Study on Factors Influencing on Microfinance Loan Repayment

(Special Reference to Samurdhi Banks in Elpitiya Divisional Secretariat)

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Abstract— Microfinance institutions were established to fill the gap in the financial services' sector by providing funds to the lower – income group which are usually involved in small and micro business activities. Nowadays microfinance institutions are being rapidly growing in Sri Lanka. But microfinance institutions face one of the major problem is loan money not properly receive to the microfinance institutions from borrowers. Because borrowers fail to repay loan money on time. This research focused on factors influencing loan repayment of microfinance borrowers in microfinance institutions with special reference of Samurdhi Banks in Elpitiya Divisional Secretariat. Primary objective of the study was finding the factors which are influencing on microfinance loan repayment. The research framework of this study is built by borrowers' characteristics, business characteristics and loan characteristics as independent variables and loan repayment as dependent variable. Researcher has selected target group from Samurdhi Banks default borrowers in Elpitiya Divisional Secretariat using stratified random sampling. The data was collected by use of questionnaires issued to the microfinance default borrowers and discussed with Samurdhi Banks managers and staff. The data was analyzed by using statistical software and presented by use of tables and figures. By analyzing the data, the researcher found that borrowers' characteristics, business characteristics and loan characteristics are significantly influence on microfinance loan repayment.

Keywords— Microfinance Loan Repayment, Borrowers' characteristics, Business characteristics, Loan characteristics, Samurdhi Banks.

I. INTRODUCTION

Microfinance can be defined as financial instruments, such as loans, savings, insurance and other financial products that are tailored only to the poor. Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty (Mokhtar,Nartea,Gan,2012).Microfinance institutions were established to fill the gap in the financial services' sector by providing funds to the lower – income group which are usually involved in small and micro business activities (Nawai, Shariff, 2012). The microfinance industry's main customers are micro-lending customers. Many parts of the world have used group micro-lending successfully to expand the reach of microcredit programs to many borrowers who could not have been reached by commercial banks.

Improving the repayment rate could also help reduce the dependence on subsidies and help the microfinance institutions reach a better sustainability level (Marie Godquin.2002 and D.Ravichandran, 2016 & 2020). Loan repayment is the act of paying back money previously borrowed from a lender. If the microfinance institutions received money on time from borrowers as monthly, weekly or daily, then microfinance institutions are become a success level. As of today, Sri Lankan people have been attracted to microfinance loan. They take loan for their business activities or some other reasons. But microfinance institutions face one of the major problem is loan money not properly receive to the microfinance institutions from borrowers. Because borrowers fail to repay loan money on time. Therefore arise loan default. Because of inability to repay loan on time under some reasons. Government sector and private sector's microfinance institutions have in Sri Lanka. Among those institutions, government sector's microfinance institutions are limited in Sri Lanka. One of the major government microfinance institution is a Samurdhi Bank. It is most reputed bank in Sri Lanka for the alleviate the poverty. Researcher is selected this bank for the Investigate the major factors influencing on microfinance loan repayment of microfinance institution in Sri Lanka.

II. PROBLEM STATEMENT

Microfinance institutions are providing loans to those who are not enough money to start up the business or any other circumstances. But these loans are not paying back to the institutions on time. It is the responsible of the loan borrower and also collecting that loan money is responsible of the microfinance institutions. A number of studies on credit institutions in several developing countries reveal that the majority of them have encountered serious loan recovery problems (Kashuliza 1993). Therefore in that situation, arising loan repayment problem. It is not a good signal of a sustainable organization. Therefore researcher attempt to fill the gap in the literature as well as find out the factors influencing on microfinance loan repayment of borrowers in microfinance institutions with special reference on government microfinance institution of Samurdhi Bank in Elpitiya Divisional Secretariat.

III. RESEARCH QUESTIONS

01. What is the level of borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Bank at Elpitiya Divisional Secretariat?

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02. What is the relationship between borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Bank at Elpitiya Divisional Secretariat?

03. What is the impact of borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Bank at Elpitiya Divisional Secretariat?

IV. RESEARCH OBJECTIVES

01. To identify the level of borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Banks at Elpitiya Divisional Secretariat.

02. To identify the relationship between borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Banks at Elpitiya Divisional Secretariat.

03. To identify the impacts of borrowers' characteristics, business characteristics and loan characteristics on microfinance loan repayment in Samurdhi Banks at Elpitiya Divisional Secretariat.

V. HYPOTHESIS

These empirical studies have taken place in Asian countries, setting the adoptability of the same in Sri Lanka is questionable, therefore taking into consideration of the existing literature on factors influencing on microfinance loan repayment.

The following hypotheses are formulated.

Hypothesis one – There is no significant relationship between borrowers' characteristics and loan repayment.

Hypothesis two – There is no significant relationship between business characteristics and loan repayment.

Hypothesis three – There is no significant relationship between loan characteristics and loan repayment.

VI. SIGNIFICANCE OF THE STUDY

This research will deliver knowledge on determinant of loan repayment and assist future research on loan repayment in microfinance institutions. The research outcome would also provide a reference to researchers who wish to conduct further studies on issues surrounding loan repayment in an attempt to give a deeper understanding on the same. The existence of secured loan repayment rate is the key success for the financial institutions to provide the service in a profitable and sustainable manner. But in some cases the borrowers fail to repay their loans on time. And also this research will also help microfinance institutions to identify what are the factors influence the microfinance loan repayment of the borrowers.

VII. CONCEPTUAL FRAMEWORK
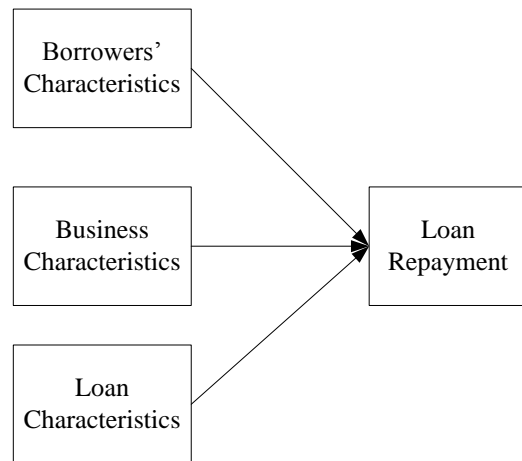
(Source: Modified framework of D.Ravichnadran 2016 & 2017)

VIII. SAMPLE& DATA COLLECTION METHOD

Sample decision is important part of the research. The researcher selected 40 small and medium enterprises who default as a micro credit borrowers in Samurdhi Bank in Elpitiya Divisional Secretariat and sample random selected based on stratified random sampling technique. Data gathering done through issuing questionnaires.

IX. DATA ANALYSIS METHOD AND RESULTS

Primary data from questionnaires processed and analyzed through Statistical Package for Social Scientist (SPSS). Data analyzed and presented in the form of frequencies, percentages and tables so as to provide meaningful information for presentation of findings and recommendations.

Descriptive Statistics Analysis					
	N	Minimum	Maximum	Mean	Std. Dev.
Borrowers' Characteristics	40	3.00	4.88	4.1094	.43870
Business Characteristics	40	3.42	4.75	4.1750	.30476
Loan Characteristics	40	3.13	4.88	4.1063	.42794

UNIVARIATE ANALYSIS

Correlation Analysis

Correlations Analysis is a method of statistical evaluation used to study the strength of a relationship between two numerically measured variables. There was a significance relationship among the borrowers' characteristics, business characteristics and loan characteristics with loan repayment. It can justify from 99% or 95% confidence level. Then null

Correlations		Borrowers' Characteristics	Business Characteristics	Loan Characteristics
Loan repayment	Pearson Correlation	.516**	.701**	.601**
	Sig. (2-tailed)	.001	.000	.000
	N	40	40	40
**. Correlation is significant at the 0.01 level (2-tailed).				

Hypotheses are rejected.

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.745[a]	.555	.518	.33896
a. Predictors: (Constant), Loan Characteristics, Business Characteristics, Borrowers' Characteristics				

MODEL SUMMARY

The "R Square" of 55.5% of the variation in the loan repayment is explained by borrowers' characteristics, business characteristics and loan characteristics.

X. CONCLUSION

According to the analysis of this study, Age of the 36 – 45 of default borrowers are affected to loan repayment problem and also female borrowers are default in Samurdhi Banks other than the male borrowers. Under the level of education shows that, default borrowers who study up to O/L. Therefore researcher found that low education background will be affect for loan repayment problem than educated person. Previous research of Bhatt and Tang's (2002) results in a study of microenterprises in the USA and Chaudray and Ishfaq's (2003) study of rural borrowers in Pakistan found that a lower educational level of borrowers was associated with higher repayment problems. This is because the educated borrower is able to manage the business well, comprehend information, keep business records and conduct a cash flow analysis (Bhatt & Tang 2002). In this study, married respondents are high and no of dependents of borrowers show that, they have 3-5 numbers of dependents. Then highly affected to the loan repayment problem because of borrowers spend their loan for family obligations. There are expenses for food, clothes, education, medical and other expenses. Thus, it is hypothesized that the borrower who has many dependents will have a higher probability of having a problem in paying back the microcredit loan (Brehanu & Fufa 2008). In this analysis researcher finding that borrowers can't repay back their loan on time because of they did not use the loans they received from the microfinance institution for the intended and agreed purposes. Analysis the type of the business, most of the default borrowers are doing trading type business and also agriculture. Chaudray and Ishfaq's (2003) findings that the problem of loan repayments in the agricultural sector was related to the irregularity of income from producing agricultural products. The reliance of agriculture on the weather caused fluctuations in production that were beyond the control of the farmers. Analysis the age of the business in this study, highest percentage was for the business owners who conducting their business with 1- 3 years' experience. The result is in line with the previous studies such as Njoku (1997) and Arene (1992) that found borrower's business experience is important in determining loan repayment performance where the longer the experience, the higher their chances of being good borrowers. Von Pischke (1991) and Nannyonga (2000) finding that, the higher the total loan received by the borrowers, the higher probability of borrowers to pay their loan on time. This is because of the borrowers have enough funds to finance their business that makes them get more profit and increase their business.

XI. RECOMMENDATIONS

The results from this study have shown that borrowers' characteristics, business characteristics as well as loan characteristics have influencing on the loan repayment. Therefore researcher suggests that microfinance institutions to enhance their loan monitoring through the group lending approach. Therefore these aspects work out well and the microfinance institution can make an immense change to the positive side of loan repayment. And also researcher suggests that some loan borrowers are start-up the new businesses and they have less experience in business. Therefore, it is suggested to provide related training skills to the new businesses to enhance their business knowledge.

Even though the microfinance has a social purpose, it is not charity. It is a social business. In this study recommend, microfinance institution needs to innovate different recovery methods either at the institutional level or personally at the loan officer level. One example for an innovative loan recovery method is giving loan rebates to the on-time loan borrowers. Then borrowers motivate to pay on time. And also implementing a national policy in microfinance is one of the neediest strategy in the Sri Lankan microfinance industry today. Emerging of informal money lending parties has made the situation worse by putting both loan borrowers and microfinance institutions into many trouble situations. Thus the need of a proper regulation framework is a must at this stage of development.

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