


**FACTORS INFLUENCING LOAN REPAYMENT IN MICRO-FINANCE
INSTITUTIONS
(A Case of South Imenti District)**

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ABSTRACT

Micro Finance is a way of supplying loans and small credits to finance small projects to help the poor have an income through forming their own small scale business to earn their income. In the business of lending, microfinance institutions have suffered loan repayment default which causes decreased employment levels and cash flow problems in microfinance institutions. This study sought to find out the causes of such repayment defaults by way of an investigation using questionnaires designed for individual members of solidarity groups, and microfinance institution officials. Specifically, the study sought to investigate the individual client characteristics that influenced loan repayment default, analyze individual business characteristics that influenced loan repayment default, and establish lender's characteristics that contributed to default in loan repayment among Micro-Finance Institutions. The research was undertaken by use of descriptive survey. The target population of this study was all the 37 Loan Officers of registered micro finance institutions and 4578 registered MFI clients from various social (self help) groups in Imenti South District. From this, a sample size of 400 respondents (33 loan officers and 367 registered group members) was selected using stratified proportionate sampling and simple random sampling methods. Data was collected by use of questionnaires and interviews which contained both structured and unstructured questions. The data was analyzed using both descriptive and inferential statistics (e.g. chi square and logistic regression) which were used to determine the relationships between the independent and dependent variables. Frequency tables, graphs and charts were used for presentation of the study findings. The study established that there were various factors influencing non-repayment of loans which could arise from a variety of factors: the inherent characteristics of borrowers and their businesses that made it unlikely that the loan would be repaid; the characteristics of the lending institution and suitability of the loan product to the borrower which made it unlikely that the loan would be repaid; systematic risk, in the form of external factors, such as the economic, political and business environment in which the borrower operates. From the findings, it is clear that lending to small businesses in deprived areas requires a specialized approach which could be achieved if the lending institution carefully tailors the services they provide to the needs of the borrowers. The study recommends that the government and other stakeholders in the finance sector should ensure that the borrowers have access to formal education and adequate relevant training in the business area since findings from the study showed that educational level of borrowers significantly influenced default in loan repayment. Furthermore, the microfinance institutions should aim at reducing the time it takes to process a loan application.