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# THE ROLE OF DEMOGRAPHIC FACTORS OF GROUP MEMBERS ON REPAYMENT OF GROUP LOANS AMONGST MICROFINANCE INSTITUTIONS IN NAKURU TOWN

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**Abstract**

*There has been significant growth in the recent years of MFIs which offer financial services to people who are financially excluded by main stream financial institutions. The MFIs therefore use group lending methodology to replace the need of collateral in forms of land or log books with social collaterals. However, despite the advantages associated with group lending, challenges do exist that impact on loan repayment performance of groups. this study sought to examine the role of demographic factors of group members on repayment of group loans amongst microfinance institutions in Nakuru. The descriptive research design was used for this study. The target population of this study was the group members of the groups that have borrowed from MFIs within Nakuru town. The target population of this study is 2280 groups that have undertaken borrowing from MFIs in Nakuru Town. A sample size of 96 respondents was derived using Nassiuma's (2009) formula. The structured questionnaire was used for the purposes of data collection. The pilot study was therefore undertaken amongst groups in MFIs in Gilgil Town town using 10 respondents which constitute 10% of the sample size. The content validity of the study was examined using the experts of MFIs which constituted of the university based lecturers as well as industry practitioners. A Cronbach alpha coefficient of 0.7 and above was used for the study. Both the descriptive and inferential statistics were used for the study. The descriptive statistics that were utilized include frequency distributions, means, and standard deviations. The one way ANOVA was used for hypothesis testing. The study concluded that demographic factors had significant influence on the loan repayment of group loans amongst microfinance institutions in Nakuru. In the context of the ranking of the levels of influence amongst the indicators of demographic factors gender was the most influential.*

**Keywords:** Demographic Factors, Group Loans, Loan Repayment Performance

## I.Introduction

Group lending or group loans refers to loans issued by MFIs to groups under a joint liability method (Abafita, 2003). The joint liability aspect refers to the collective assumption of responsibility for loan repayment performance of loans advanced to group members. The concept of joint liability enables the members to screen loan applicants, monitor individual borrower's efforts, and undertake enforcement measures amongst their members (Njangiru, 2014). The aspects of the social ties, group pressures, group homogeneity, social intermediations and loan characteristic such as payment frequencies have an impact on group loan repayment. In the context of social ties, Angaine and Waari (2014) the social cohesion factors such as common set of characteristics such as social class, ethnicity, neighborhood, friendship and kinship, have a positive influence on loan repayment performance. Other challenges that may affect the performance of group loans especially in urban setting include high geographical mobility, low attachment to specific residential areas, and group members' social cohesion (Sileshi, Nyikal, & Wangia, 2012).

Groups with higher social cohesion as measured through numbers of common bonds have higher repayment rates. This is due to the effectiveness of threats for social sanctions as means of enhancing payments in such groups. The social cohesion can be measured in terms of number of common characteristics among group members. The group homogeneity in terms of risks, interests, economic power, and other factors often enforced at point of selections allow better efficiency in group dynamics. This has been seen to have a positive correlation with loan repayment performance.

The MFIs in Kenya trace their origins to the Structural Adjustment Programs (SAPs) implemented in the early 1990s as result of financial sanctions imposed on the country by donor communities (Kamau, 2012). The SAPs led to the economy liberalization with the thriving of a more opportunistic and flexible policies that led to thriving of commercial financial institutions and challenges of financial exclusion for poor Kenyans. To address the challenges of economy liberation as well as negative social impact on poor Kenyans, the Government of Kenya sought to stimulate economic growth of the country through encouraging entrepreneurial activities as well as establishment of microenterprises. However, the challenges of access to credit facilities for these establishments arose (Murathi, 2015).

The challenges of credit facilities for the small scale borrowers led to the scaling up of the Kenya Rural Enterprise Programme (K-REP) into a regulated microfinance institution in the early 1990s. K-REP, established in 1984, functioned as an intermediary Non-Governmental Organization (NGO) through which the United States governments channeled financial and technical help to other NGOs. These NGOs were mostly working with rural communities and other marginalized groups. K-REP initially provided both financial services (loans and deposits) with non-financial services (training and technical assistance) to the NGOs. Through the acquisition of a banking license in 1999, K-REP bank became the first MFI in Kenya.

There has been significant growth in the recent years of MFIs which offer financial services to people who are financially excluded by main stream financial institutions. In the context of credit facilities, these groups of people are excluded owing to the small amounts of credit facilities that require the high costs of monitoring the repayment of those loans and the lack of collaterals to minimize credit risk for the financiers. The MFIs therefore use group lending methodology to replace the need of collateral in forms of land or log books with social collaterals. The advantages associated with group landings includes the group members performing monitoring of repayment performance and undertaking collection activities on behalf of the MFIs. This has the effect of minimizing the moral hazard and credit risk associated with loan issuance to financially disadvantaged groups.

## II.Research Objective

To determine the role of demographic factors of group members on repayment of group loans amongst microfinance institutions in Nakuru town
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## III.Research Question

How do demographic factors of group members determine repayment of group loans amongst microfinance institutions in Nakuru town?

## IV.Research Hypothesis

**$H_{01}$:** The social economic factors have no statistical significant influence on repayment performance of group loans amongst microfinance institutions in Nakuru

## V. Literature Review

The level of education is a critical factor in the loan repayment performance amongst the group loans. Were (2013) notes that the education level of the group members especially the group leaders has an impact on the loan repayment performance. The high education levels are associated with better leadership amongst the groups as well as policy enforcement amongst the group members leading to a higher repayment levels. The high education levels are correlated with better financial literacy levels. This leads to a higher success rates of the activities undertaken using the money. On the other hand, Nawai and Shariff (2010) notes that low education levels amongst group members has an influence on the decision making process within an organization in terms of loan timings, resource allocation and maintenance of financial records.

The influence of gender on the group loan repayment performance has been seen to be extremely critical. Addisu (2006) in a study on the Micro-finance problems in the Informal Sector in Addis Ababa noted that women were better loan payers than male members within the context of a group. The study noted that there were lower delinquencies and default levels amongst the female members compared to their male counterparts. This was attributed to the fact that the women have stronger social ties within the context of a group setting and social collateral is key to their daily functionality leading to a better loan repayment performance.

Age has also been conceptualized as a key component in loan performance amongst the group borrowers. According to Weber and Musshoff (2012) in a study on the microfinance for agricultural firms credit access and loan repayment in Tanzania, the age aspects is positively correlated with loan repayment performance due to improvement in capacity to pay. The older borrowers are likely to have the business skills and acumen that improves the chances of success of the projects that they engage in using the borrowed funds. The older borrowers are also credit conscious and risk averse compared to their younger counterparts.

The marital status of the borrowers has an influence on the loan repayment performance. In this context, Mokhtar (2011) in a study on Microfinance Performance in Malaysia noted that there were differences in loan repayment performance in relations to different marital status. In this context, the study noted that married borrowers were seen to be more responsible in their loan repayment compared to their single counterparts. The study attributed better loan performance amongst the married borrowers to higher responsibility levels amongst married persons as they may not want to jeopardize their chances of future loans.

## VI.Research Methodology

This study employed a descriptive research design. This design was considered appropriate for the research as the researcher was interested in the influence of joint liability of group members on repayment of group loans amongst microfinance institutions. There was no manipulation of variables that was undertaken. The target population for this study comprised of all the 24 financially distressed commercial banks in Kenya that restructured their assets during the period 1992 -2016. The target population was 2,280 group members of the groups that had borrowed from MFIs within Nakuru town. The sample size was calculated using Naissuma's (2009) formula which resulted in 96 respondents. The 96 respondents were derived using the stratified random sampling method which ensured that the sample members were proportionally distributed across the MFIs. The study employed primary data extracted from structured questionnaires. The structured questionnaires were used since they allow easy analysis o u data using software such as SPSS as they derive quantitative data. They can be distributed to a large number of respondents due to their ease of administration as well as responding the set questions. A pilot study was undertaken amongst groups in MFIs in Gilgil using 10 respondents which constituted 10% of the sample size. It addressed issues including clarity of questions, presentation of the questions, validity and reliability of the questions. The pilot study was therefore undertaken. The content validity of the study was examined using the experts of MFIs which constituted the university based lecturers as well as industry practitioners. The reliability of the research instrument was examined using the internal consistency of the data and tested using Cronbach alpha coefficient of a threshold of 0.7 and above. The data analysis was undertaken using SPSS version 21**.** The descriptive statistics that were utilized include frequency distributions, means, standard deviations. The hypothesis testing was undertaken using the one way ANOVA.

## VII.Research Findings and Discussions

### Descriptive Statistics

Education levels, gender, age, marital status, and employment status were the metrics used to examine whether demographic factors of group members had an influence on repayment performance of group loans. Most of the respondents (47.5%) were of the opinion that education had an influence on repayment performance of group loans as they chose the agree prompt, and an additional 17.5% felt that it education had a great effect on repayment performance of group loans. Those who were not sure and who disagreed with the metric were 22.5% and 12.5% respectively, as in Table 1 below;.

**Table 1:Frequency Distribution of Demographic Factors of Group Members**

| | SA % | A % | U % | D % | SD % |
|---|---|---|---|---|---|
| Education Levels | 14<br>17.5% | 38<br>47.5% | 18<br>22.5% | 10<br>12.5% | 0<br>0.0% |
| Gender | 27<br>33.8% | 29<br>36.3% | 19<br>23.8% | 5<br>6.3% | 0<br>0.0% |
| Age | 10<br>12.5% | 26<br>32.5% | 21<br>26.3% | 23<br>28.8% | 0<br>0.0% |
| Marital Status | 14<br>17.5% | 32<br>40.0% | 17<br>21.3% | 13<br>16.3% | 4<br>5.0% |
| Employment Status | 23<br>28.8% | 26<br>32.5% | 20<br>25.0% | 9<br>11.3% | 2<br>2.5% |

Gender and marital status have an influence on repayment performance of group loans with 36.3% and 40.0% of the respondents choosing agree respectively. The same metrics attracted few disagreed responses from 6.3% and 16.3% of the respondents respectively, with no strongly disagreed responses. Age and employment status have an almost equal influence on repayment performance of group loans with an equal number of respondents (32.5%) choosing agree prompt while 26.3% and 25.0% were unsure respectively.

On average, gender was the most influential on repayment performance among the metrics on demographic factors of group members with a mean score of 3.96 and the lowest standard deviation of 0.91 (as presented in Table 2) meaning moderate consensus among the respondents to affirm this. The influence of gender on the group loan repayment performance has been seen to be extremely critical. Addisu (2006) in a study on the Micro-finance problems in the Informal Sector in Addis Ababa noted that women were better loan payers than male members within the context of a group. The study noted that there were lower default rates amongst female members compared to their male counterparts. This was attributed to the fact that the women have stronger social ties within the context of a group setting and social collateral is key to their daily functionality leading to a better loan repayment performance.

**Table 2: Means and Standard Deviations of Demographic Factors of Group Members**

| | **Mean** | **Std. Dev.** |
|---|---|---|
| Education Levels | 3.70 | 0.91 |
| Gender | 3.96 | 0.91 |
| Age | 3.29 | 1.02 |
| Marital Status | 3.49 | 1.11 |
| Employment Status | 3.74 | 1.08 |

The second highest demographic factor that had an influence on loan performance was education with a mean of 3.70.The level of education is a critical factor in the loan repayment performance amongst the group loans. Were (2013) notes that the education level of the group members especially the group leaders has an impact on the loan repayment performance. The high education levels are associated with better leadership amongst the groups as well as policy enforcement amongst the group members leading to a higher repayment levels. The high education levels are correlated with better financial literacy levels. This leads to a higher success rates of the activities undertaken using the money. On the other hand, Nawai and Shariff (2010) notes that low education levels amongst group members has an influence on the decision making process within an organization in terms of loan timings, resource allocation and maintenance of financial records.

The study found the respondents on average were uncertain as to whether age had an influence on the loan repayment performance due to a mean of 3.29 which was below a mean of 3.5. This is in contrast to other researchers' findings. For example, Weber and Musshoff (2012) in a study on the microfinance for agricultural firms credit access and loan repayment in Tanzania, the age aspects is positively correlated with loan repayment performance due to improvement in capacity to pay. The older borrowers are likely to have the business skills and acumen that improves the chances of success of the projects that they engage in using the borrowed funds. The older borrowers are also credit conscious and risk averse compared to their younger counterparts.

Similarly, the respondents were uncertain as to whether marital status had an influence on the loan repayment due to a mean of 3.49. This is contrast to findings by Mokhtar (2011) study. Mokhtar (2011) in a study on Microfinance Performance in Malaysia noted that there were differences in loan repayment performance in relations to different marital status. In this context, the study noted that married borrowers were seen to be more responsible in their loan repayment compared to their single counterparts. The study attributed better loan performance amongst the married borrowers to higher responsibility levels amongst married persons as they may not want to jeopardize their chances of future loans.

**Hypothesis Testing**

The hypothesis testing was undertaken using the fisher one way analysis of variance. The first step was the stating of both the null and alternative hypothesis that was to be tested for each of the objective. The test statistic was then selected. In this study, the one way ANOVA was used in hypothesis testing at 0.05 level of significance. The p value of the ANOVA table was then compared to the significance level to inform on whether to reject the null hypothesis. The null hypothesis was rejected if the p value was less than the 0.05 level of significance. Since the p-value was $p=0.003 < 0.05$, the null hypothesis (**$H_{01}$**) that the social economic factors have no statistical significant influence on repayment of group loans amongst microfinance institutions in Nakuru was rejected.

## VIII.Conclusion of the Study

The study concluded that social economic factors of group members have statistically significant influence on the repayment of group loans amongst microfinance institutions in Nakuru.

## IX.Recommendations of the Study

The study recommended that the greater emphasis should be placed on the gender and education of the group members since they were found to have greater influence on repayment terms of group loans.

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