FACTORS AFFECTING LOAN DEFAULT IN MICROFINANCE INSTITUTIONS IN KIRINYAGA COUNTY

CYRUS MUNYUA

Abstract:

Many rural credit schemes and especially women groups, have sustained heavy losses because of loan Default. This has been in the public domain but little has been done because women groups are registered as social welfare groups which are not regarded as financial institutions or not registered at all and therefore not under the control of Central Bank of Kenya, or the Micro finance regulatory body. The main objective of this study was to find out the factors affecting of loan default in micro finance institutions in Kirinyaga County.It was also worth noting that Microfinance institutions are of two categories i.e. Formal and informal. Formal are those MFI's which are registered as under the legal and regulatory frameworks, while the informal MFI's are unregistered and operate like shylocks. This study concentrated on the formal MFI's in investigating the factors affecting loan default among MFI's in Kirinyaga County as a dependent variable, whereas the independent variables under this study were: Loan collection procedures, Loan diversion, financial management practices and the amount of loan borrowed by members of women groups affiliated to MFI'S under this study. A target population of 300 employees was used in the study. A sample of 30% was estimated to be picked using simple random sampling for each stratum, which enabled every member of the population have an equal and independent chance of being selected as respondents and also simplest, most convenient and bias free selection method. The data was collected by use of structured and semi-structured questionnaire. The data was then analyzed from questionnaires using both quantitative and qualitative techniques and tabulated by use of frequency tables. The study was intended to find out the factors affecting loan default in MFIs in Kirinyaga County. From the findings, the researcher recommends that strong policies should be implemented in micro-finance institutions for them to do away with the problem of loan default by borrowers. The institutions should put up efficient loan collection procedures which are easy to follow for both the employees and the borrower, also there should be avoidance of loan diversions, efficiency in financial management and the amount of loan borrowed should be strictly monitored and evaluated by the micro finance institutions from time to time.

Keywords:

Loandefault,microfinance institutions,Kirinyaga County,financial management, Grameen Model

JEL Classification: M00

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1. Introduction

Microfinance is commonly associated with small, working capital that is invested in microenterprises or income-generating activities (Churchill and Frankiewics, 2006). Such microenterprises are often family owned and have less than five employees, sometimes based out of the home, as for instance small retail kiosk, sewing workshops, carpentry shops and market stores (Whole Planet Foundation, 2009). Today however, microfinance is referred to more generally as the provision of financial services to those excluded from formal financial systems (UNCDF, 2002). In the beginning, the credits that were given to the poor people were called micro-credits or micro-lending, but soon it became clear that also other financial services were used and needed by the poor which enlarged the micro-credits to microfinance (Felder-Kuzu, 2005). This is very relevant in this study as absence of other services like training and financial management best practices may contribute greatly to the independent variables sighted in this study. On the other hand, non-recovery of borrowed loan refer to a loan in default in which a borrower after paying for some time the required installments fails or ignores to honor installment payments even after a concerted effort by loan officers or group leaders in women groups. However, international organizations are coming to the realization that MFIs are important and effective channels to ensure programme implementation and especially in projects geared towards poverty alleviation. This is because MFI's have firsthand knowledge of the needs and interest of the poor (Okumadewa, 1998).

Further, according to Chossudovsky (1998), the World Bank Sustainable Banking with the Poor project (SBP) in mid-1996 estimated that there were more than 1,000 microfinance institutions in over 100 countries, each having a minimum of 1,000 members and with 3 years of experience. In Kenya, microfinance has gained a lot of emphasize from the government and non-profit making organizations. Recently the government introduced table banking, which is a support to ongoing women groups in which the amount collected in a group is laid on the table after collection and an equal amount is enhanced to the group. All this is aimed at poverty alleviation and women empowerment in line with the Kenya's Vision 2030 through the social and economic pillar. Many are now of the opinion that allowing the poor to have command over resources through credit can contribute towards poverty alleviation. Kiteme (1992) argues that the best way to do something about poverty is to let the people do their own thing. Nobody will have more motivation to change his situation than the person himself/herself.

According to Rosenberg (1999), MFIs are increasingly a central source of credit for the poor in many countries. Weekly collection of repayment installments by bank personnel is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable. Some of the factors that lead to loan default include; inadequate or non-monitoring of micro and small enterprises by banks, leading to defaults, delays by banks in processing and disbursement of loans, diversion of funds, over concentration of decision making, where all loans are required by some banks to be sanctioned by Area/Head Offices

1.1.Literature Review

The success of Grameen bank in Bangladesh served as a wakeup call to international community as a way forward in the alleviation of poverty especially in the developing economies where a lot of people live below two dollars per day. However, a lot of MFI’s are suffering under unrecoverable loans especially under the joint loan liability model which use social capital in place of collaterals. This study attempts to find out the factors affecting loan recovery and aims to provide a solution to the problem of loans default among women groups in Kirinyaga County in Kenya, just like other microfinance institutions around the world, there has been reported cases of peer pressure by desperate group members trying to enforce loan defaulters to meet their agreed obligations at times very disturbing to the extent of defaulters deserting their matrimonial homes and families, to flee from group members. This therefore creates a gap between the expected poverty alleviation objective and the reality on the ground due to loan default. The general objective of this study was to find out the factors affecting loan default in MFI’s Kirinyaga County in the Republic of Kenya...

Jensen and Meckling (1976) contributed to an influential application to the theory of the firm even though not the agency approach itself. Frequently, though not always, Ross (1973) is cited, although he deserves to be in every first footnote because of his critical role in originating economic agency theory. Mitnick (1973) is also cited far less frequently, although he originated the institutional theory of agency, including some of agency theory’s most basic and familiar concepts and logics, and was the first to actually make explicit applications of agency theory to social institutions. Alchian and Demsetz (1972) were the first to exploit the principle agent approach and further developed by Jensen and Meckling (1976).

What is important for the purpose of this study generally, is its concept that there exists a conflict of interest between shareholders and management or between creditors and shareholders and between government and shareholders. It has been noticed for example that whenever ownership is divorced from control, conflicts of interest emerges because management may pursue goals which are inconsistent with the shareholders goal of wealth maximization. Managers may transfer shareholders wealth to their advantage by increasing their compensation (Mitnick, 1975). On the other hand managers may refuse to undertake a risk and negotiate profitable investments. This in a way affects the growth of business or corporate entrepreneurship which may result to an inability to by the owners of the business not to meet their legal obligations such as loan repayments.

This theory is relevant in this study because MFIs are managed by other people other than the owners of these institutions and a possibility arises of an agency problem. Loan officers are endowed with so many resources for the sole purpose of monitoring loan borrowers on a regular basis and training women groups so as to avoid diversion of loan borrowed to non-core activities such as buying consumer goods instead of productive goods and services for their business, teaching them basic financial management practices and group solidarity or cohesiveness. The researcher has witnessed women groups borrowing money from their groups to buy fashion clothes while some buy foodstuff with borrowed money. These activities lack business ethical orientation. This may have been caused by deliberate ignorance by employees of MFI’s in the region under study and diversion of time and resources set apart for training and monitoring of women groups to other personal needs, thus proving to the letter and word the importance of agency theory to this study.

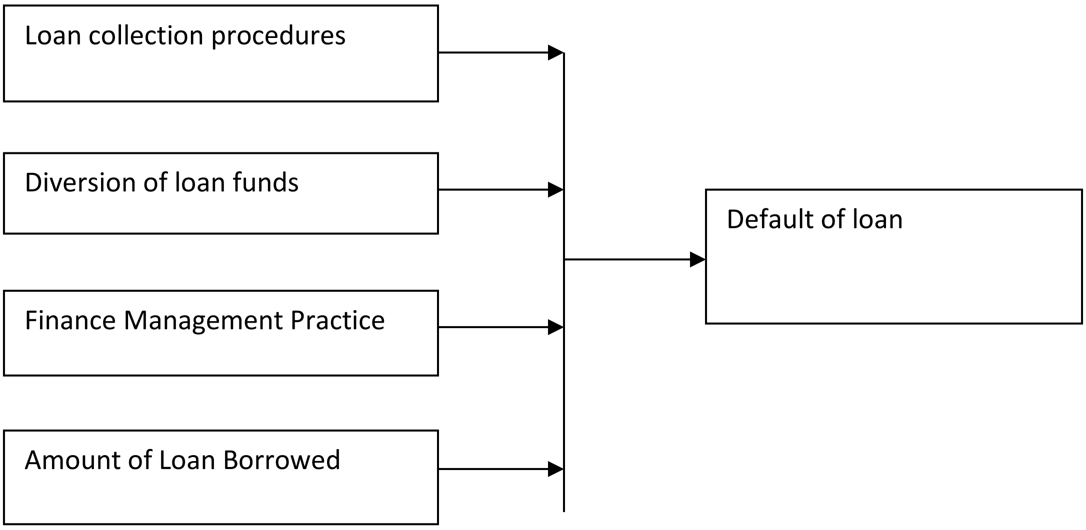
The Grameen model was invented in 1976 by Professor Muhammad Yunus (1976), the founder of Grameen bank in Banladesh. The model proved to be successful and is today practiced in more than 250 outlets of Grameen bank in more than 100 countries (Yunus, 1999). The Grameen model was copied and modified many times according to the respective needs of regional markets and clients. In Kenya this model has been adopted by many MFIs in rural areas including the area under this study. Unfortunately the efficacy of this model appear to be in doubt if judged from the gap identified by this study because success of Grameen bank is obviously noticeable as opposed to MFI’s operating under the same model and especially among the selected MFIs and women groups who operate under the joint loan liability model of Grameen bank.

The solidarity group model is also referred to as peer lending group and normally consists of four to five individuals together to borrow a loan in solidarity. The members are self selected, based on their reputation and relationship to each other. The important thing here is the screening and peer pressure required to enforce repayment in case of default. This model was founded by Hazeltine and Bull (2003). The model fits this study of the women groups in Kirinyaga County in investigating the role played by the solidarity groups in alleviating the variables mentioned in the abstract .Peer pressure plays a great deal as MFI’s are have less work to do since the borrowers of the groups have most of the responsibilities such as, forming the group and selecting the right members, administration and organization of repayment plan and scheduling group meetings with the loan officers from the MFI (Hazeltine & Bull, 2003). The above models are relevant to this study because finance management practices leave a lot to be desired as an independent variable affecting non recovery of loans borrowed from women groups for the purposes of this study.

1.2. Conceptual Framework

The diagrammatic representation of conceptual framework shows how the variables are related. Diversion of loan borrowed, finance management practices, amount of loan borrowed and shrinking economic condition are independent variables in which the dependent variable, loan default depends.

Figure 1 Conceptual Framework



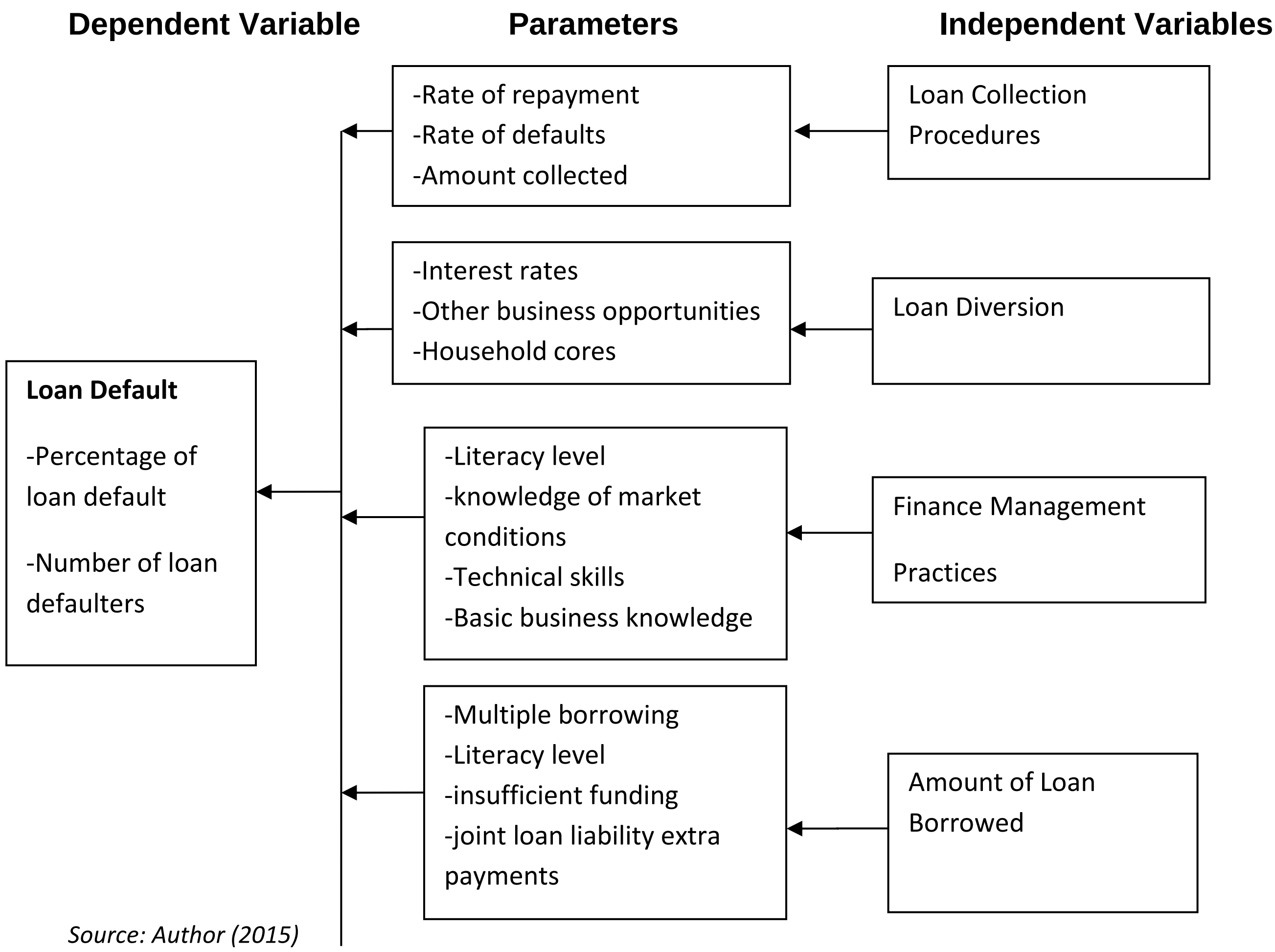
Independent variables **Dependent variable**

1.2. Operationalization

While there appear to be consensus on what constitutes a negative business environment, much less has been written about what a positive one looks like. There are a few generally agreed-upon characteristics, however: Consistency, so that business owners know what to expect and can assess risks: a stable Macroeconomic environment, since knowing what to expect from future can be as or more important than having a low inflation rate or favourable currency position today; the existence of mechanisms for contract enforcement and dispute resolution; an uninhibited flow of capital for foreign and domestic investment; a flexible labour regime; access to information, and investment in education and technology.

For these and other reasons, informal MFIs tend to grow more than do their formal counter parts. An econometric study in Cote d'voire found that formal status has a positive effect on firm growth, even when using instrumental variables and controlling for efficiency, size and age of firms.

Figure 2. Operational Framework



Source: Author (2015)

2.RESEARCH METHODOLOGY

The study adopted a descriptive research design since the study intended to determine the effect of loan default in micro-finance institutions in Kirinyaga County. According to Kothari (2006) descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The study considered this design appropriate since it facilitated gathering of reliable and accurate data that clearly helped to investigate the factors affecting loan default in microfinance institutions in Kirinyaga County.

2.1.Target Population

Target population as defined by Cooper (2010), is a universal set of the study of all members of real or hypothetical set of people, events or objects to which an investigator wishes to generalize the result. The target population consisted of the top management, middle level management and low level management of employees working in MFIs in

Kirinyaga County which was 300 employees. The employees were categorized as follows in Table 3.1 below.

Table 1 Target Population

Category	Target Population	Percentage
Top Management	15	5
Middle level Management	87	29
Low level management	198	66
Total	**300**	**100**

Source: Author (2015)

2.2. Sample Frame

The sampling frame describes the list of all population units from which the sample was selected (Cooper and Schindler, 2010). It is a physical representation of the target population and comprises all the units that are potential members of a sample (Kothari, 2006).

Table.2. Sample Size

Category	Target Population	Ratio	Sample size
Top Management	15	30%	5
Middle level Management	87	30%	26
Low level management	198	30%	59
Total	**300**	**30%**	**90**

Source: Author (2015)

2.3 Sampling Technique

According to Denning (2005) sampling is the process by which a relatively small number of individual, object or event is selected and analyzed in order to find out something about the entire population from which it was selected. Kothari (2006) define the target population as a complete set of individuals, case or objects with the same common observable characteristics. The study used descriptive research design. Therefore, the total number of respondents in this study was 90 and since the sample was drawn from all cadres of staff, the population is regarded homogeneous. The sampling technique employed was stratified random sampling. This was because the respondents were stratified into three categories i.e. top management, middle level management and low level management.

2.4 Instruments and Procedures of Data Collection

The study collected both primary and secondary data. Primary data was gathered using semi-structured questionnaires where the respondents were issued with the questionnaires. Questionnaires were preferred because according to Cox (2004), they are effective data collection instruments that allow respondents to give much of their opinions in regard to the research problem. According to Festing (2007) the information that will be obtained from questionnaires will be free from bias and researchers' influence and thus accurate and valid data will be gathered. Secondary data was gathered from past published scholarly articles explaining theoretical and empirical information on diversity management issues.

2.5. Pilot Study

The aim of the pilot study was to test the reliability of the questionnaires. According to Ebrahim (2003), a pilot test is necessary for testing the reliability of data collection instruments. Cox (2004), explains reliability of research as determining whether the research will truly measure that which it was intended to measure or how truthful the research results will be. Pilot study was conducted to detect weakness in design and instrumentation and to provide proxy data for selection of a sample. The researcher selected a pilot group of 10 individuals from the target population to test the reliability of the research instrument. The pilot data was not included in the actual study. The pilot study allowed for pre-testing of the research instrument. The clarity of the research instruments to the respondents was established so as to enhance the instrument's validity and reliability. The pilot study enabled the researcher to be familiar with research and its administration procedure as well as identifying items that required modification. The results helped the researcher to correct inconsistencies that were seen to arise from the instruments, which ensured they measured what was intended.

2.6. Reliability and Validity

Joppe (2004) defines reliability as the extent to which results are consistent over time and an accurate representation of the total population under study was referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument were considered to be reliable. Kirk and Miller (2006) identified three types of reliability referred to in quantitative research, which relate to the degree to which a measurement, given repeatedly, remains the same, the stability of a measurement over time; and the similarity of measurements within a given time period. Charles (2005) adheres to the notions that consistency with which questionnaire test items are answered or individual's scores remain relatively the same can be determined through the test-retest method at two different times. Joppe (2004) states that validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are.

2.7. Data Processing, Analysis and Presentation

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive analysis was used; this included the use of weighted means, standard deviation, relative frequencies and percentages. The Statistical Package for Social Sciences (SPSS) computer software was used for analysis to generate data array that was used for subsequent analysis of the data. SPSS has descriptive statistics features that assisted in variable response comparison and give clear indications of response frequencies. The data was coded to enable the responses to be grouped into various categories. Descriptive statistics was used to summarize the data. This included percentages and frequencies. Tables and other graphical presentations were appropriately used to present the data that was collected for ease of understanding and analysis. A multiple regression model was used to test the hypotheses of the combined effect of the four independent variables (loan recovery procedures, loan deviation, finance management practices and amount of loan borrowed) on the dependent variable (loan default). The study was guided by the following regression model to establish the relationship between the study variables.

$Y= + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4+\varepsilon$

Y = Dependent variable (Default of Loan)

α = Constant (The intercept of the model)

β = Coefficient of the X variables (independent variables)

X1= loan collection procedures

X2= Diversion of Loan Funds

X3= Finance Management Practice

X4=Amount of Loan

ε = Error Term

The most significant factors identified from the analysis was considered as the determinants of loan default.

3. Discussions

This part provides the results and discussion of the outcome and data analysis of this study. This is based on the questions and research objectives of the study which is to investigate the factors affecting default in microfinance institutions.

3.1 Response Rate

Out of the sample size of 90 comprising of management, middle level management and low level management, 4 top managers responded, 24 middle management responded and 56 low level managers also responded. This composition of respondents is important since it represent all categories that deal with the micro finance institutions ¬

3.2 Target Market/Demographic Information.

The target market or clientele at inception of the micro finance was the women and women groups. These include small groups, middle size groups as well as individual women. However this has changed and more categories of members have been incorporated. These are salaried persons, business persons, and self help groups among others. The incorporation of these other groups has made micro finances cope with the liberalization whereby the market is open to competition.

3.3 Gender of the Respondent

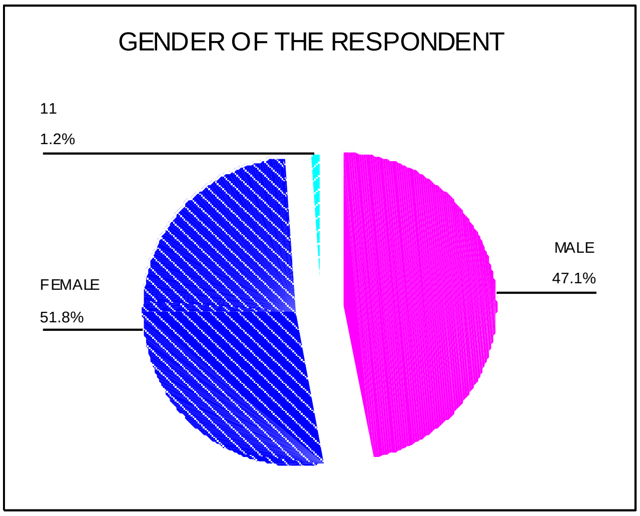


Figure 4: Gender of respondents

From the study it is clear that 51.8% of the respondents are female while 47.1% of the respondents are male. This implies that there was a big proportion of women than men.

3.4. Marital Status

The study shows that there are single as well as married respondents

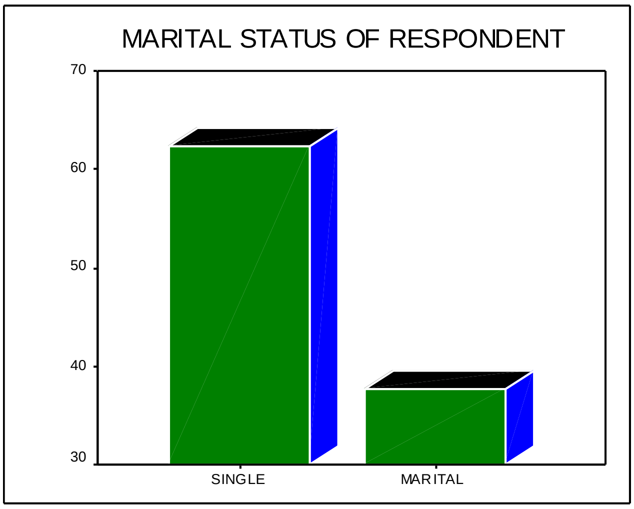


Figure 5 Marital status

The study shows that 62.4% of the respondents are single while the 37.6% of the respondents are married

3.5. Education Level of Respondent

		Frequency	Percent
Valid	CERTIFICATE	10	18.8
	DIPLOMA	34	40.0
	DEGREE	25	29.4
	MASTERS	16	11.8
	Total	85	100.0

Source Author (2015)

The study shows that most of the respondents are holders of diploma represented by 40%% the respondents while 29.4 % are holders of degrees according to the respondents. The study also shows that 18.8% of the respondents are certificate holders. Another group of respondents stated that they hold certificates. Only 11.8% of the respondents are masters' holders. Thus majority of the respondents hold diplomas.

Figure 4.6.2: List of defaulters

From the study it is clear that most of the respondents' strongly disagreed that they maintain a list of loan defaulters. This is supported by 81% of the respondents. Only 19% agreed that they maintain a list of loan defaulters. Thus a list is not mainly in the institutions.

4.6.3 There exists a long list of Loan Defaulter

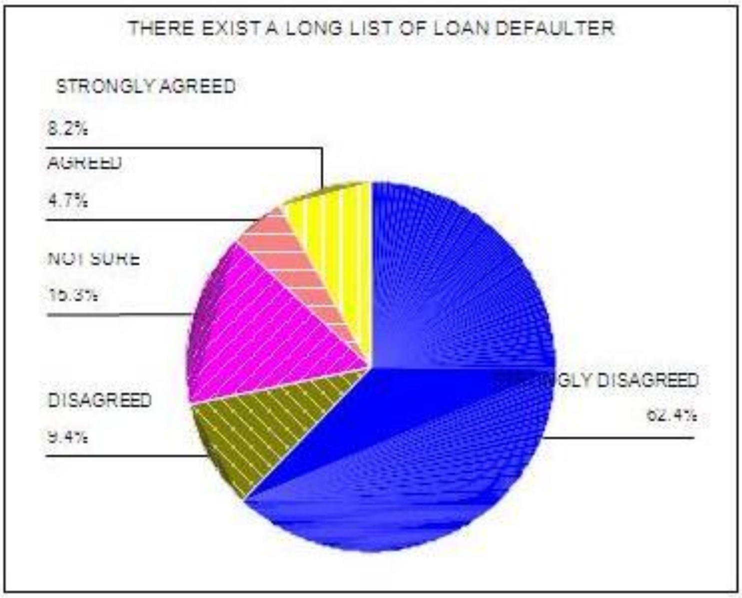


Figure 12: long list of defaulters

The study shows that most of the respondents' strongly disagreed that there exist a list of loan defaulters. This is supported by 62.4% of the respondents. The 15.5% of the respondents stated that they are not sure whether there exist a list of loan defaulters only 8.2% agreed that the there exist a lost of loan defaulters. Thus loan defaulters list is not available.

Table 7. No Loan Defaulters

		Frequency	Percent
Valid	STRONGLY DISAGREED	33	38.8
	DISAGREED	20	23.5
	NOT SURE	11	12.9
	AGREED	14	16.5
	STRONGLY AGREED	7	8.2
	Total	85	100.0

Source Author (2015)

The study shows that most of the respondents' strongly disagreed that there are no loan defaulters. This is supported by 38.8% of the respondents. The 23.5% of the respondents disagreed that there are no loan defaulters. But 16.5. % agreed that the there is no loan defaulters. Therefore loan defaulters are present.

3.9.6 Prices changes influence Default

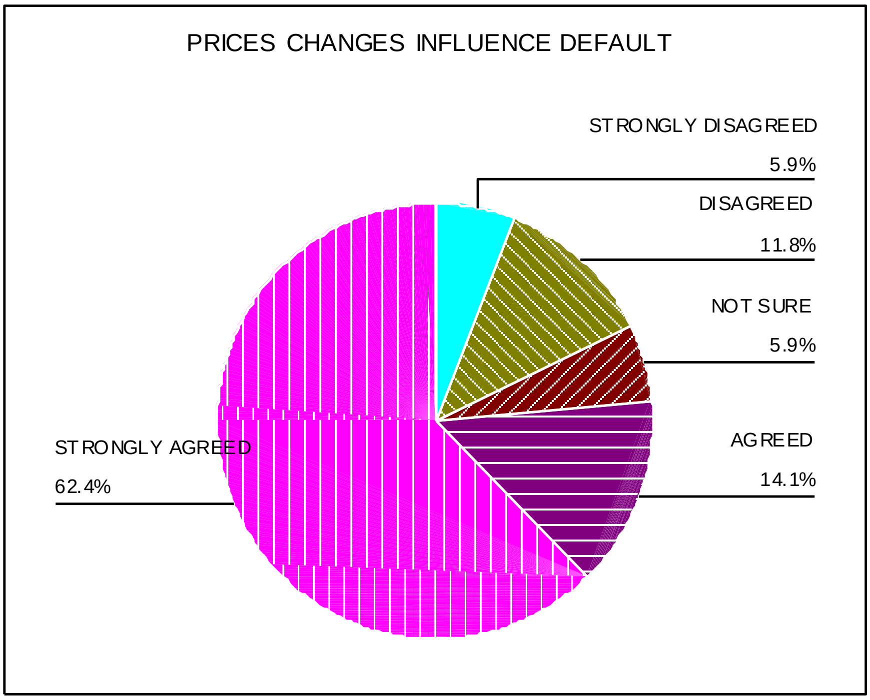


Figure 9. price changes

The study shows that most of the respondents' strongly agreed that price changes influence default. This is supported by 62.4% of the respondents. The 14.1% of the respondents agreed price change influence default. But 11.8% disagreed that the price change influence default.. Therefore price change is a factor in default.

3.9.7 There is Unwillingness to Pay Loans

Table 9: Unwillingness to Pay Loans

		Frequency	Percent
Valid	STRONGLY DISAGREED	9	10.6
	DISAGREED	12	14.1
	NOT SURE	13	15.3
	AGREED	16	18.8
	STRONGLY AGREED	35	41.2
	Total	85	100.0

Source Author (2015)

The study shows that most of the respondents' strongly agreed that there is unwillingness to pay loan. This is supported by 41.2% of the respondents. The 18% of the respondents agreed that there is unwillingness to pay loan. But 14.1% disagreed that there is unwillingness to pay loan. Therefore to pay loans is a factor.

3.9.8. Loan Deviation

4.7.1 Do you have a plan of action before loan application

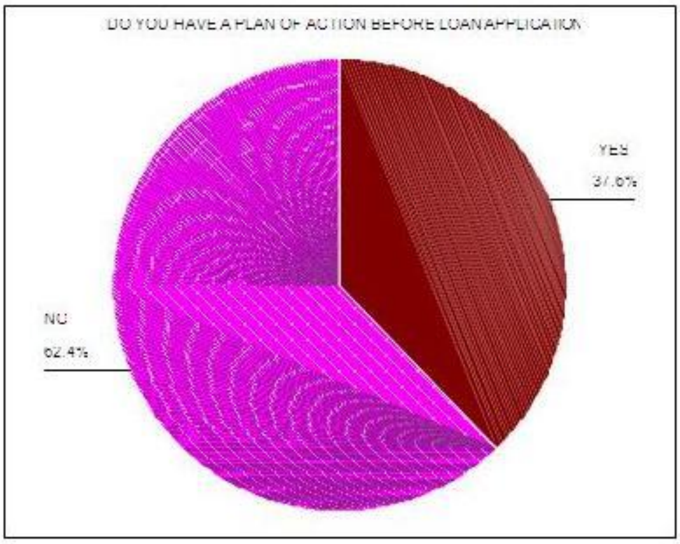


Figure 9: plan of action

Majority of the respondents stated that they don't have action plan before loan application. This is supported by 62.4% of the respondents, while 37.6% of the respondents stated that they have plan of action before loan application

3.9.9. There is monitoring of loan use

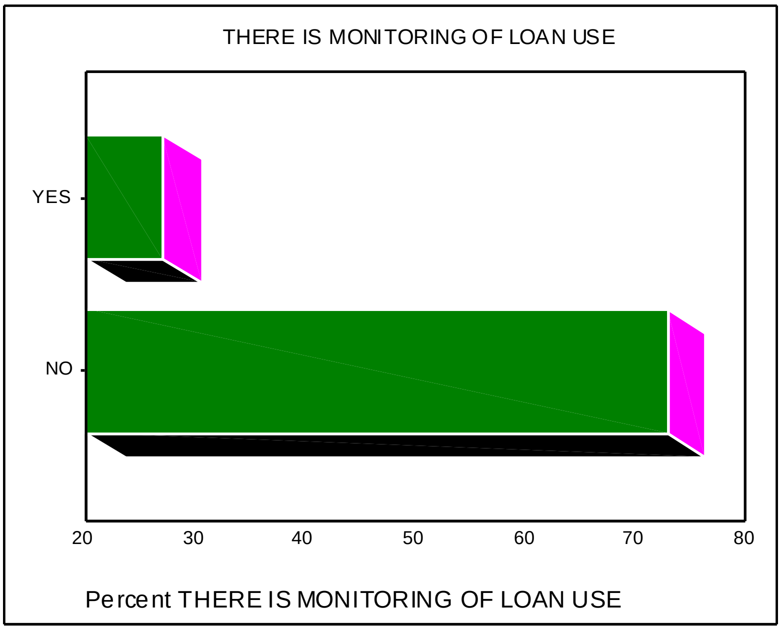


Figure 10: monitoring

Majority of the respondents stated that there is no loan monitoring. This is supported by 78% of the respondents, while 22% of the respondents stated that there is no loan monitoring.

3.9.10 Members don't follow the agreed Plan

Table 12 Agreed plan

		Frequency	Percent
Valid	STRONGLY DISAGREED	7	8.2
	DISAGREED	5	5.9
	NOT SURE	12	14.1
	AGREED	20	23.5
	STRONGLY AGREED	41	48.2
	Total	85	100.0

Source Author (2015)

It is clear from the study that most of the respondents' strongly agreed that members don't follow the agreed plan. This is supported by 48.2% of the respondents. The 23.5% of the respondents also agreed that members don't follow the agreed plan. But 8.2 % strongly disagreed that members follow the agreed plan only 5.9% of the members disagreed that members don't follow the agreed plan.

4.7.4 Member Divert Loan Purpose

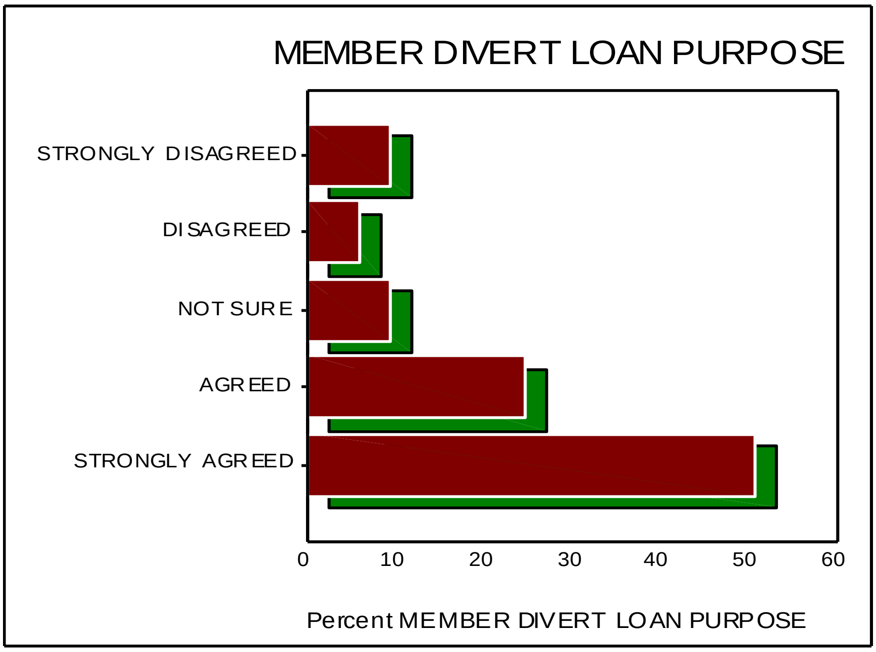


Figure 4.7.4: Divert loan purpose

The study shows that most of the respondents' strongly agreed that members divert loan purpose. This is supported by 50.6% of the respondents. The 24.7% of the respondents agreed price change influence default. But 11.9% strongly disagreed that members divert loan purpose. Therefore loan purpose is diverted by the members.

4.7.5 Members use Money borrowed to meet family Needs

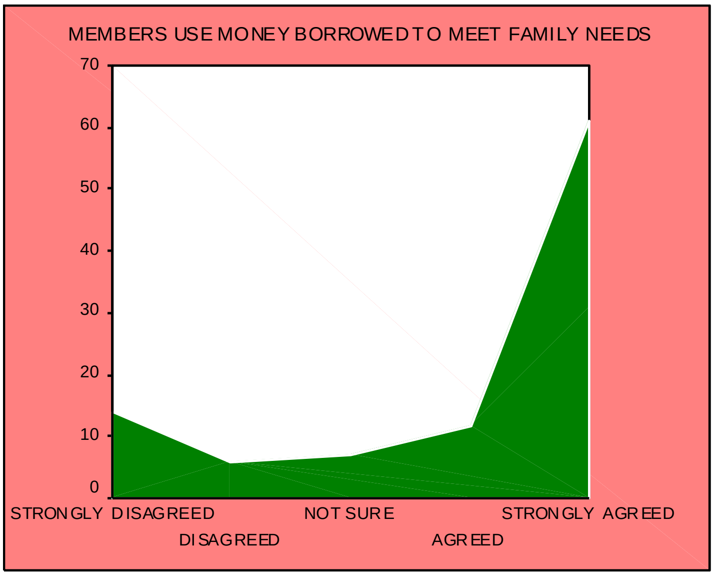


Figure 4.7.5: Money borrowed

The study shows that most of the respondents' strongly agreed that members use money borrowed to meet family needs. This is supported by 61.2% of the respondents. The 11.8% of the respondents agreed members use money borrowed to meet family needs. But 14.1 % strongly disagreed that members use money borrowed to meet family needs. Therefore members use money borrowed to meet family needs.

4.7.6 Some members use their Loans to pay for defaulting members

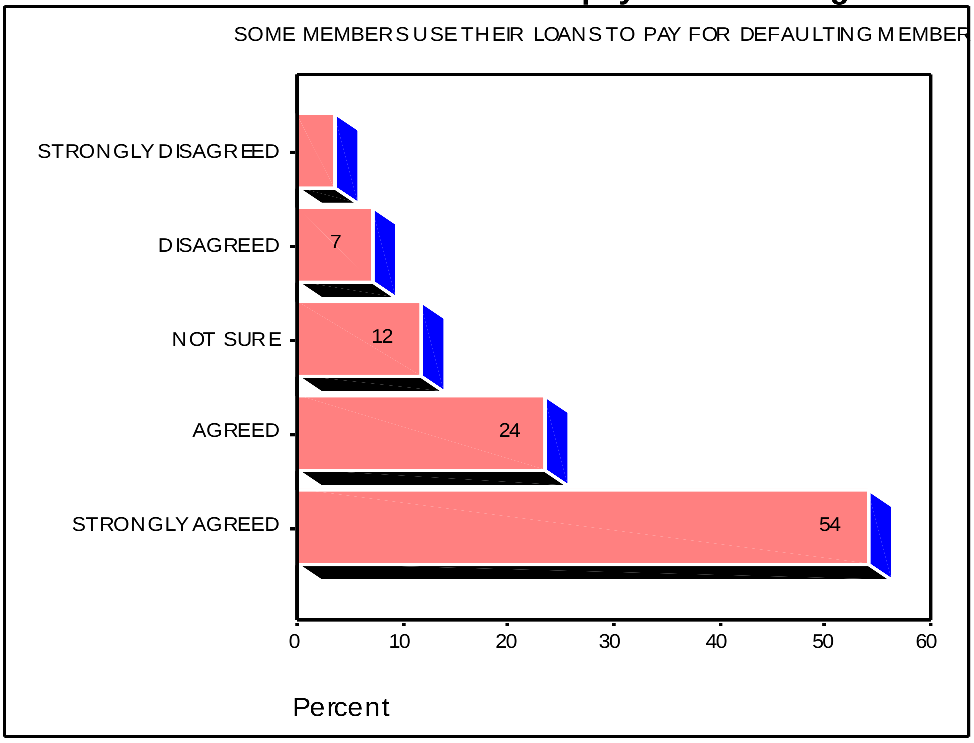


Figure 4.7.6: defaulter members

It's clear that most of the respondents' strongly agreed that members use their loans to pay for defaulting members. This is supported by 54 % of the respondents. The 24 % of the respondents agreed that some members use. But 4.1 % strongly disagreed that members use their loans to pay for defaulting members.

4.7.7 Over indebtedness is a cause for Loan deviation

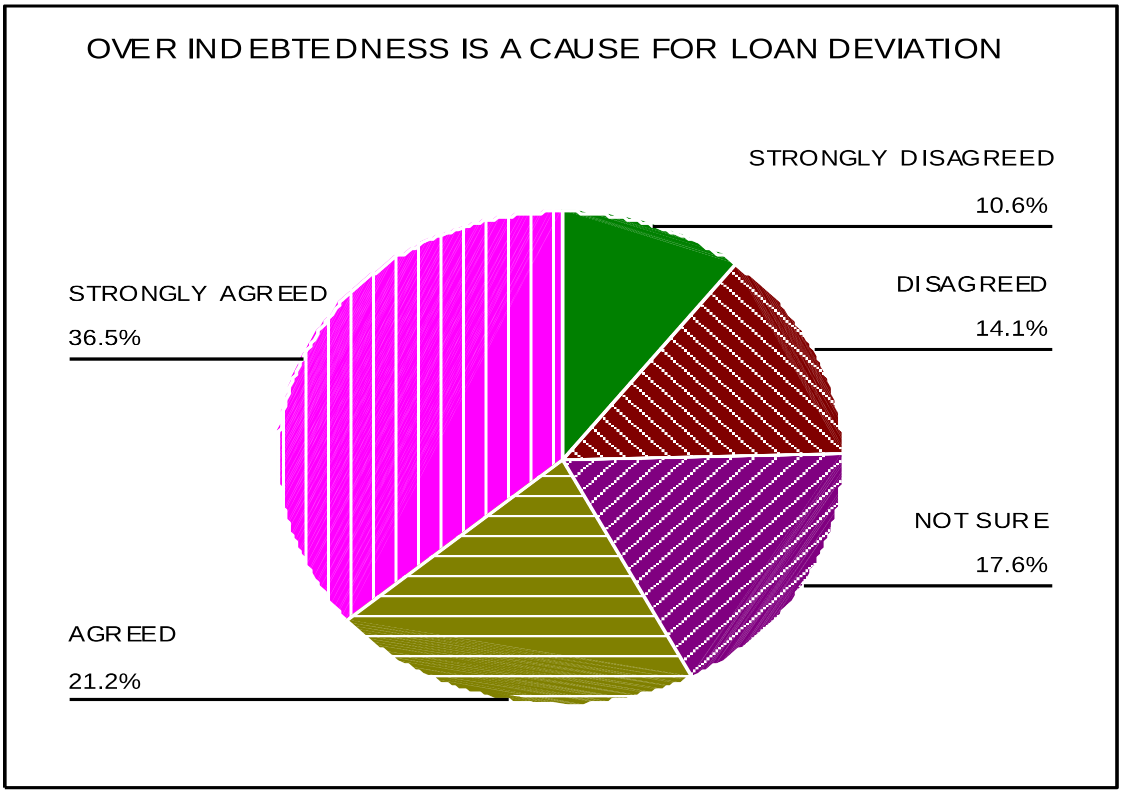


Figure 4.7.7: loan deviation

The study shows that most of the respondents' strongly agreed that over indebtedness is a cause for loan deviation. This is supported by 36.5 % of the respondents. The 21 % of the respondents agreed that over indebtedness is a cause for loan deviation. But 10.6 % strongly disagreed that over indebtedness is a cause for loan deviation.

4.8 Finance Management Practice

4.8.1 Do group members have a basic knowledge in business management

Table 4.8 Basic knowledge

	Frequency	Percent
Valid YES	20	23.5
NO	65	76.5
Total	85	100.0

Source Author (2015)

The study shows that 76.5% of the respondents stated that the group members do not have basic knowledge in business management while only 23.5% of the respondents stated that the group members have a basic knowledge in business management.

4.8.2 Do you train members on skills related to their businesses

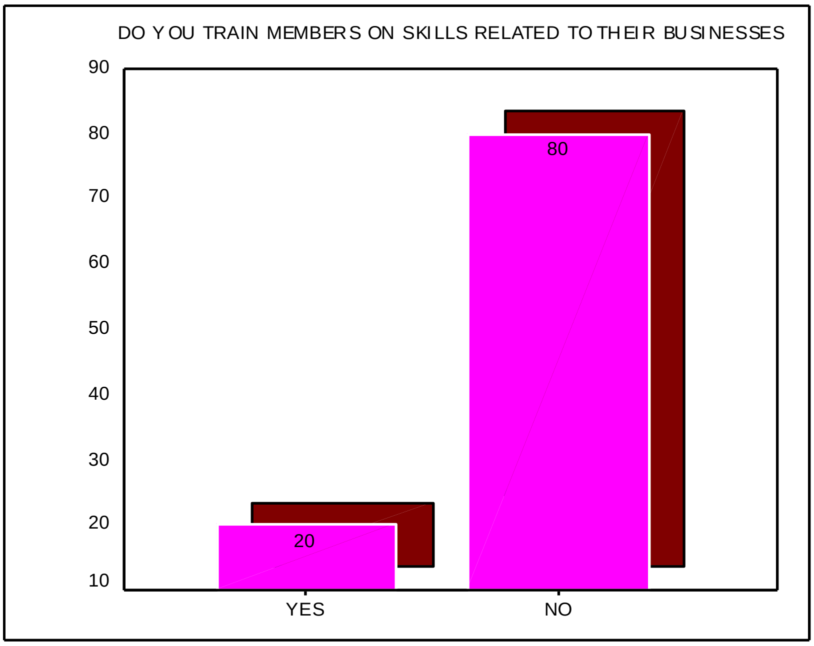


Figure 4.8.2: Members training

The study shows that 80% of the respondents stated that the group members are not trained on skills related to their businesses while only 20% of the respondents stated that members of the group are trained on skills related to their businesses.

4.8.3 Do you keep a record of their daily sales

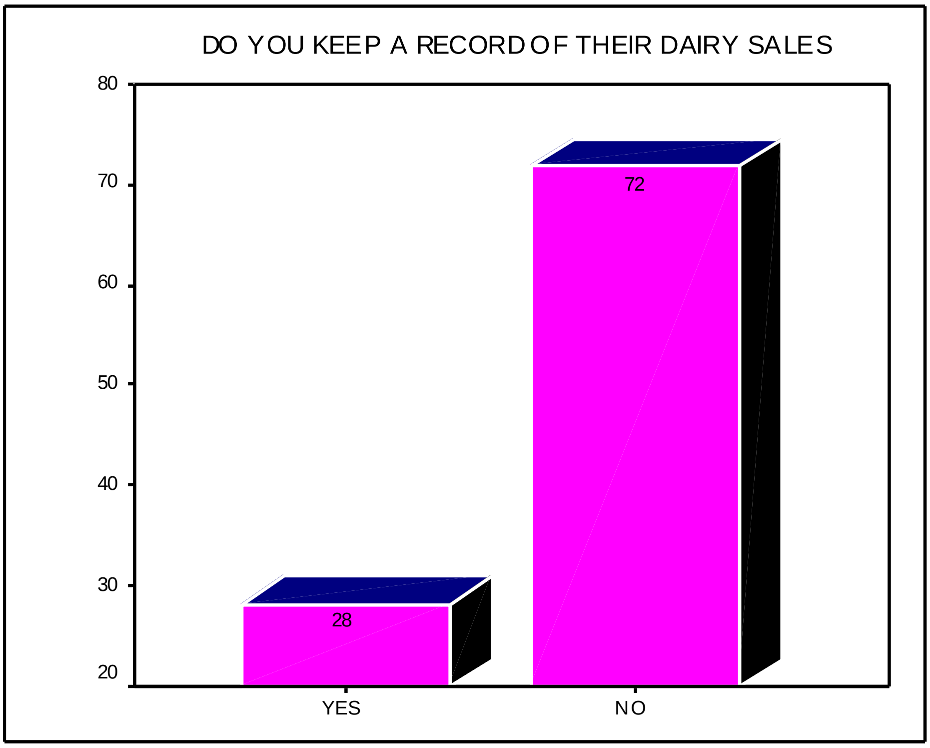


Figure 4.8.3: Record of Dairy Sales

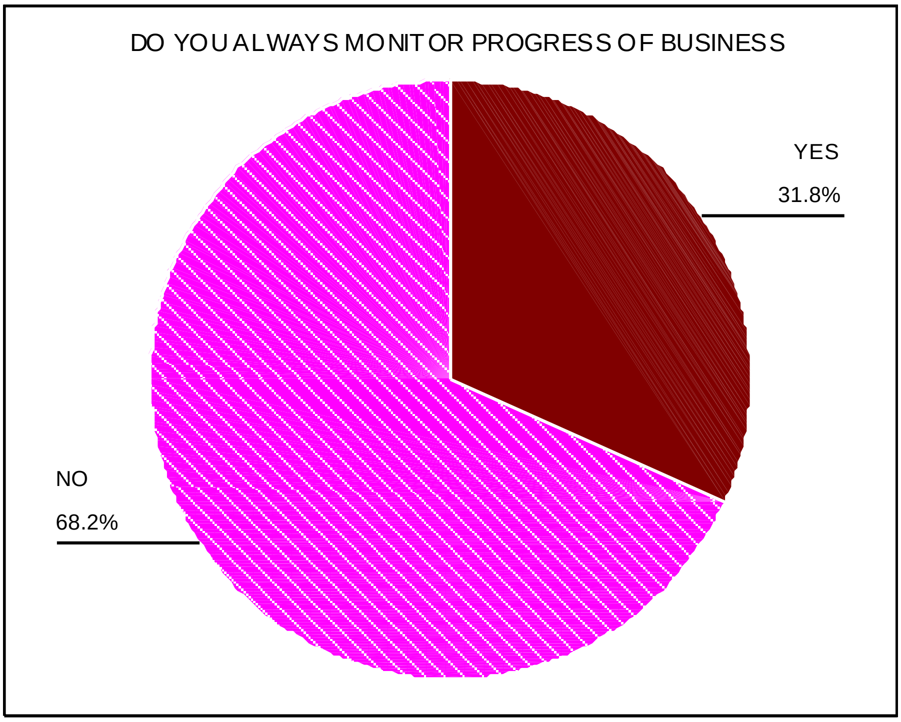


Figure 4.8.4: progress monitoring

The study shows that 68.2% of the respondents stated that they do not always monitor progress of business while 31.8% of the respondents stated they do not always monitor progress of business.

4.9 Amount of Loan Borrowed

4.9.1 Is the amount borrowed by members sufficient

Table 4.9 Loan sufficient

		Frequency	Percent
Valid	YES	25	29.4
	NO	60	70.6
	Total	85	100.0

Source Author (2015)

The study shows that 70.6% of the respondents stated that the amount borrowed by members is not sufficient while 29.4 % of the respondents stated that the amount borrowed is not sufficient.

4.9.2 Do you have group plan

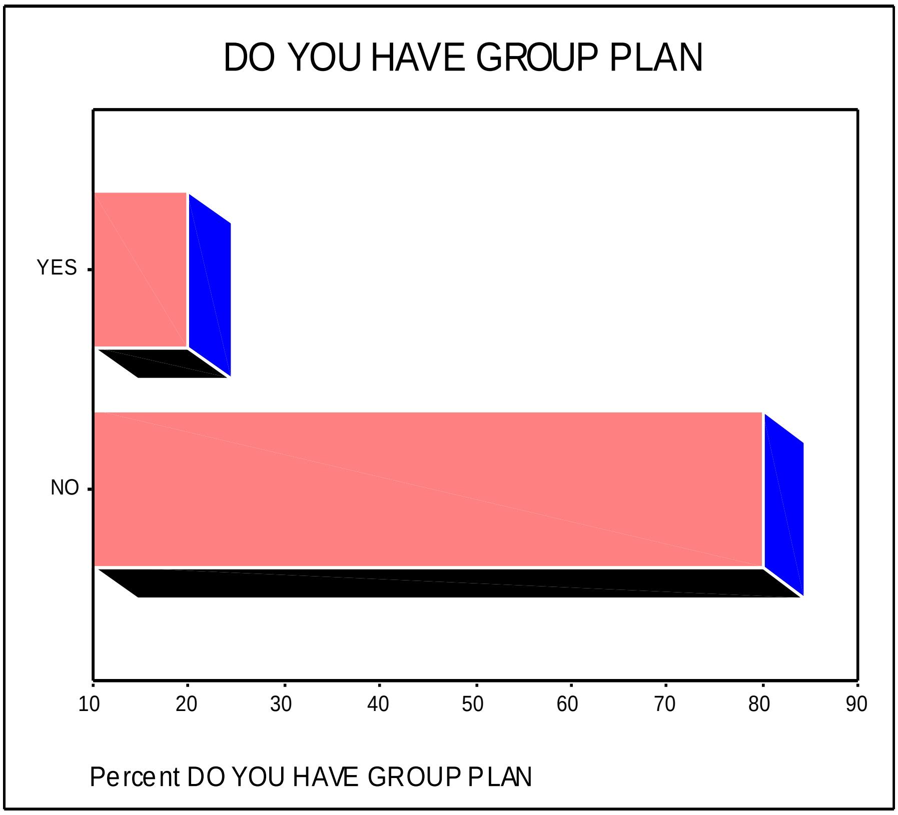


Figure 4.9.2 Group plan

The study shows that 80.9% of the respondents stated that no group plan is in place while 19.1. % of the respondents stated that there are no group plans.

4.9.3 Members have other source of funds

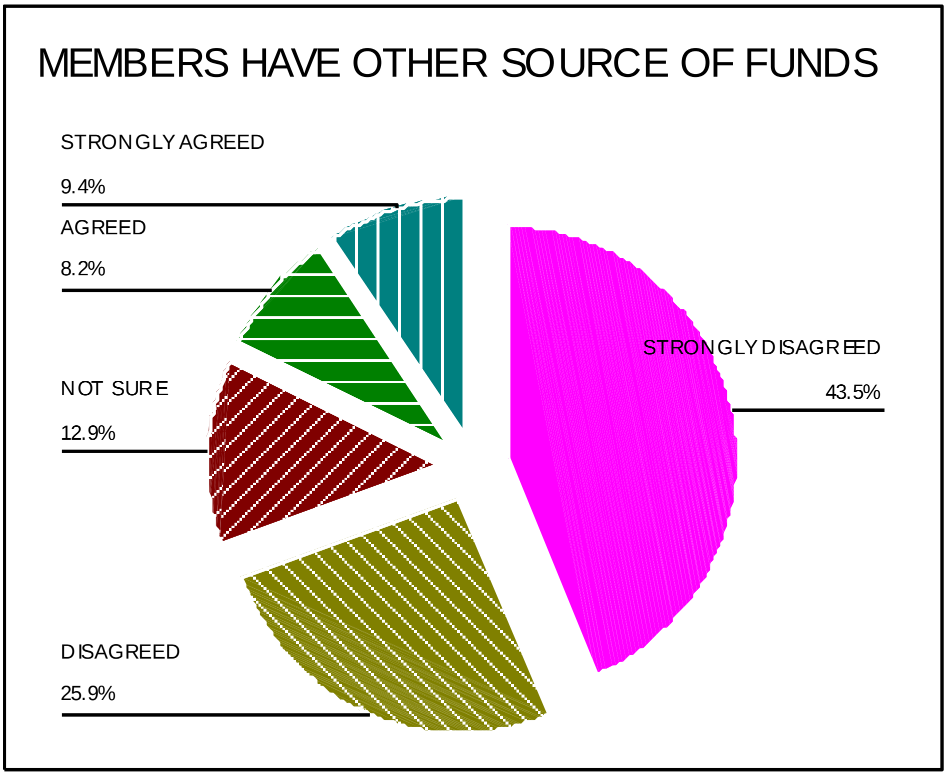


Figure 4.9.3: multiple borrowings

The study shows that most of the respondents' strongly disagreed that members have other sources of funds. This is supported by 43.5. % of the respondents. The 25.9 % of the respondents disagreed that members don't have other sources of funds. But 9.4 % strongly agreed that members have other sources of funds.

4.9.4 Members claim that money borrowed is insufficient

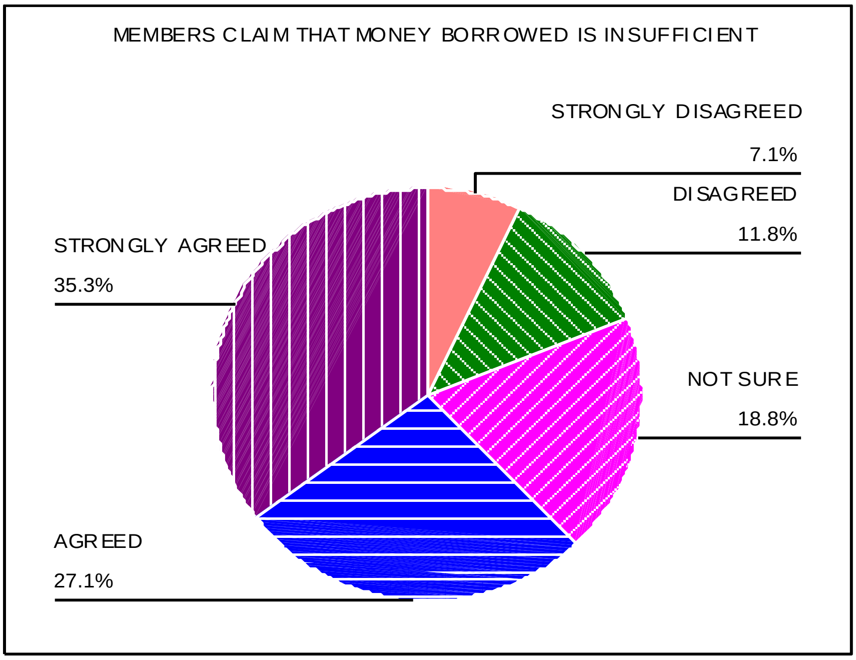


Figure 4.9.4: money is insufficient

The study shows that most of the respondents' strongly agreed that member's funds claim that money borrowed is insufficient. This is supported by 35.3 % of the respondents. The 27.1 % of the respondents agreed that funds granted to the members are insufficient however 11.8 % of the respondents disagree that the funds granted to members are insufficient. Only 7.1% strongly disagreed that the funds is insufficient. The 18% of the respondents stated that they are not sure.

4.9.5 Members use borrowed money to meet family needs

Table 4.10: Borrowed Money to meet Family Needs

		Frequency	Percent
Valid	STRONGLY DISAGREED	4	4.7
	DISAGREED	7	8.2
	AGREED	17	37.0
	NOT SURE	16	1.8
	STRONGLY	41	48.2

AGREED		
Total	85	100.0

Source Author (2015)

The study shows that 48.2% of the respondents’ strongly agreed that members use borrowed money to meet family need.. The 37% of the respondents agreed members use borrowed money to meet family need. But 8.2 % of the respondents disagree that members use borrowed money to meet family needs. Only 4.7% strongly disagreed that the members use borrowed money to meet family needs. The 1.8% of the respondents stated that they are not sure.

4.9.6: weekly payments is too much to members

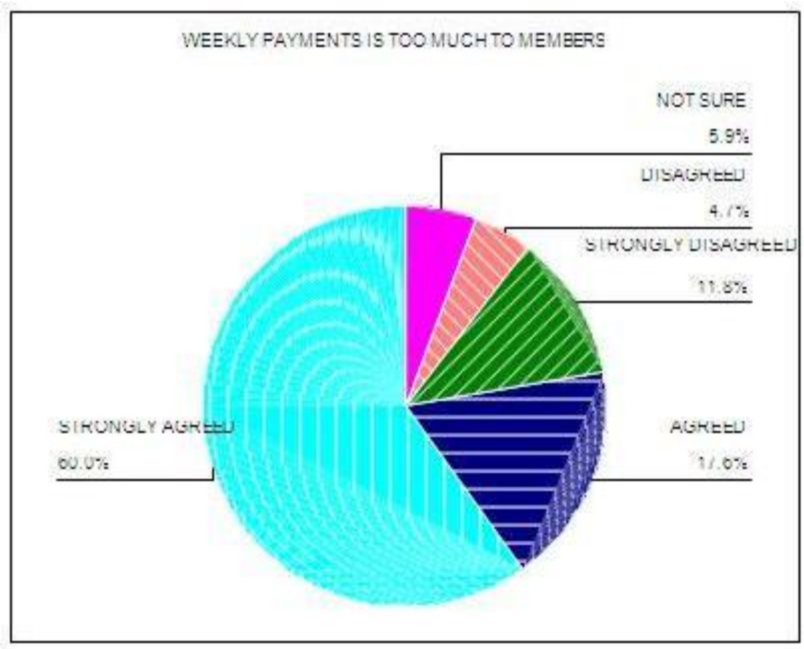


Figure 4.9.6: Payments to Members

The study shows that 60% of the respondents’ strongly agreed that weekly payments are too much to members. The 17.6% of the respondents agreed that weekly payments are too much to members. But 11.8 % of the respondents disagree that weekly payment is too much to members. Only 11.8% strongly disagreed that the members use borrowed money to meet family needs. The 1.8% of the respondents stated that they are not sure.

4.9.7 Interest on Money Borrowed Is High

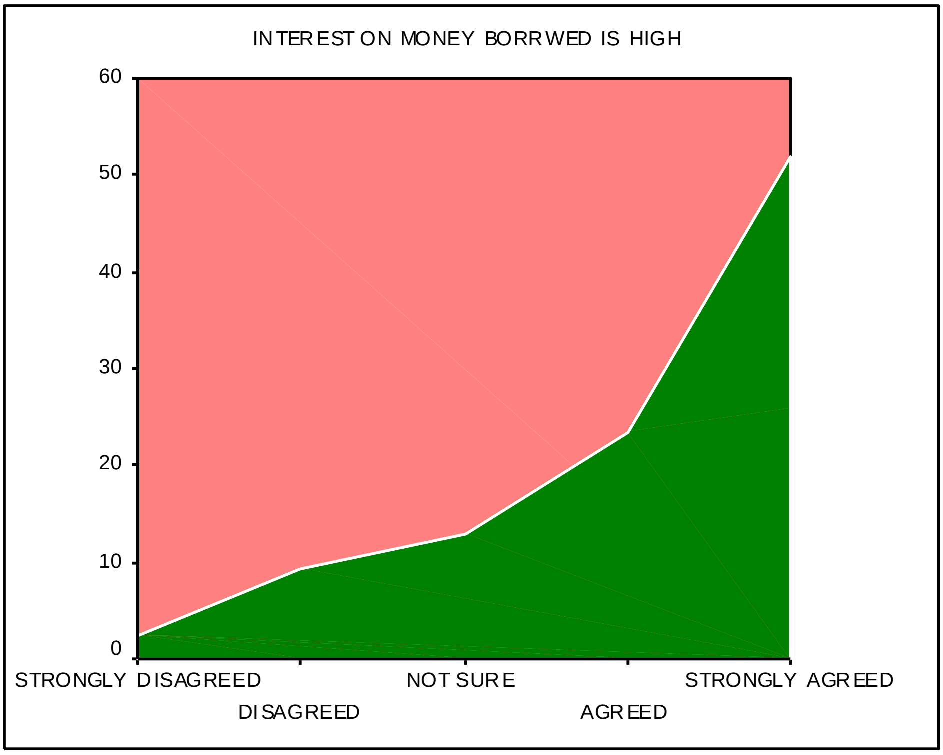


Figure 4.9.7: Interest on money

The study shows that 51% of the respondents' strongly agreed that interest on money borrowed are high. However 27.6% of the respondents agreed that the interest on money borrowed is high. But 13.8 % of the respondents are not sure whether that is the case. Only 9.8% strongly agreed that the interest on money borrowed is high. The 2% of the respondents stated that they strongly disagreed.

4.9.8 loan default leads to loss of funds by MFIs.

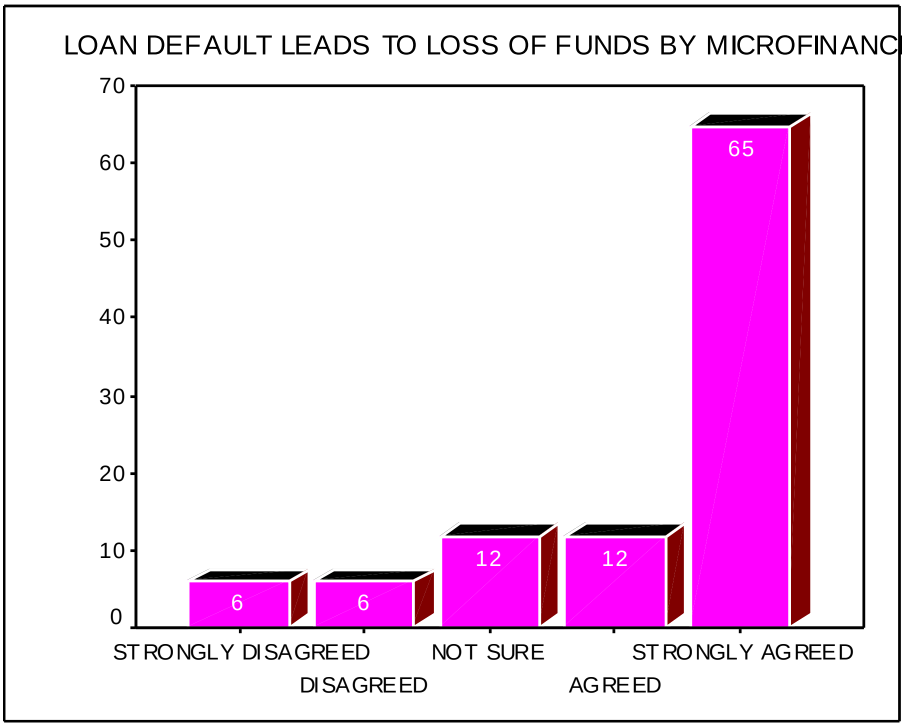


Figure 4.9.8: loss of funds

The study shows that 65% of the respondents' strongly agreed that loan default leads to fund loss but 12 % of the respondents agreed that loan default leads to funds loss. But 12 % of the respondents are not sure. Only 6% strongly disagreed that the loan default leads to fund loss.

Table 4.14 Regression Coefficients

Model	Un-standardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
Constant	.614	.394		4.098	.015
Loan Collection Procedures	.263	.067	.385	3.925	.023
Loan Diversion	.111	.056	.207	1.982	.019

Financial Management Practices	.233	.079	.317	2.949	.033
Amount of Loan Borrowed	.010	.058	.016	.172	.021

From the data in the above table the established regression equation was:

$Y = 0.614 + 0.263 X_1 + 0.111 X_2 + 0.233 X_3 + 0.010 X_4$ .From the above regression equation it was revealed that holding loan collection procedures, loan diversion, financial management practices and amount of loan borrowed to a constant zero, loan default would stand at 0.614, at sig level of 0.015,a unit increase in loan collection procedures would lead to increase in loan default by a factors of 0.263 at sig level of 0.023 unit increase in loan diversion would lead to increase in loan default by factors of 0.111 at sig level 0f 0.019 unit increase in financial management practices would lead to increase in loan default by a factor of 0.233 at sig level of 0.033 a unit increase in amount of loan borrowed would lead to increase in loan default by a factor of 0.010 at level of significance of 0.021.

4.: Summary of the Major Findings

The study was an investigation on the factors affecting loan default in microfinance institutions a case study of women groups. A data collection instrument which is questionnaires were distributed to top management, middle level as well as lower management level managers in the micro finances and the response rate was 95%.

4.1: loan collection procedures

The study shows that the loan procedures correlate well with the loan default. The loan default handling also relate well with the loan default.

From the study it is clear that the loan procedures are a major factor in the loan default. The respondents who were in agreement were 74. %. The study was carried out with the main aim of finding out whether loan collection procedures affect loan default in MFI's in Kirinyaga County. According to the findings the study found that loan collection procedures greatly affect loan default in micro finance institutions. Collection procedure therefore greatly determines whether the loan will be defaulted. Many factors have been identified as major determinants of loan defaults. Okorie (1986) shows that the nature, time of disbursement, supervision and profitability of enterprises which benefited from small holder loan scheme in Ondo State in Nigeria, contributed to the repayment ability and consequently high default rates. This study however found out those delays in loan collection was relevant and significantly relented to loan default and therefore differ with observations made by Okorie (1986), as respondents indicated difficulty in loan repayments resulting to loan default.

4.2. Loan diversion

The study found out that loan diversion greatly affects loan default in micro finance institutions. From the study it is clear that loan diversion is a great factor in loan default in micro finance institutions. Majority of the respondents stated that they don't have action plan before loan application. This is supported by 62.4% of the respondents, while 37.6% of the respondents stated that they have plan of action before loan application. According to a report by UN on women empowerment, empowering women to participate fully in economic life across all sectors is essential to build stronger economies, achieve internationally agreed goals for development and sustainability and improve the quality of life for women, men and communities. Further the report indicates that women empowerment principles offer practical guidance to business. This Research concurs with the report by UN as the research found a strong correlation between loan default and loan diversion. Empowerment eliminates discrimination in all sectors including the business environment.

Thus MFI's should set up strong organizational policies that will help ensure loan management in the institutions are observed. Loan diversion is a great factor that contributes to loan default, this is simply because when funds for a particular task are not used for that task and rather diverted to do other business the outcome projected becomes very different and this contributed to the borrower not affording to pay the loan

4.3: Financial Management Practice

Lack of managerial skills is a factor that contributes to loan default in microfinance institutions. According to Bullow et al., (1995), women enterprises are more disadvantaged than their counterparts. A number of studies also have shown that women generally face more constraints than men. These include access to financial services through formal lending institutions, lack of entrepreneurship .The study revealed that the major effect in loan default is the management practices and therefore agrees with the findings by Bullow et al,(1995) to a great extent. It is clear that this variable correlate well with the dependent variable which is the loan default. From the table it is shown that the main reason this occurs according to the respondent is the lack of the basic business management skills which are necessary in the business growth. When business grows it become possible to meet even the weekly loan repayments but if the business stagnate then the payment become difficult.

4.4: Amount of loan borrowed

There was a. moderate correlation between various independent variables, and a strong correlation between the collection procedures and loan default and this corresponds with the expected results and also agrees with Ahamad, (1997), who found out that, lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by credit officers are some of the very important causes of loan defaults. The Research further found out that the rising number of microfinance institutions in Kirinyaga County has led to multiple borrowing by members of the existing MFI in Kirinyaga County due to lack of information asymmetry among the existing MFI's. This further concurs with Givendolyn (2001) and Vogelgesong (2003), who states that multiple borrowing increases the incidence of over-indebtedness and consequently defaults on loans.

5. Conclusions

The results from this study have shown that loan collection procedures, loan default, loan deviation, financial management practice as well as amount borrowed have a bearing on the loan default. The Pearson correlation has established that there exists a correlation between the various aspects of loan default being loan deviation, financial management practice as well as amount borrowed and have the strongest relationship as per their coefficient.

Loan deviation has a lot of challenges with the default. Micro finances were considered to have lagged behind in managing loan default, but the finance management practice plays a greater part in managing loan default by the MFIs and leads to increase in income. However through high profitability after containing the loan default and the fact that the MFIs have established membership they are able to satisfying.. The MFIs hierarchy when reduced enables the institution to gain competitive advantage by increasing the revenue. The good loan collection procedures are important if the micro finance is to gain competitive advantage over the others. This is supported by the respondents in the study. Loan default is inevitable but its effect can be reduced by adoption of various strategies by the MFIs so as to get more revenue. However by MFIs undertaking SWOT analysis to determine loan collection procedures, loan default, loan deviation, financial management practice as well as amount the MFIs is able to implement strategies and increase the revenue.

5.1: loan collection procedures

The collection procedure for any loan arrangement should be spelled out as part of the loan terms. It is important for borrowers to be aware of the details of the collection procedure so as to avoid penalties, and in the case of collateral or secured loans, repossession of the collateral in the event of a loan default. The MFI can engage a consultant. The consultants will assist the MFIs on strategizing, thus becoming more competitive in loan collection procedure. The outsourcing enables the MFI management to think out of the box. This means that they change their way of thinking after they are made aware of other external factors they had not encountered including the adoption of the recent technology which emerges in the market. This will help in detecting the loan default in good time.

5.2. Loan Diversion

Money diversion is common to many borrowers. Money is fungible and diversion of the use of loan is sometimes intentional and sometimes unintentional. It is important for the borrowers to stick to the intended purpose of the loan for there to be accountability and to alleviate the shortcomings that come hand in hand with loan diversion. This will help in reducing loan default in micro finance institutions.

5.3. Prudent Financial Management Practice

The MFI need to evaluate all the avenues through which they can generate revenue. This could be establishment of a training/ consultancy department whereby these services can be extended to other MFIs and the community. This will increase the Ioyalty of members who could be tempted to default loans. In addition to the above, Lack of managerial skills is a factor that contributes to loan default in microfinance institutions and should be put into consideration by the MFI. It is the duty of the institutions to ensure that their staff and customers are well trained and have the financial knowledge that they require in their level for there to be accountability and efficiency in the transactions of the MFI's. Financial management practices should thus be emphasized and taken seriously in ensuring it does not affect loan default in micro finance institutions

5.4. Amount of Loan Borrowed

It is the mandate of all micro finance institutions to regulate the amount of loan given to borrowers with there being a vigorous process of determining if the borrower has the potential to pay back the amount of loan requested for before authorization is made to lend money.

The main objective of the MFI should be members' satisfaction thus the institution should ensure it grant loan to customers which can enable them to undertake the project of their choice as long as they can afford to pay.. This raises their confidence and makes them stay in the Institution. The MFI have an established category of membership. Hence if these members are well served it is possible to retain them and reduce loans default since they identify themselves with the MFI.

5.5. Suggestions for further Research

The researcher suggests that the research on the impact of establishment of the micro finance by laws on loan default and implementation in the MFIs to be done. This is to establish whether the MFIs can be more professional, get higher revenue from the members and be more competitive. The findings would complement findings of this research. The researcher recommends this research to be done specifically on the MFIs and particularly those with many branches. There is also need to conduct more research on the factors that would reduce the chances of MFIs having wrangles. This could have been due to stiff competition from the other financial institutions yet they have established membership through specific group members. The main focus should be why are MFIs is losing a lot of funds through loan default.

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