutions

Githinji (2006) admitted that loan repayment performance in MFIs has not been impressive. Delinquencies and non-performing loans have characterized microfinance industry across the globe. The institutions are therefore operating below the sustainability requirements, caused largely by loan repayment problems. According to Yuge (2011), who analyzed the current situation of microfinance in Bangladesh, established that MFIs suffer from loan repayment problems arising from high interest rates and poor lending practices. Another study by Helms (1997) on banking the bottom of pyramid, from inclusive finance and beyond', established that African microfinance institutions face survival dilemma caused by incidences of increased risks of defaults. This can also be confirmed by remarks the Vice Chairman of Tanzania Microfinance Association during a microfinance breakfast meeting where he reiterated that there is increased default a surge of non-performing loans in microfinance sector. He attributed the repayment problems in

Tanzanian microfinance industry to reliance on group lending and lifestyle changes of the customers.

Sindani (2012) also established that Kenyan financial sector has been experiencing non-performing loans (defaults) in both mainstream banking institutions and microfinance institutions. The increase in bad debts and accumulated losses have continued to erode banks profitability leading to collapse of some of the institution such as such as African Credit Finance, Trade banks among others. The Central Bank Annual Supervisory survey released a dented image of loan repayment performance in Kenyan microfinance industry (Ndungu, 2010). The sector is characterized by high credit risk exposures reflected in the rising non-performing loans. This has given rise to operational and financial unsustainability of the MFIs, which poses challenges to both the institutions and their clients in credit management circle.

Omonywa (2015) pointed out that loan repayment has not been good among the MFIs in Nyanza region. Microfinance institutions experience repayment problems just like in other regions within the country. The repayment problems have been associated with poverty, diversion of loans to non-core business and lack of capital. Daily Nation Newspaper, DNA (2008) reported that a group of microfinance experts in Kisumu were appealing for international aid/funds to help them bring battered microfinance industry back on track. The closure of some of the MFIs in Kisumu such as Blue and Richman, the sale of Faulu Microfinance bank and opportunity Kenya by Old Mutual and Getbucks respectively citing operational non-sustainability point to repayment challenges facing the MFIs. The repayment problems threaten the viability of the institutions and makes lending to the poor unattainable.

2.4. Group lending Practice in Micro finance institutions

According to Zeller (1996) group lending refers specifically to arrangements by individual potential borrowers without collateral to come together and form groups with aim of guaranteeing one another within their group membership. This particular lending practice would enable the poor and low income people to use the group solidarity concept to access credit. Yuge (2011) reveals that since 19870's group lending programs have been promoted in many developing countries. His study links the common characteristics of group lending to joint liability. Besley & Coate studied the group lending repayment

incentives and social collateral and established that the practice works on the premise that all group members are treated as being in default if any one member of the group does not repay his or her loan. This method makes each group member liable for repayment of his or her peers' loan, thus making borrowers vigilant at one's repayment progress.

Zeller (1996) also studied group lending as an operational tool for evaluating poverty outreach and the findings the study revealed that MFIs embraces group lending concept in managing micro credit services because the loans under joint liability shows that the group members under threat of losing access to future credit facilities should one member defaults. Zeller also points out that the group concept forces other members of the group to perform various functions including screening of loan applicants, monitoring the individual borrowers' efforts, and reinforcing repayments of their peers' loans.

Group lending practice improves loan repayment performance and minimizes risks of default as it is easier and cost effective for the group members to monitor one another's repayment behavior and put pressure on him or her to repay the loan. This lending method study is associated with high repayment rates than individual lending method. The members are expected to adhere and subscribe to the ideals of the group as a requirement for loan guarantorship. Silwan (2003) attributes good loan recoveries in MFIs to group lending since it promotes peer selection, monitoring and peer loan enforcement programs that may mitigate moral hazards, adverse selection and information asymmetries faced by MFIs. His study also linked high repayment rates in MFIs to group lending practice. Every member acts as the watchman of one another's repayment obligations. .

2.4.1 Weekly Repayment schedules in Micro finance Institutions

Ericka et al (2010) studied the microfinance repayment schedules in West Benjal in India and noted that the issue of the vulnerability of the microfinance institutions' clients is real. The study found out that MFIs clients are poor and lack repaying capacity due to low level of their business operations and other social factors. This explains the why there is uncertain cash flow projections their business operations. This has forced the MFIs to enforce weekly (fixed) loan repayment as opposed to monthly (flexible) repayment approach in managing micro finance loans which is susceptible to default. Weekly repayment schedule therefore constitutes a repayment policy where the borrower is

expected to remit credit installment on weekly basis as opposed to traditional monthly basis.

Field (2008) also believes that weekly collection of repayment installments are widely seen as the key feature of micro finance lending methodology whose practice is responsible for reducing default risk, thus making lending to the poor financially viable. Weekly loan repayment is therefore believed to instill discipline in terms of loan performance among MFIs borrowers as they are required to attend compulsory weekly group meetings where cash is collected from those who had loans in the presence of credit officers from MFIs. Yuge (2010) study agreed with the proponents of weekly loan repayment adding that the lending practice encourages high loan performance provided that grace period was given to the borrower before repayment demands begins. Silwa (2003) and Tesfaye (2009) concurs that weekly repayment schedules are associated with high loan repayment rated in microfinance industry. Given the nature of the microfinance clients, they cannot wait for one month to repay the loan; they would be tempted to divert business funds to other non-core business and personal activities. The method would enable the borrowers to get used to frequent loan repayment thus reducing the incident of delinquencies and defaults.

Rutherford (2000) welcomes weekly repayment as one that is the most likely approach that holds to the poor households where opportunity cost of time is relatively low and where mechanisms to enforce financial discipline are relatively limited. Frequency of collections is desirable for small scale businesses because they generate a flow of revenue on a daily or weekly basis. Rutherford (2000) and Field et al (2010) agree that weekly meetings and collections of loans help clients in creating repayment and savings culture and initiating repayment immediately imposes repayment discipline and reduces likelihood that a client will take money and run away. Since the frequency of payments involves interactions with loan officers on weekly basis, it therefore creates a sense of repayment discipline and culture among the borrowers and credit officers are also able to monitor the challenges facing their clients

2.5 Empirical Studies

2.5.1 Credit management practices on loan repayment performance in MFIs

Kibor (2015) analyzed the influence of credit risk management on loan performance in commercial banks in Nakuru town, Kenya. The study used descriptive design Census survey with a target population of 37 respondents drawn from 15 commercial banks branches in Nakuru town. The data was analyzed using inferential statistics. The findings of the study revealed that credit risk management affect loan repayment performance in banks. It concluded that lending policy and credit standards have influence on repayment performance.

Muturi, E. (2016) established effects of credit management practices on loan repayment performance in Deposit Taking MFIs in Kenya using census survey. The target population consisted of 10 Deposit Taking MFIs, consisting of 50 officers. The data was collected using structured questionnaire. The data was analyzed using multiple regression models. The findings of the study showed that credit management practices (credit standards, credit policy credit terms, repayment schedules) have a positive influence on loan repayment. Njenga (2014) also assessed the effect of credit management practices on loan performance in Deposit Taking microfinance institutions in Kenya using cross sectional survey design. The target population consisted of 9 MFIs. The study used descriptive design and census survey. The data was analyzed by using regression analysis. The established that although the loan portfolio increased, Non-performing loans also increased progressively.

Moti at al, (2014) also assessed effect of credit management systems on loan repayment performance of microfinance in Meru town in Kenya. The study used a target population of 70 credit officers drawn from 14 MFIs in Meru. The study used census survey. From the findings of the study, it established that credit management systems (collection policy, credit terms, and loan policy) positively affect loan repayment performance. It recommended that more effort should be put on collection policy.

2.5.2 Effect of Group lending practices on Loan Repayment Performance in Micro finance Institutions.

Gine and Karlan (2009) compared the group lending and individual lending liability for micro finance borrowers in Philippines. The study examined two trials conducted by Grameen Bank of Caruga consisting 169 clients and 124 clients to emulate the effects of group lending liability relative to individual liability on monitoring and enforcing loans. From the finding the study established that clients in individual lending programs reported better repayment rates than those in group liability lending schemes both in the short run and the long-run. Namuyaga and Jenipher (2009) in an effort to ascertain the clients' perception on loan default management in group lending using a comparative study of a Deposit Taking micro finance institution in Uganda and a Sacco's in Tanzania used a population of 113 respondents. The study used purposive sampling method. The findings of the study established that clients in group lending recorded higher repayment rates.

Omonywa (2015) investigated the factors affecting loan repayment by women entrepreneurs, a case study of Kisii County in Kenya. The objective of the study was to determine the level to which involvement of a member in a group influences loan repayment. The study used descriptive survey design with a population of 400 entrepreneurs from Kenya Women Finance Trust (KWFT) in Kisii County. The data was collected by questionnaire method. The study applied stratified random sampling techniques. The results were analyzed using regression analysis. The study findings revealed that 46.1% indicated a higher level repayment performance, 23.7% indicated a very higher level and 18.4% showed a low level, 6.6% showed a very low level and 5.35% indicated a far low level. The study therefore concluded that group lending practice has a positive influence on loan repayment by women entrepreneurs to a higher level.

Dancun. M.M (2013) evaluated the relationship between group and individual lending and non-performing loans in MFIs banks in Kenya. The data was collected from primary sources using structured questionnaire from loan officers and credit controllers at the head offices of the MFIs in Nairobi, Kenya. The study employed cross sectional survey design. The researcher used a sample size of 48 micro finance firms obtained using simple random sampling for a period of 3 years. The customers were granted loan with a

repayment of only 15 weeks with a standard deviation of 0.25 weeks. The data was analyzed using logistic regression. The results of the study revealed that Kenya's micro finance institutions prefer individual lending methodology which is more wasteful. The study concluded that individual lending is associated high default rates levels witnessed in MFIs compared to group lending.

Maobe (2010) established the effect of the group liability lending on performance of Small and Medium Enterprises in Nairobi Uhuru market, Kenya. The target population of the study was SMEs operating in Uhuru Market in Nairobi. Data was collected by use of questionnaires which were administered using drop and pick later method while secondary data was obtained from SMEs strategic plans, newspapers and in-house journals. A sample size of 50 credit officers from MFIs were randomly taken and purposive sampling method was applied to get data and information for analysis. The study used descriptive cross sectional survey design. Das analyzed using descriptive statistics and represented by measures of central tendency, standard deviation. The study revealed that most of the SMEs in Uhuru Market rely on funds the group lending to operate and that borrowers organized in groups were more likely to produce more and repay their loans faster than counterparts in individual lending program.

Bumbuie (2013) also investigated determinants of repayment performance of group and individual lending in micro finance, in Ghana. The main objective of the study was to compare the repayment performance of group clients and individual clients of MFIs in order to bring to light factors that determine repayment performance in groups and individuals credit beneficiaries. The primary data was collected from the area of survey the method of questionnaire which was administered to the selected respondents and secondary data from was obtained from authentic and reliable literature. The target population of the study was group and individuals of the two MFIs, with a population size of 240 respondents: 120 individuals and groups from 120 individuals and group, using purposive sampling technique. The data was analyzed using Statistical Package for Social Sciences (SPSS) and multiple regression method to generate descriptive statistics and T- (95% significant level) plus p (value <0.05) was used to determine repayment rates among individuals and group borrowers. The results of the study revealed that individuals are doing better than groups in terms of repayments motivated by dynamic incentives.

The vice chair of Tanzania Association of Micro Finance Institutions (TAMFI,2012) while addressing the first Micro finance Breakfast debate for TAMFI in Dar es Salaam on group lending risks as a threat to micro finance sector in Tanzania, revealed that micro finance institutions which vastly ride on group lending methodology are experiencing increased credit risks. He said that if the situation is not properly addressed then many institutions will start to be hardly hit with increasing credit risks with fatal consequences.

2.5.3 Effect of Weekly Repayment Schedules on Loan Repayment Performance in Micro finance Institutions.

Weber, Mubhoff & Petrick(2014) studied the effect repayment schedules on agricultural micro finance farmers in Germany. The objective of the study was to investigate how provisions of micro finance loans with (in) flexible repayment schedules affect loan delinquencies of agricultural borrowers. The researcher used a case study of Access Banque Madagascar which is a commercial MFIs operating as a fully-fledged commercial bank and owned by its founders. The study used cross sectional survey design. The study used a sample size of 5618, with 2790 loans disbursed as standard (fixed schedules) loans to agricultural enterprises and 2928 disbursed as flexible loans. The study used descriptive statistics of micro loans of ABM, and analysis was done using regression method as follows: $Y_t = \beta_0 + \beta_1 X_t + \beta_2 Y_t + U_t + S_t$ and results were presented in tables. The study revealed that there is no significant delinquency between non seasonal farmers and non-farmers both with standard loans and without grace period. The results also revealed no significant differences between seasonal farmers with flexible loans and non-farmers with standard loans (both groups without grace period). The study concluded that provisioning of flexible loans to seasonal farmers does not increase credit risk and therefore does not increase risk of default.

Ericka, Rohini & John (2012) established the effect on repayment flexibility on reduction of financial stress among micro finance clients in India. A field expert randomly assigned micro finance clients to a monthly and a traditional weekly installments schedule, using a sample size of 200 clients. Study revealed that micro finance repaying monthly were 51% less likely to report feeling of being worried, tense or anxious about loan repayment and were also 54% confident about repaying and less time thinking about their loan repayment compared to weekly clients. The monthly repayment clients also reported higher business investments and income, suggesting that the flexibility encouraged them

to invest their loans more profitably, which ultimately reduced financial stress. The study recommended flexible (monthly) repayment schedules over fixed weekly schedules for micro finance borrowers.

Kosanatri (2014) also compared the effectiveness of repayment schedules on repayment by microfinance clients in Bangladesh. The study used cross-sectional survey design. The population of the study was 2400 with a sample size of 28 respondents. The data included both primary and secondary and was collected through questionnaire and interviews. The data was analyzed using regression method and presented in charts. The study revealed that monthly/flexible repayment schedules yields better repayments than standard/ weekly repayment since weekly method imposes more repayment burden on microfinance borrowers.

Mensa (2013) also evaluated the relationship between loan default and repayment schedules in MFIs in Ghana using a case study of Sinapi Aba Trust. The study was an investigative one and used primary data collected by use of questionnaire. The study constituted a population of 100 customers drawn from the Trust using simple random sampling technique to drive reliable, relevant and sufficient data from the sample. The data was analyzed using Ordinary Least Square (OLS), regression, graphs and tables. The study revealed that there is no significant relationship between loan defaults and repayment schedules in MFIs in Ghana.

Karim, Roslan & John (2012) investigated determinants of micro credit repayment in Malaysia using a case study of Agro Bank. The study used a cross sectional survey design and used probit and logic models to analyze the data. The study revealed that shorter repayment period leads to loan default. The study concluded that short-term repayment leads to default. It recommended the abolishment of the shorter loan repayment methods to more flexible method and products.

Erica, Rohini, & Natalia (2010) compared the effect of repayment schedules (weekly and monthly) on microfinance repayment in West Bangal, in India. The objective of the study to establish how monthly repayment affected default and late repayment rates. The study examined variations of micro finance contract design in partnership with VFS by comparing weekly and monthly loan repayment in one evaluation, tested a two-month grace period before initiating repayment in another. The study revealed that switching

from weekly to monthly repayments did not affect repayment rate; there was no difference between default rates or frequency of late repayment rates between the two groups (weekly and monthly group).

Yogendrarajah and Semisinghe (2015) analyzed empirical analysis of micro credit repayment in Northern Sri Lanka. The study based on 337 self-employable women members of micro finance institutions selected using multi-stage stratified random sampling techniques. The data was analyzed using linear regression method to find out the variables that affected micro credit repayment. The results of the study showed that all the above variables positively influenced loan repayment of micro credit services because of the p value which was less than 0.005 ($p=0.005$). The findings of the study also established that clients also revealed that clients in monthly (flexible) repayment schedules recorded high repayment rates than weekly (inflexible) schedules. The study concluded that the flexibility lending contract is really needed in Sri Lanka and MFIs should switch to flexible lending to reduce repayment problems.

Tesfaye (2009) analyzed economic analysis of micro finance credit group formation focusing on contractual risks and welfare impacts in Northern Ethiopia. The objective of the thesis was to examine the mechanisms of providing credit through microfinance and assess the long-run borrowing effects household welfare in Ethiopia. The specific objective included joint liability lending and repayment schedules, joint borrowing decisions under risks. Data was collected from 201 borrowing rural households that constituted 57 credit groups selected from 45 villages. The sampling method used in selecting sites was one of purposive sampling. The study revealed peer monitoring and screening associated with weekly repayment schedules yielded positive repayment rates in the MFIs than those who employ monthly repayment method. The group lending and weekly repayment schedules are associated with reduced risks and positive impacts of the group welfare.

2.2.4 Summary and Gaps

The analysis of the empirical studies reveals that there is a relationship between credit management and loan repayment performance in financial institutions including microfinance institutions. Njenga (2014), Kibor (2015) and Muturi (2016) study findings reveal that there is appositive relationship between credit management practices and loan

repayment performance in MFIs. This implies that loan repayment performance is a function of credit management practices. This is also confirmed by Jordan (2008) and Ericka, Rohini and Rogol (2010) whose studies recognized group lending and weekly repayment schedules are salient pillars of credit management practices upon which microfinance concept is anchored. Whereas some studies are in agreement that there is a positive effect of credit management on loan repayment, recording higher repayment rates (Kibor, 2015, Moti et al 2014, and Muturi, 2016); some studies disagree with their findings and establish credit management practices have negative effect on loan repayment (Njenga, 2014).

Zeller (1996), Yuge (2011), Besley and Coate (1995), Field (2008), Silwan (2003) and Tesfaye (2009) pointed out that group lending and weekly repayment schedules are salient features of credit management practices implemented to reduce default rates in MFIs and enhance loan repayment rates from borrowers. Their findings reveal that group lending and weekly repayment schedules are associated with high repayment rates in MFIs. This confirms the arguments made by Siwan (2003) and Zeller (1996) that group lending and weekly repayment schedules are essential means of managing micro-credit facilities among low income borrowers.

Further analysis of the findings on the effect of group lending and weekly repayment schedules on repayment performance in MFIs, there are varied and contrasting findings. Whereas some studies reveal that group lending increases loan repayment performance in MFIs (Gine & Karlan, 2009, Omonywa, 2015, Dancun (2013) and Maobe, 2010); some results establish that group lending practice leads to delinquencies and defaults in MFIs (Bumbuie, 2013, TAMFI, 2013). These contrasting research findings require further investigations.

On the other hand, the study results of the effect of weekly repayment schedules on repayment performance in MFIs shows varied and conflicting. Whereas some results shows that weekly repayment increases repayment rates in MFIs (Tefaye, 2009, Ericka et al, 2012, and Webber et al, 2014); some findings reveal that weekly repayment schedules lead to default and low repayment rates in MFIs (Kosanatri, 2014, Karim et al, 2010 and Yogendrarajah & Semisinghe, 2015). Mensa (2013) research findings reveals different results from his colleagues, showing that there is no effect of weekly repayment schedules on repayment performance in MFIs. These variations of research findings on

the effect of weekly repayment schedules on repayment performance require further investigations.

CHAPTER THREE

METHODOLOGY

3.1 Research Design

This study was conducted using correlation research design. The correlation research design established, and determined the extent to which an association exists between two or more variables of the study (Osso and Onnen, 2008). It involved collecting information by administering a questionnaire to a sample of individuals (Orodho, 2003). The design is appropriate for this study because it determines the nature and strength of relationship between credit management practices and loan repayment performance; by getting the feelings and opinions of the respondents under study on the effect group lending and weekly repayment schedules on repayment performance in MFIs. It is also applicable to the study since it helps in collecting data from credit officers based on their experienced assessment on the relationship impact of credit management (group lending and weekly repayment) on loan repayment in MFIs.

3.2 Study Area

The study was conducted in Kisumu town, in Kisumu County. Kisumu Town is situated along Lake Victoria within the Western part of the republic of Kenya. Kisumu is located at 0.1 South Latitude, 34.75 Longitude and 1132 meters elevation above the sea level. It is a third largest millennium development city in the Kenya with a population of about 216,479 people. The major economic activity in the region is Small and Medium Enterprises and fishing along Lake Victoria. The population of the study comprised the 75 microfinance credit officers from 15 microfinance institutions operating within city Centre of Kisumu town. All the microfinance institutions in the town are concentrated with the Central Business District (CBD). The clients of the microfinance institutions are mainly small scale traders operating their businesses within and outside of the city Centre.

3.3 Target Population

The target population of the study was 15 MFIs consisting of 75 credit officers working in 15 Micro finance institutions in Kisumu town. The credit officers are the employees of the MFIs who are in constant touch with micro finance clients and who understands the

borrowers characteristics well. They are the implementers of the of the credit policy in the market and credit recovery procedures in the institutions. They are charged with the responsibility of appraising microfinance potential clients and referring them to the MFIs. Credit officers are appropriate target population for the study since they are tasked with monitoring loans repayment progress through weekly group meetings with their clients, during which installment cash collections are made and remitted to the institutions.

3.4 Sample Size and Sampling Techniques

According to Gay (1992) sample size is a representative of all elements in a population where the sample is drawn and is representing salient features of the target population. Sampling techniques refers to sampling method used to draw individual respondents or items that constitute a sample. The study used census survey of all 75 credit officers of MFIs operating in the City, meaning that there was no sampling. Census survey is appropriate for the study since the entire population is very small and with degree of accuracy needed. This method is appropriate since it enhances the accuracy and reliability of the study findings by eliminating sampling bias. The survey entailed sources of data, data collection procedures, instrumentations, data reliability and validity. The study adopted both qualitative and quantitative research methods which are complementarily used to enhance effective interpretation of data. Gilmore and Carson (1996) support this view and believe that the assignment of techniques between these approaches is beneficial and adds significant value to the research being undertaken.

3.5. Nature and Sources of Data

The study used both primary and secondary data. The primary data of the study constituted data obtained from credit officers working in 15 MFIs operating within the city centre. The primary data was also obtained from both qualitative and qualitative methods. The secondary data constituted documentary sources such as Central Bank of Kenya reports, and newspapers, articles and journals also among others related to this study. The sources also formed part of literature review on loan repayment and credit management practices.

3.5.1 Data Collection Procedures

The data was collected from 75 credit officers from the 15 Micro finance institutions operating from within Kisumu town using semi structured questionnaires. The data was collected by the researcher by administering the questionnaires to both the credit officers of MFIs by himself. The target population is largely literate and did not find difficulties responding to the questionnaire items. Specifically, the semi structured questionnaire aimed at obtaining information on credit management, group lending, weekly repayment, and status of loan performance in MFIs in Kisumu town.

3.5.2 Instrument for Data Collection

For the purposes of this research, the study used semi structured questionnaire as the main tools for collecting data. The questionnaires were self-made. The questionnaire is a collection of items to which a respondent is expected to react in writing (Oso & Onen, 2008). The questionnaires were able to collect a lot of information over a short period of time. This instrument is appropriate for the study because the target population is largely literate and is unlikely to have difficulties responding to questionnaires. The semi structured questionnaires were pilot tested in order to determine its reliability and validity prior to administering it in the main study.

3.5.3 Data Reliability

Reliability is the extent to which research results are consistent and replicable (Amin, 2005; Kothari, 2012). Reliability is the consistency of scores when the research instrument is administered from one set of items to another, and also from one point in time to another (Frankel and Wallen, 2006). The instruments were pre-tested for reliability using Cronbach's alpha (α) approach. To achieve this, 15 respondents (one credit officer in each MFI) were tested and piloted for reliability and were not used again in the final census survey. Therefore questionnaires were administered to credit officers who are in constant touch of the microfinance clients on daily basis to increase the reliability of the responses. The instruments were also tested using Cronbach alpha co-efficient whereby only those factors in every construct that returned alpha values equal to or greater than 0.7 were deemed reliable and as such be included in the final instruments. The number 15 was chosen for pre-test because it is the smallest number that yielded meaningful results in data analysis of a survey research (Kothari, 2012). The instruments

were first, administered in a standardized form like, all measurements were conducted in the most consistent manner across all participants; secondly, all participants were made to understand the instructions and content of the instrument; thirdly, all participants who were involved in the administration of the research instrument were thoroughly trained before the actual exercise; and lastly, effort were made to ensure that data is recorded and compiled accurately. Having administered 15 respondents with the questionnaires (N=15), The reliability of the current study was therefore tested with the assistance of SPSS ver. 22 which obtained a reliability coefficient of 0.7893 as presented in table 3.1

Table 3.1: Reliability Test Results

N=15 Sum of Var= 8.9531 Alpha= 0.7893															
Var	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12	R13	R14	R15
1	5	2	5	2	4	4	3	4	5	1	3	5	3	4	2
2	1	4	3	1	4	3	1	3	3	5	3	3	4	3	1
3	2	3	1	1	1	3	1	4	3	1	5	4	3	5	2
4	4	2	2	2	3	2	4	5	4	2	2	5	3	1	3
5	3	2	2	1	2	1	3	2	2	4	3	3	2	2	3
6	1	3	4	2	4	2	1	2	5	2	4	2	4	4	4
7	2	2	1	1	1	3	3	4	3	3	3	4	2	4	2
8	2	1	3	5	2	2	2	4	2	4	5	5	4	3	5

Source: Research data 2017

3.5.4 Data Validity

Validity is the extent to which research results can be accurately interpreted and generalized to other populations, or the extent to which results measure what they intend to measure (Oso & Onen, 2005). To enhance the validity of the study, the questionnaires were pre-tested before it they were used in a full scale survey to identify any mistakes that need correcting. The validity of the data was determined through the expert opinion of the supervisor of Maseno University, who paid attention and advice on the wordings, relevance, and adequacy of instructions of the questionnaire. Attention was also paid to English grammar used in the questionnaires to ensure the respondents clearly understand the questions administered to them and give objective and reliable responses.

3.5.5 Data Analysis

This section shows how data collected using various instruments was analyzed. Data analysis can be defined as a whole process which starts immediately after the data collection and the point of interpretation of results for precision (Zukmund, 2003). Raw

data was sorted, edited, validated, coded cleared and entered to detect any missing values. The study used regression analysis method to analyze data. Regression method is a statistically inferential analysis of using a known variable to predict unknown variable. Regression model was used to establish the relationship between credit management practices and loan repayment performance:

$$Y = f(a + bx)$$

$$Y_1 = a_1 + b_1x_1 + b_1x_2 \dots \dots \dots \Sigma_1 \text{ (objective 1)}$$

$$Y_2 = a_2 + b_2x_1 + b_2x_2 \dots \dots \dots \Sigma_2 \text{ (objective 2)}$$

$$Y_3 = a_3 + b_3x_1 + b_3x_2 \dots \dots \dots \Sigma_3 \text{ (objective 3)}$$

Where:

Y = Loan repayment performance

Y₁ = Loan repayment performance with respect to credit default

Y₂ = Loan repayment performance with respect to credit delinquency

Y₃ = Loan repayment performance with respect to timeliness of repayments

a = Constant Interception point of regression line and Y-axis

b = the slope/gradient of regression line

Σ = Error term, 1.96

X₁ = the first independent variable that is explaining the variance in Y (Group lending practice)

X₂ = the second independent variable that is explaining the variance in Y (Weekly loan repayment schedules).

The strength of relationship between the dependent and independent variables will be measured by carrying out t- test @5% level of significance. The test will be done to determine whether the co-efficient β₁ and β₂ are significantly different from zero.

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the findings, their interpretations and discussions in answering the research questions. The findings of the study are presented on the basis of the research objectives as defined in chapter one. Data was analyzed and summarized in form of frequency distribution tables, using descriptive analysis technique as well as regression analysis. SPSS v.20 was used to analyze the data.

4.2 Response Return Rate

The response rate refers to percentage of the study sample that returns the questionnaires completed and participates in the interview (Bryman & Bell, 2007). The study targeted 75 credit officers from 15 microfinance institutions operating within city Centre of Kisumu town. The respondent return rate is shown in Table 4.1

Table 4.1: Response Return Rate

Respondents Response	Frequency	Percentages
Sampled	75	100
Responded	60	80

Source: Research Data (2017).

From the study findings, out of the targeted 75 respondents, the study achieved 80% response return rate. This implies that all but 15 respondents fully filled the questionnaires. These high response return rates were achieved because the researcher administered and collected the questionnaires in person and also gave the respondents adequate time to respond. Mugenda and Mugenda (2003) observed that a 50% response rate is adequate, 60% good and above, while 70% rated as very good. Thus, for this study, the respondent rate was considered to be very good.

4.3 Background information of the Respondent

The study sought to establish the demographic information of the respondents based on their gender, and the duration the MFI has been operating in the town. Table 3 shows the results.

Table 4.2: Background information of the Respondents (N=60)

Characteristics	Freq.	%	
Gender	Male	28	46.7
	Female	32	53.3
Duration the MFI has been in town	Less than 1 year	3	5.0
	1-5 years	17	28.3
	Above 5 years	40	66.7

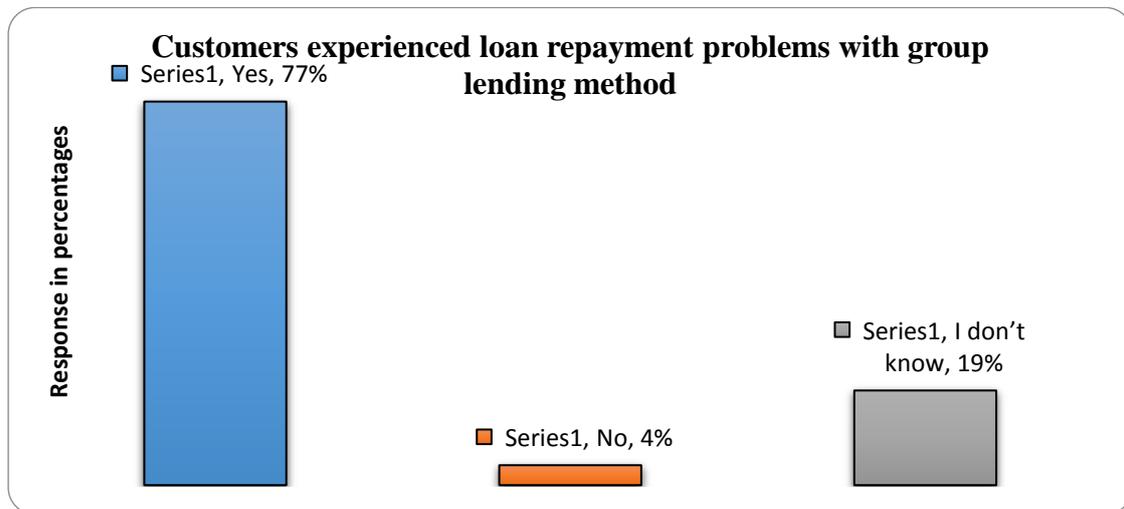
Source: Research Data (2017).

The study found that 46.7% of the respondents were males, while their female counterparts were represented by 53.3%. Although female respondents outnumbered their male counterparts, this was with smaller margin, implying that most of the MFIs in Kisumu town provided equal employment opportunity to all, regardless of gender. Based on duration the organization had taken operating in town, the study found that most of the MFIs had taken more than 5 years in the city as shown by 66.7% of the respondents. 28.3% indicated 1-5 years, while only 5.0% indicated less than one year. This shows that most of the MFIs in town had stayed long enough to provide elaborate credit management practices for over a period of time under study. They have also experienced good interactions with microfinance customers over a reasonable period of time to enable them respond to the issues raised in the questionnaire. The data was therefore obtained from reliable and experienced officers of the MFIs, thus guaranteeing reliability of the results.

4.4 Group Lending Practice

Respondents were probed on whether customers experienced loan repayment problems with group lending method in their institutions. Out of the 60 respondents that took part in the study, majority at 77% agreed, 19% were undecided while only 4% disputed the statement. Responses were as shown in Figure 4.1. However, Yuge (2011) seems to

contradict these statements when he found that group lending practice improves loan repayment performance and minimizes risks of default as it is easier and cost effective for the group members to monitor one another's repayment behavior and put pressure on him or her to repay the loan. Majority of microfinance clients sampled reported experiencing repayment problems with group lending; this confirms the findings of Omonywa (2015) whose results revealed that loan repayment has not been good among MFIs in Nyanza region, even though the latter attributed repayment problems to poverty, and diversion of loans to non-core businesses.



Source: Research Data (2017)

Figure 4.1: Customers experienced loan repayment problems with group lending

4.4.1 Causes of repayment problems

The study also sought to establish what the causes of repayment problems were where group members guaranteed one another. Out of 46 respondents that answered this question, over three quarters mentioned family problems, and 73.9% mentioned group breakups, while 84.8% indicated both group break ups and family problems. This implies that loan repayment problems such as default and delinquency were majorly caused by breakups of the group and personal family problems. Table shows the response.

Table 4.3: Causes of repayment problems

Mentions	Frequency	Percentages
Group break-ups	34	73.9
Family problems	36	78.3
None of the two	11	23.9
All of the two	39	84.8

Source: Research Data (2017).

4.4.2 Volume of Total Issued Credit in favor of Group Lending Practice for last 4 years

Respondents were also probed on the volume of Total Issued Credit in favour of Group Lending Practice by their Micro Credit Firm for the last four years. Table 4.4 shows the response.

Table 4.4: Volume of Total Issued Credit in favor of Group Lending Practice for last 4 years

Amount in Kshs.	Frequency	Percentages
1000-500,000	33	71.7
500,000-1,000,000	13	28.3
1,000,000-2,000,000	10	21.7
Above 2Million	4	8.7

Source: Research Data (2017).

The study revealed that for the last four years, the volume of total credit issued through group lending practices was between Ksh.1000-500,000 as indicated by 71.7%. Slightly above a quarter of the respondents at 28.3% indicated Ksh. 500,000-1,000,000, while 21.7% indicated 1,000, 000-2,000,000. Only 8.7% indicated above 2 million. This shows that the total volume of credit issued to group lending hitherto was between half a million and below. This also implies that microfinance clients are poor and low income people whose savings and credit requirements averages at 500,000. This could be attributed to low volume of money available for lending in the groups. The results shown in the above table, justified the understanding of Mpunga (2004) and Ledgerwood (1999) who strongly argue that the MFIs have evolved overtime as an economic development approach intended to benefit low income people in the society.

4.4.3 Group Membership Bounds that apply to Group Lending Design

The study sought to investigate Group Membership Bounds that applied to different Group Lending Design, in various categories. Table 4.5 shows the response

Table 4.5: Group Membership Bounds that apply to Group Lending Design

	Category 1	Category 2	Category 3	Category 4	Category 5
	5-10	11-15	16-20	21-25	26-30
Freq.	11	29	0	20	0
Percentages	23.9	63.0	0.0	33.3	0.0

Source: Research Data (2017).

In establishing the group membership bounds that applied to different group lending design, over two thirds of the respondents at 63.0% indicated group members composing of 11-15 members, 23.0% indicated 5-10 members, while 33.3% indicated 21-25 members. The results show that microfinance institutions' credit operations are modeled on group principle. Edward (2005) attributes the success of microfinance operations to the formation of groups to enable individual group members access credit from the institutions and uses group solidarity principle to substitute collaterals that would have been required by the banking institutions. The results also revealed that group membership formation ranges between 11-15, which is easy to manage and monitor by the group members themselves and microfinance clients respectively. The small membership bounds enable the members to screen and follow-up on the members and ascertain member's loyalty to the group thus guaranteeing group stability, thus promising good repayment rates.

4.4.4 Major reasons (investment project) for issuance of credit by Micro Credit Firm

The study sought to found out major reasons or investment projects that members of the groups were majorly seeking the credit for. Out of the 60 respondents that took part in the study, over two thirds of the respondents at 65.0% were engaging in individual investments, while 23.3% indicated group investment. Only 11.7% were sought financial credit for individual and group investment, see Table 4.6

Table 4.6: Major reasons (investment project) for issuance of credit by Micro Credit Firm

	Type 1	Type 2	Type 3	Others
	Individual Investments	Group Investments	Both 1 and 2	None 1 and 2
Frequency	39	14	7	0
Percentage	65.0	23.3	11.7	0.0

Source: Research Data (2017).

The results reveal that the majority (more than a half) of MFIs funds are used to finance individual investors (65%), 23.3% finances group investments while 11.7% finances both group and individual investments. These results are in agreement with Gosa (2014) who recognized MFIs as the banker to the poor that brings banking services closure to the low income people. Given that the majority of microfinance clients are poor; the financing of their investments at individual, group and mixed investments by MFIs confirms Mpunga (2014) attribution that the institutions are recognized as essential socio-economic and financial mechanisms for alleviating, promoting employment opportunities and development of SMEs in the country, where mainstream banking institutions would not make.

4.4.5 Effectiveness of group lending on reducing repayment default

Respondents were also probed on their opinion on the effectiveness of group lending on reducing repayment default among the group members. The opinion of the respondents were therefore sought based on their level of agreement or disagreement with whether group lending was effective in reducing repayment default, where SA=Strongly Agree, A=Agree, N=Neutral, SD=Strongly Disagree, and D=Disagree. For the sake of mean explanation, the likert scale was coded as show; **SA=5, A=4, N=3, SD=2, and D=1** Table 4.7 shows the response

Table 4.7: Effectiveness of group lending on reducing repayment default

Effectiveness of group lending on reducing repayment default						MEAN	STDEV
	SA	A	N	SD	D		
Frequency	16	31	0	3	10		
Percentages	26.7	51.7	0.0	5.0	16.7	3.66	0.51

Source: Research Data (2017).

Majority of the respondents at 51.7% agreed with the statement, while 26.7% strongly agreed. Cumulatively, only 21.7% disputed the statement. Generally, the study found that group lending policy implemented by most of the micro credit firms was effectively reducing the repayment default (Mean=3.66; STDEV=0.51), this mean implied that most of the respondents tend to agree with the statement. These findings agrees with that of Muturi (2016) who also studied the effects of credit management practices on loan repayment performance, and established that practices such credit standards, loan policy, loan appraisal procedures, credit terms, repaying policy have positive influence on repayment performance in MFIs.

The findings also agree with that of Bersely and Coarte (2005) who attributes the effectiveness of group lending in reducing credit defaults in MFIs to the group repayment incentives and social collaterals provided by the group solidarity of the members. The findings also attribute the effectiveness of group lending to promotion of peer selection, monitoring and peer loan repayment incentives associated with group members. Though it can be observed that majority of respondents reported that customers of MFIs do experience loan repayment problems with group lending, group lending practice still remains effective in managing credit defaults in MFIs with a total of 76.4%.

4.4.6 Average number of clients meeting repayment obligations on time under group lending

The study sought to find out the Average number of clients meeting repayment obligations on time under group lending. This was imperative as it would also help in establishing the effectiveness of group lending on reducing repayment default. Table 4.8 shows the response

Table 4.8: Average number of clients meeting repayment obligations on time under group lending

	Frequency	Percentage
Above average	23	38.3
Average	22	36.7
Below average	15	25.0
None	0	0.0
All	0	0.0

Source: Research Data (2017).

Out of the 60 respondents that took part in the study, 38.3% indicated above average, 36.7% indicated average, while a quarter of the respondents (25%) indicated below average. This shows that loan repayment obligations were either average or above average among the lenders under group lending. Silwan (2003) attributes good loan recoveries in MFIs to group lending since it promotes peer selection, monitoring and peer loan enforcement programs that may mitigate moral hazards, adverse selection and information asymmetries faced by MFIs. Though the results in table 4.1 indicates that customers under group lending experience repayment problems such as group break-ups, and family problems, the results show that majority of the clients are still able to meet their loan repayment obligations. The ability to meet repayment obligations could also be attributed to the concept of collective repayment responsibility of all the group members such that in case one member fails to repay his/her loan; all the group members would be liable for repaying the loan in default.

4.4.7 Loan repayment status for the last four years

The study also sought to find out the loan repayment status for the last four years under group lending programs. Out of the 60 respondents that took part in the study, over half of the respondents at 53.3% indicated that for the last four years, they had been timely repaying their loans. However, significant number of the respondents at 26.7% registered loan default, 20.0% indicated loan delinquency see Table 4.9. This shows that most of the group members under group lending have been repaying for their loans promptly and timely. Majeb (2009) also established that there are three levels of loan repayment performance in financial institutions; they include timely repayment rates, credit

delinquencies and default. According to Hoque (2009) these levels of loan repayment performance are a product of credit management practices.

Table 4.9: Loan repayment status for the last four years

	Frequency	Percentages
Credit default	16	26.7
Credit delinquency	12	20.0
Timely repayment	32	53.3
Loss	0	0.0
Bad Debts	0	0.0

Source: Research Data (2017)

The findings of the study that 53.3% of the credit disbursed were timely repaid agreed with that of Gine and Karlan (2009), Duncan, M (2013), Omonywa (2015), Maobe (2010) who compared group lending and individual lending programs in MFIs and established that clients under group lending recorded higher repayment rates of credit in MFIs. However the study results of good repayment of loans under group lending contradicted those of TAMFI (2012) and Bumbuie (2013) whose findings revealed that group lending is responsible for loan defaults, arguing that individual lending practice is associated with timeliness of repayment as opposed to group lending and that MFIs should change to individual lending programs.

4.5 Weekly Repayment Schedules

4.5.1 Micro Credit Firms Weekly Repayment Models

Respondents were also asked to state the appropriate Installment category that is applicable to their Micro Credit Firms for weekly repayment of the borrowed funds. Table 4.10 shows the response

Table 4.10: Micro Credit Firms Weekly Repayment Models

	Frequency	Percentages
Standard Installments	55	91.7
Non-Standard Installments	0	0.0
Mixed Methods	5	8.3
Total	60	100.0

Source: Research Data (2017).

The study found that almost all the micro credit firms used standard installments for weekly repayment of the borrowed funds, as indicated by 91.7% of the respondents. Only 8.3% of the respondents indicated that their micro credit firms used mixed methods (standardize and non-standardize installment designs). However, none of the respondents indicated that their Micro Credit Firms used purely non-standardize installment model. This response shows that most of the micro credit firms favored standard installment model.

4.5.2 Repayment Models Applicable to MFIs clients

The study sought to find out the preferred weekly Repayment Models applicable to clients for credit repayment in the firm. Table 4.11 shows the response.

Table 4.11: Repayment Models preferred by MFIs clients

	Frequency	Percentages
Group repayment	0	0.0
Individual repayment	48	80.0
Mixed method	12	20.0
Total	60	100.0

Source: Research Data (2017).

The study found that mostly, majority of the respondents at 80.0% used individual repayment models for their weekly repayment of loans. Only 20.0% used mixed methods as none used group repayment model. This shows that individual repayment was mostly preferred by the lenders or micro credit firms. These findings corroborate with that of

Zeller (1996) who also revealed that MFIs embraces group lending concept in managing micro credit services because the loans under joint liability shows that the group members are under threat of losing access to future credit facilities should one member default. Zeller also points out that the group concept forces other members of the group to perform various functions including screening of loan applicants, monitoring the individual borrowers' efforts, and reinforcing repayments of their peers' loans. Silwan (2003) also attributes good loan recoveries in MFIs to group lending since it promotes peer selection, monitoring and peer loan enforcement programs that may mitigate moral hazards, adverse selection and information asymmetries faced by MFIs. His study also linked high repayment rates in MFIs to group lending practice. Every member acts as the watchman of one another's repayment obligations.

4.5.3 Annual issued Credit to an individual client under weekly repayment

Respondents were probed on the volume of Total Issued Credit in favor of Weekly Repayment Schedules by their Micro Credit Firm for the stated years. Table 4.12 shows the response.

Table 4.12: Annual issued Credit to an individual client under weekly repayment

Amount (Ksh.)	Frequency	Percentages
1,000-1500,000	41	68.3
500,000-1,000,000	13	21.7
1,000,000-2,000,000	0	0.0
Above 2,000,000	6	10.0
Total	60	100.0

Source: Research Data (2017).

The study found that most of the credit lenders were issuing between Ksh. 1,000-500,000 as volume of the Total Issued Credit in favor of Weekly Repayment Schedules, this was supported by over two thirds of the respondents at 68.3%. Only 21.7% Ksh. 500,000-1,000,000 were being issued as 10.0% indicated above Ksh. 2,000,000. However, none of the respondents indicated Ksh. 1,000,000-2,000,000.

4.5.4 Weekly savings and repayment culture influence repayment rates of credit

Respondents were asked whether Weekly savings and repayment culture influenced repayment rates of credit borrowed from the micro credit firms. Table 4.13 shows the response.

Table 4.13: Weekly savings and repayment culture influence repayment rates of credit

Amount (Ksh.)	Frequency	Percentages
Strongly Agreed	14	23.3
Agreed	26	43.3
Neutral	7	11.7
Disagreed	5	8.3
Strongly Disagreed	8	13.3
Total	60	100.0

Source: Research Data (2017).

The study found that most of the respondents at 43.3% agreed with the statement that weekly savings and repayment culture influenced repayment rates of credit borrowed from the micro credit firms. Therefore, the more members were making their weekly savings and repayment, the higher the repayment rates of credit borrowed from the micro credit firms. Cumulatively, 66.6% of the respondents agreed with the statement, while 21.6% disagreed. Only 11.7% remained neutral on the statement. This shows that credit management is the major determinant of loan repayment, that the more effective the credit management, the higher the repayment rates. Ditcher (2003) analyzed corporate finance and investment decisions and strategies in financial institutions in England. He established that credit management affects repayment performance in financial institutions.

4.5.5 Effect of weekly grace period and business returns on timely repayment obligations

Respondents were asked whether weekly grace period and business returns influence timely repayment obligations under weekly repayment schedules in MFIs. Table 4.15 shows the response.

Table 4.14: Effect of weekly grace period and business returns on timely repayment obligations

Amount (Ksh)	Frequency	Percentages
Strongly Agreed	15	25.0
Agreed	23	38.3
Neutral	11	18.3
Disagreed	2	3.3
Strongly Disagreed	9	15.0
Total	60	100.0

Source: Research Data (2017).

Majority of the respondents at 63.3% cumulatively supported the statement that weekly grace period and business returns influenced timely repayment obligations under weekly repayment schedules in MFIs, while 18.3% disagreed as another 18.3% remained neutral. This implies that grace periods coupled with good business return on investments promote loan repayment among the borrowers.

4.5.6 Loan repayment under weekly repayment schedules

Study also sought to find out the nature of the loan repayment under weekly repayment schedules. This was necessary to establish whether weekly repayment model encouraged credit default, credit delinquency, timely repayment or bad debts. Table 4.16 shows the response.

Table 4.15: Loan repayment under weekly repayment schedules

	Frequency	Percentages
Credit default	24	40.0
Credit delinquency	22	36.7
Timely repayment	14	23.3
Loss	0	0.0
Bad Debts	0	0.0

Source: Research Data (2017).

The study found that weekly loan repayment encouraged credit default as shown 40.0% of the respondents. Another 36.7% indicated that this repayment schedules encouraged credit delinquency, while only 23.3% indicated that this schedule promoted timely

repayment. This shows that weekly repayment schedules encouraged credit defaults and delinquency. This could be attributed to the fact that weekly loan repayment was too soon, which mostly found the group members not ready to repay their loans. However, Field (2008) believes that weekly collection of repayment installments are widely seen as the key feature of micro finance lending methodology whose practice is responsible for reducing default risk, thus making lending to the poor financially viable. Weekly loan repayment is therefore believed to instill discipline in terms of loan performance among MFIs borrowers as they are required to attend compulsory weekly group meetings where cash is collected from those who had loans in the presence of credit officers from MFIs. Yuge (2010) study agreed with the proponents of weekly loan repayment adding that the lending practice encourages high loan performance provided that grace period was given to the borrower before repayment demands begins.

4.6 Credit management practices and loan repayment performance in Microfinance Institutions in Kisumu town

The study used regression analysis method to analyze data the relationship between credit management practices and loan repayment performance in MFIs in Kisumu town. The strength of relationship between the dependent and independent variables was measured by carrying out t- test @5% level of significance. The test was done to determine whether the co-efficient β_1 and β_2 are significantly different from zero.

4.6.1 Credit management practices (group lending practice and weekly repayment schedules) and credit default in MFIs in Kisumu town

Based on the first objective, credit default as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. The regression model is presented in Table 4.17

Table 4.16: Regression Model for credit management practices (group lending practice and weekly repayment schedules) and credit default

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R						0.293
R Square						0.086
Adjusted R Square						0.047
Standard Error						560.1
Observations						60
ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig.</i>	
Regression	2	1384090	692045	2.206	0.0214	
Residual	57	14745566	313735			
Total	59	16129655				
	<i>Coefficients</i>	<i>Std. Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	354.2	724.1	0.4892	0.0270	-1102	1811
Group Lending Practices	-2.275	9.520	0.2390	0.0122	-21.43	16.88
Weekly Repayment Schedules	-25.70	15.75	1.6318	0.0094	-5.984	57.38

Dependent Variable: Credit Default; Predictors: (Constant) Group lending Practices, Weekly Repayment Schedules

Source: Research Data (2017).

From the regression results summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 8.6% (R square = 0.086) of variation in credit default. This variation was statistically significant as $p = 0.0214$ ($p < 0.05$). The R square = 0.086 explain (8.6%) of the variability of the dependent variable, (credit default). Therefore, the remaining (91.2%) could be accounted for by other factors not investigated in the present study.

The ANOVA results shows a significant variance ($p=0.0214$) means for the two predictors (Group lending Practices, Weekly Repayment Schedules) since our alpha value was $p<0.05$. This implies that the means differ more than would be expected by chance alone. It can be concluded that there is a relationship between credit management practices (group lending and weekly repayment schedules) and credit default. These findings concurs with that of Kibor (2015) who when analyzing the influence of credit risk management on loan performance in commercial banks in Nakuru town, Kenya, also found that credit risk management affect loan repayment performance in banks. Kibor

(2015) also concluded that lending policy and credit standards have influence on repayment performance.

Based on the proposed regression model $Y_1 = a_1 + b_1X_1 + c_1X_2$, the equation connecting the predictor variable is obtained from the co-efficient table by considering the statistically significant coefficients as:

$Y_1 = 354.2 - 2.275X_1 - 25.7X_2$ where Y_1 is credit default, X_1 is group lending practices and X_2 is weekly repayment practices. This implies that as group lending practices and weekly repayment schedules increase, credit default decreases, showing a positive relationship between group lending and weekly repayment schedules on loan repayment performance in MFIs, such that as they increase (credit management practices), credit default decreases, and repayment increases.

Based on the second objective, credit delinquency as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. The regression model is presented in Table 4.18

Table 4.17: Regression Model for credit management practices (group lending practice and weekly repayment schedules) and credit delinquency

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R						0.462
R Square						0.213
Adjusted R Square						0.180
Standard Error						12.52
Observations						60
ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig. F</i>	
Regression	2	1996	998.2	6.3721	0.003559	
Residual	57	7363	156.7			
Total	59	9359				
	<i>Coefficients</i>	<i>Std. Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	13.88	16.18	0.8581	0.0352	-46.43	18.66
Group Lending Practices	-0.5606	0.2127	-2.636	0.01134	0.1327	0.9886
Weekly Repayment Schedules	-1.213	0.3519	-3.447	0.001206	0.5050	1.921

Dependent Variable: Credit Delinquency; Predictors: (Constant) Group lending Practices, Weekly Repayment Schedules

Source: Research Data (2017).

From the regression summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 21.3% (R square = 0.213) of variation in credit delinquency. This variation was statistically significant as $p = 0.0035$ ($p < 0.05$). The R square = 0.213 explain (21.3%) of the variability of the dependent variable, (credit delinquency). Therefore, the remaining (78.7%) could be accounted for by other factors not investigated in the present study.

The ANOVA results shows a significant variance ($p=0.0035$) means for the two predictors (Group lending Practices, Weekly Repayment Schedules) since our alpha value was $p<0.05$. This implies that the means differ more than would be expected by chance alone. It can be concluded that there is a relationship between group lending practices and weekly repayment schedules credit management practices) and credit delinquency

Based on the proposed regression model $Y_2 = a_2 + b_2X_1 + c_2X_2$, the equation connecting the predictor variable is obtained from the co-efficient table by considering the statistically significant coefficients as:

$Y_1 = 13.88 - 0.5606X_1 - 1.213X_2$ where Y_2 is credit delinquency, X_1 is group lending practices and X_2 is weekly repayment practices. This implies that as group lending practices and weekly repayment schedules increase, credit default decreases. Similarly, Zeller (1996) also studied group lending as an operational tool for evaluating poverty outreach and the findings of the study revealed that MFIs embraces group lending concept in managing micro credit services because the loans under joint liability shows that the group members under threat of losing access to future credit facilities should one member defaults. Zeller also points out that the group concept forces other members of the group to perform various functions including screening of loan applicants, monitoring the individual borrowers' efforts, and reinforcing repayments of their peers' loans. The study results are also in agreement with the findings of Erica, Rohini & Natalia (2010), and Silwan (2003) that weekly repayment schedules are associated with high repayment rates and reduced incidence of credit default in microfinance industry.

Based on the third objective, timely repayments as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. The regression model is presented in Table 4.19

Table 4.18: Regression Model for credit management practices and Timely repayments

SUMMARY OUTPUT						
<i>Regression Statistics</i>						
Multiple R						0.3256
R Square						0.1060
Adjusted R Square						0.06798
Standard Error						283.8
Observations						60
ANOVA						
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Sig. F</i>	
Regression	2	448868	224434	2.787	0.0018	
Residual	57	3784732	80526			
Total	59	4233600				
	<i>Coefficients</i>	<i>Std Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	362.0	366.8	0.9870	0.0187	-375.9	1100
Group Lending Practices	1.567	4.823	0.3248	0.0468	-8.136	11.27
Weekly Repayment Schedules	17.13	7.979	2.147	0.03699	1.079	33.18

Dependent Variable: Timely repayments; Predictors: (Constant) Group lending Practices, Weekly Repayment Schedules

Source: Research Data (2017).

From the regression summary, the predictor variables viz. group lending practices and timely repayments explain up to 10.6% (R square = 0.106) of variation in timeliness of credit repayment. This variation was statistically significant as $p = 0.0018$ ($p < 0.05$). The R square = 0.106 explain (10.6%) of the variability of the dependent variable, (timely repayment). Therefore, the remaining (89.4%) could be accounted for by other factors not investigated in the present study.

The ANOVA results shows a significant variance ($p=0.0018$) means for the two predictors (Group lending Practices, Weekly Repayment Schedules) since our alpha value was $p<0.05$. This implies that the means differ more than would be expected by chance alone. It can be concluded that there is a relationship between credit management practices and timely repayments.

From the regression summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 10.6% (R square = 0.106) of variation in timely repayments. This variation was statistically significant as $p = 0.002$ ($p < 0.05$).

Based on the proposed regression model $Y_1 = a_3 + b_3X_1 + c_3X_2$, the equation connecting the predictor variable is obtained from the co-efficient table by considering the statistically significant coefficients as:

$Y_1 = 362.0 + 1.567X_1 + 17.13X_2$ where Y_1 is timely repayments, X_1 is group lending practices and X_2 is weekly repayment practices. This implies that as group lending practices and weekly repayment schedules increase, timely repayments of loans within the group also increases. These findings support that of Maobe (2010) who when establishing the effect of the group liability lending on performance of Small and Medium Enterprises in Nairobi Uhuru market, Kenya, similarly found that most of the SMEs in Uhuru Market rely on funds of the group lending to operate and that borrowers organized in groups were more likely to produce more and repay their loans faster than counterparts in individual lending program

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides a summary of this study in the following order; purpose of the study, objectives, methodology, major findings and conclusions. It also provides both policy and academic recommendations based on the study findings.

5.2 Summary of Study Findings

The purpose of the study was to establish the effect of credit management practices on loan repayment performance in MFIs in Kisumu town in Kenya. The summary and conclusion are presented according to themes derived from the research objectives that guided the study. The demographic information shows that 46.7% of the respondents were males, while their female counterparts were represented by 53.3%. Although female respondents outnumbered their female counterparts, this was with smaller margin, implying that most of the MFI in Kisumu town provided equal employment opportunity to all, regardless of gender. Based on duration the organization had taken operating in town, the study found that most of the MFIs had taken more than 5 years in the city as shown by 66.7% of the respondents. 28.3% indicated 1-5 years, while only 5.0% indicated less than one year.

On the first objective, the study sought to establish the effect of credit management practices (group lending practices and weekly repayment schedules) on credit default in MFIs in Kisumu town. Major findings on this objective were that based on the first objective, credit default as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. From the regression summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 8.6% ($R^2 = 0.086$) of variation in credit default. This variation was statistically significant as $p = 0.0214$ ($p < 0.05$). Based on the proposed regression model $Y_1 = a_1 + b_1X_1 + c_1X_2$, the equation connecting the predictor variable is: $Y_1 = 354.2 - 2.275X_1 - 25.7X_2$ where Y_1 is credit default, X_1 is group lending practices and X_2 is weekly repayment practices. This implies

that as group lending practices and weekly repayment schedules increase, credit default decreases.

On the second objective, credit delinquency as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. From the regression summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 21.3% (R square = 0.213) of variation in credit delinquency. This variation was statistically significant as $p = 0.004$ ($p < 0.05$). Based on the proposed regression model $Y_2 = a_2 + b_2X_1 + c_2X_2$, the equation connecting the predictor variable is: $Y_1 = 13.88 - 0.5606X_1 - 1.213X_2$ where Y_2 is credit delinquency, X_1 is group lending practices and X_2 is weekly repayment practices. This implies that as group lending practices and weekly repayment schedules increase, credit default decreases.

Based on the third objective, timely repayments as an aspect of loan repayment was modeled in regression as the dependent variable with the predictors being group lending practices and weekly repayment. From the regression summary, the predictor variables viz. group lending practices and weekly repayment schedules explain up to 10.6% (R square = 0.106) of variation in timely repayments. This variation was statistically significant as $p = 0.002$ ($p < 0.05$). With respect to the proposed regression model $Y_1 = a_3 + b_3X_1 + c_3X_2$, the equation connecting the predictor variable is: $Y_1 = 362.0 + 1.567X_1 + 17.13X_2$ where Y_1 is timely repayments, X_1 is group lending practices and X_2 is weekly repayment practices. This implies that as group lending practices and weekly repayment schedules increase, timely repayments of loans within the group also increase

5.3 Conclusions

On the first objective, the study sought to establish the effect of credit management practices (group lending and weekly repayment schedules) on credit default in MFIs in Kisumu town. From the regression summary model of $Y_1 = 354.2 - 2.275X_1 - 25.7X_2$ where Y_1 is credit default, X_1 is group lending practices and X_2 is weekly repayment practices, the study concluded that credit management practices significantly influence credit default in MFIs, although the relationship is negative such that as group lending practices and weekly repayment schedules increase, credit default decreases. The results

mean that group lending practice and weekly repayment schedules are essentially important for managing non-performing loans in MFIs.

On the second objective, the study sought to investigate the effect of credit management practices (group lending practice and weekly repayment schedules) on credit delinquency in MFIs in Kisumu town. From the regression summary equation, $Y_1 = 13.88 - 0.5606X_1 - 1.213X_2$ where Y_2 is credit delinquency, X_1 is group lending practices and X_2 is weekly repayment practices, the study concluded that credit management practices significantly influence credit delinquency in MFIs, although the relationship is negative such that as group lending practices and weekly repayment schedules increase, credit delinquency decreases. This therefore means that group lending practice and weekly repayment schedules are effective means of managing or reducing delinquency (late repayment of credit) problems in MFIs.

Based on the third objective, the study sought to investigate the effect of credit management practices (group lending practice and weekly repayment schedules) on timeliness of repayments in MFIs in Kisumu town. From the regression summary equation, $Y_1 = 362.0 + 1.567X_1 + 17.13X_2$ where Y_1 is timely repayments, X_1 is group lending practices and X_2 is weekly repayment practices, the study concluded that credit management practices significantly influence timely repayments of loans. This implies that as group lending practices and weekly repayment schedules increase, timely repayments of loans within the group also increase. This also means that group lending practice and weekly repayment schedules are essentially important in enhancing repayment rates or loan recoveries in MFIs.

5.4 Recommendations

Based on the conclusions of this study, the following recommendations can be made:

MFIs should apply efficient and effective credit risk management that will ensure that loans are matched with ability to repay, loan defaults are projected accordingly and relevant measures taken to minimize the same.

MFIs should also enhance periodic credit risk monitoring of their loan portfolio to increase the loan performance. This can be achieved by hiring qualified debt collectors and competent personnel.

It was recommended that MFIs should use the services provided by Credit Reference Bureaus for the purpose of determining the credit worthiness of borrowers as a means of minimizing bad loans. CRBs help lenders make faster and more accurate credit decisions.

It was recommended that MFIs needs to invest on debt collections and this will entail hiring qualified and experienced debt collectors, lawyers so as to increase litigation of defaulters and auctioneers.

It was recommended that management should organize regular trainings in areas like credit management, risk management and financial analysis. This would sharpen the knowledge and skills of credit officers so as to improve on the quality of credit appraisals.

5.5 Suggestions for Further Studies

There is need for a study to be conducted to determine the relationship between interest spread and loan performance of MFIs. From the findings and conclusion, the study recommends and in-depth study to be carried out on the relationship between increase in credit management practices and loan performance of MFIs in Kenya. In order to better the effects of credit management practices on loan repayment, there is need to a study to be carried out to determine the impact of credit information sharing on loan performance in MFIs; this will assist in MFIs increase loan performance and also reduce the default risk

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APPENDICES

Dear Respondents,

This is an academic survey questionnaire which is prepared to help in identifying and collecting data about the effect of credit management practices on loan repayment performance in Micro finance institutions. The researcher is a student at Maseno University pursuing Masters in Business Management (finance option). He is making a formal request to the respondents of the administered questionnaire to participate and your full co-operation will be highly appreciated. This questionnaire aims at collecting data required for the study titled: EFFECT OF CREDIT MANGEMENT PRACTICES ON LOAN REPAYMENT PERFORMANCE IN MFIs IN KISUMU TOWN. The data collected would be used for academic purposes and any correspondence from the respondents would be treated with utmost confidentiality it deserves. The respondents are supposed to confine themselves to the details relevant to the topic. The researcher would not be allowed to force respondents to give information.

Thanks,

Name of the Institution-----

APPENDIX I:

Questionnaire- Data Collection Instrument

This questionnaire is meant to collect information on the effect of credit management practices with reference to group lending and weekly repayment schedules on loan repayment performance in Kisumu town. The information is being sought solely for academic purposes and will be treated with a great deal of confidentiality. You are therefore asked to answer the questions by writing a brief statement or ticking the boxes provided as will be applicable.

PART A: BACKGROUND INFORMATION

PART ONE:

Please tick [] the option that best suits your opinion on the corresponding statements.

General Information

1. What is the Name of your institution.....

2. What is your gender?

a. Male [] b. Female []

3. How long has your institution been operating this in town?

a. Less than one year []

b. Between 1 to 5 years []

c. Between 5 to 10 years []

d. Above 10 years []

4. Indicate category of staff you represent the organization

a. Credit Officer []

b. Customer []

c. Credit Manager []

d. Other_____ (Please specify)

PART B: GROUP LENDING PRACTICE

5. (a). Do customers experience loan repayment problems with group lending method in your institution?

Yes [] No [] I don't know []

(b). If yes, what is the cause of repayment problems where group members guarantee one another?

Group break-ups []

Family problems []

None of the two []

All of the two []

6. State the volume range of annual Issued Credit to the individual client in favour of Group Lending Practice by your Micro Credit Firm for the last four years (2013-2016)? √

KES	Tick appropriately
1,000-500,000	
500,000-1,000,000	
1,000,000-2,000,000	
Above 2,000,000	

7. Indicate the Group Membership Bounds that apply to your Group Lending Design, in the following categories. [√]

Category 1	Category 2	Category 3	Category 4	Category 5
5-10	11-15	16-20	21-25	26-30

8. State if your Micro Credit Firm considers Credit issuance on account of the following Investment project types.[√]

Type 1	Type 2	Type 3	Others
Individual Investments	Group Investments	Both 1 and 2	None 1 and 2

9. Indicate the effectiveness of group lending practice in providing collateral/security against loan repayment default by the clients in your company for the last four years.

Key: Strongly Agreed-1, Agreed-2, Strongly Disagreed-3, Disagreed-4, Neutral-5

Year	Loan Repayment
2013	
2014	
2015	
2016	

10. Indicate the approximate average of the number of clients who are able to meet their loan repayment obligations on time under group lending program?

KEY: Above Average-1, Average-2, Below Average- 3, None of the above-4

Year	Loan Repayment
2013	
2014	
2015	
2016	

11. What is the trend of the Loan Repayment Status under group lending practice in your Firm for the last four years (2013-2016).

Key: Credit Default-1, Credit Delinquency-2, Timely Repayment- 3, Loss-4, Bad Debts-5.

Year	Loan repayment Status
2013	
2104	
2015	
2016	

PART C: WEEKLY REPAYMENT SCHEDULES:

12. State the appropriate Installment category that is applicable to your Micro Credit Firm for weekly repayment of the borrowed funds.

Category 1	Standardized Installments	
Category 2	Non-standardized Installments	
Category 3	Mixed methods	

13. State the Weekly Repayment Models applicable to clients for credit repayment in the firm?

Category 1	Group Repayment	
Category 2	Individual Repayment	
Category 3	Mixed methods	

14. What is the volume annual range of Issued Credit in favour of Weekly Repayment Schedules to an individual borrower in your Micro Credit Firm for the last four years?

KES	Tick appropriately
1,000-500,000	
500,000-1,000,000	
1,000,000-2,000,000	
Above 2,000,000	

15. Indicate whether Weekly Repayment Schedules contribute to the savings and repayment culture of the microfinance clients that guarantee them higher repayment rates for the last four years.

Key: Strongly Agreed-1, Agreed, Strongly Disagreed- 3, Disagreed-4.Neutral-5

Year	Loan repayment Status
2013	
2104	
2015	
2016	

16. State whether weekly grace period provides enough time for the clients business to generate returns to meet weekly loan repayment obligations for the last four years.

Key: Strongly Agreed-1, Agreed-2, Strongly Disagreed-3, Disagreed-4, Neutral-5

Year	Loan repayment Status
2013	
2104	
2015	
2016	

17. What is the trend of the Loan Repayment Status under group weekly repayment schedules in your Firm for the last four years (2013-2016).

Key: Credit Default-1, Credit Delinquency-2, Timely Repayment- 3, Loss-4, Bad Debts-5.

Year	Loan repayment Status
2013	
2104	
2015	
2016	

Thank you for participating

Appendix II: Research Plan

DURATION	ACTIVITY	OBJECTIVE
week 1	Printing, Photocopying and compilation of questionnaires	Preparation of Research Questionnaires
Week 2	Travelling to the business sites of the SMEs members administering Questionnaires	Administration of Questionnaires
Week 3	Compilation of data	Compile the research findings
Week 4	Drafting of Research report	Compiling the final Report.

Appendix III: Research Budget

ITEM	COST(Kshs)
Transport	5,000.00
Binding	3,500.00
Printing	8,000.00
Research on line (secondary data)	5,500.00
Photocopying	5,000.00
Total	27,000.00

Appendix IV. List of Microfinance institutions in Kisumu

S.No	Names of Microfinance Institutions (MFIs)	Number of credit officers for survey	Number of credit officers for Pilot Testing	Total Number of credit officers for the study
1	GetBucks	4	1	5
2	Kenya Women Finance Trust	5	1	6
3	Musoni	3	1	4
4	K-Rep Bank	6	1	6
5	Real People	5	1	6
6	Faulu Microfinance	4	1	5
7	Rafiki Microfinance bank	5	1	6
8	Eclof	4	1	5
9	Izwe	4	1	5
11	SMEP	6	1	7
12	Micro Enterprise	4	1	5
13	Letshego	4	1	5
14	MFI Office Solutions Ltd	3	1	3
15	Fountain Enterprise	3	1	3
	Total	60	15	75