DETERMINANTS OF LOAN DEFAULT AMONG MICROFINANCE INSTITUTIONS IN TECHIMAN MUNICIPALITY

BY

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DECLARATION

This is to certify that this thesis is the result of research undertaken by Williams Christian Edu towards the award of Commonwealth Executive Masters of Business Administration (Finance Option). This work has not been submitted to any other University and it is entirely my own work which I undertook under the Supervision of Mr. Kwasi Poku of the School of Business (KNUST) and all help and references have been duly acknowledged.

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DEDICATION

I humbly dedicate this work to the Almighty God for His enormous grace and unfading favor and love towards me. Again, to my parents (Very Rev. Jacob Obu Williams and Mrs. Esther Williams) and dear siblings (Doctor Daniel Arhin Williams, Miss Helena Fobah Williams and Mr. Edward Annu Williams) for their sacrifices and support.

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ABSTRACT

The study aimed at addressing the following; identifying the causes of loan default among Microfinance Institutions in Techiman Municipality, its relationship with profitability, challenges in managing loan portfolios and identifying the category of clients who default to enable Microfinance Institutions to take proactive decisions. Simple random sampling and purposive sampling techniques were employed to select respondents to provide answers to questionnaires. SPSS and Excel were used to analyze the collected data. The findings of the study indicate that the major causes of loan default by clients of Microfinance Institutions in Techiman Municipality are failure by Microfinance Institutions to effectively monitor the loans they grant to clients and the delay in the approval and disbursement of loans. It also indicated that loan default causes the Microfinance Institutions to make huge loan loss provisions which negatively impacted the financial performance of the Microfinance Institutions through the reduction in loan interest income, profits, and creating liquidity problems for the Microfinance Institutions which can lead to liquidation. The following recommendations were made to reduce loan default by clients: regular monitoring of loans by Credit Officers simplified credit appraisal report to reduce the delay in approving loans and training of Credit Officers on credit management.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Microfinance is a financial service category that targets individuals and small scale businesses that lack access to traditional banking and related services. Microfinance comprises the delivery of credits to poor borrowers; deposit and management accounts; micro-insurance; and payment schemes. Microfinance schemes are structured to reach clients, who are generally poor. In developing countries, microfinance has become an important method for extending credit to many low-income firms. (Enimu, Eyo and Ajah, 2017).

Microfinance started in Bangladesh and parts of Latin America in the mid-1970s to lend to the deprived, who were typically exempted from structured financial services. Microfinance has invaded the world since its formation by Mohammad Yunus in the 1970s, producing thousands of organisations willing to lend money to those who do not apply for standard bank loans. (Reiter and Peprah, 2015). This has led to the establishment of various microfinance Institutions across the globe. These microfinance institutions have access to financial facilities from banks and other contemporary financial institutions to provide financial assistance to the vulnerable. Microfinance institutions (MFIs) are consistently focused on identifying the needs of the vulnerable and finding better methods of supplying services in accordance with their needs, building the most effective and reliable mechanism for providing funding to the deprived. According to Otero (1999), the objective of micro-financing is not only to provide the poor with individual resources to tackle poverty but also to play a role at the institutional level. It aims to create institutions providing services to the poor, who are constantly being overlooked by the formal banking sector. (Asiama and Osei, 2007).

In Ghana, Microfinance Institutions have become key players within the financial sector. Formal Microfinance Institutions (MFIs) are subject to the rules and regulations set by the Bank of Ghana (BoG) in relation to deposit-taking and non-depositing taking financial institutions. In Ghana, the Bank of Ghana has the mandate to protect the interest of all depositors and ensure sanity in the overall financial system according to BoG Act, 2002 Act 612 (BoG, 2002), in pursuance of this mandate the Bank of Ghana took bold steps to regulate all microfinance Institutions (MFIs) effective August 2011 (Peprah and Obeng, 2015). Bank of Ghana has given recognition to institutions that deliver microfinance services. For example companies with the word 'microfinance' added to their names have been authorized to join the apex body called Ghana Association of Microfinance Companies (GAMC).

One of the major activities of Microfinance Institutions in Ghana is lending (granting of loans) with interest to their customers and it constitutes a large source of revenue for these financial Institutions. Loan default by customers has been a headache for Microfinance Institutions. Unfortunately, some of the loans given out by the lending Institutions become delinquent and ultimately leads to bad debts with adverse consequences on the overall financial performance of the Institutions. The causes of the problem (loan default) among different literature are non-uniform and multidimensional. Loan delinquencies are always a source of distress for borrowers because if a microfinance entity has too much of it on its balance sheet it can adversely affect its operations in terms of profitability, liquidity, ability to raise capital and lending capacity. One microfinance Institution which has also been heavily affected by loan default is Credit Unions. Credit Unions normally provide financial services to low-income households, micro-enterprises, small farmers and others who lack access to the formal banking system (Aryeetey, 1996).

(Yeboah and Oduro, 2018) noted significant factors causing credit defaults such as borrowers' misappropriation of funds, inadequate appraisal by credit officers, gross incompetence and lack of ability to repay loans. According to (Balogun and Alimi, 1988), some of the major causes of default include delays in the provision of loans, poor supervision, corporate non-profitability, weak repayment practices and excessive government intervention in the management of credit programmes.

Loan default is a major concern to Microfinance Institutions as a result there is the need to investigate the determinants of loan default. These will be salient in mapping out strategies towards the reduction of loan delinquencies and the sustainability of microfinance institutions in Ghana.

1.2 Problem Statement

The primary objective of microfinance Institutions is to provide financial services mostly to the poor to help improve their general wellbeing. Microfinance Institutions (MFIs) provides loans to rural and urban people who do not have collateral to secure loans from banks and or those who lack access of formal credit from the financial Institutions.

The life of every microfinance Institution is mainly dependent on the ability of its customers to repay their loans on time. Every microfinance Institution views its loan repayments as a major source of sustainability and a positive signal for growth.

Unfortunately, microfinance Institutions all over Ghana, especially Techiman Municipal, are worried and frequently complain about loan default of their customers. The ramifications of loan default to individuals, businesses and the economy as a whole are enormous such that strategies need to be developed to alleviate loan delinquencies. According to Thakur, (2020) for optimal loan repayment efficiency, Microfinance Institutions need to retain effective management procedures. Default problems reduce lending ability as collateral flows decline, turning borrowers into welfare agencies rather than a functional financial entity. Hence, optimizing repayment efficiency is imperative for every microfinance organization. (Jote, 2018). From literature, it is known that customers need to settle their loans with interest on the stipulated time agreed by both parties (microfinance Institution and its' customers) in order to ensure that the liquidity of these Institutions are maintained. In other to ensure the continuous existence of microfinance Institutions it is prudent to address the effect of loan default on the profitability of microfinance institutions

Ajah, Ofem, and Bassey (2020) indicated from their study that household size and business experience are the major determinants of loan default; thus, beneficiaries are advised to reduce their household size as this would reduce default size. Richard, (2010) from his study indicate that factors that can be regulated by financial Institutions are the key contributors to loan defaults specifically, fund diversification (borrowers uses funds for purposes different from the agreed ones), and inadequate credit review. According to Mabeya, (2019) loaning is a major approach used to enhance growth and development in small to medium scale enterprises. However, main impediment to loaning schemes remains poor loan repayment. Therefore, the need to find the determinants of loan defaults among Microfinance Institutions.

Warue, (2012) in Kenya, advised that almost all loan default factors are external and none of the stakeholders have any influence over it. Therefore, there is also the need to address the challenges Microfinance Institutions face in managing their loan portfolios.

Studies on loan default is not a new research area. In fact, different researches have been conducted on loan default in different time, but the findings are still debatable among different researchers.

It is therefore imperative to investigate to add to literature the determinants of loan default among Microfinance Institutions. Findings can be used by microfinance Institutions to strategically plan and develop proactive measures to help reduce the rate of loan default if not to totally eradicate loan defaults among microfinance Institutions.

It is in this regard that this study is conducted to investigate into determinates of loan default among microfinance Institutions within Techiman Municipality.

1.3 Objectives of the Study

1.3.1 General Objectives

This study generally investigate determinates of loan default among microfinance Institutions within Techiman township.

1.3.1 Specific Objectives

The aims of the thesis are as follows;

1. To examine the determinants of loan default among microfinance Institutions in Techiman Municipality.
2. To examine the challenges in managing loan portfolio among Microfinance Institutions in Techiman Municipality.
3. To examine the link between loan default and profitability among microfinance Institutions in Techiman Municipality.
4. To identify the categories of clients who usually defaults.

1.4 Research Questions

The thesis seeks to address the following questions.

1. What are the determinants of loan default among microfinance Institutions in Techiman?
2. What are the challenges in managing loan portfolio among Microfinance Institutions in Techiman?
3. What is the link between loan default and profitability among microfinance institutions in Techiman?
4. What category of client or customers normally default?

1.5 Scope of the Study

The study is focused primarily on determinant of loan default and its effects among microfinance Institutions within Techiman. The research will be carried out in Techiman. Techiman, the capital town of Techiman Municipal and the Bono East Region of Ghana is the leading market town in South Ghana: this has attracted the establishment of various microfinance Institutions in Techiman.

Techiman Township is purposely selected for this study due to the availability of numerous microfinance Institutions. Also, convenience of the study area to the researcher also played an imperative role in choosing Techiman Township. The study will be limited to two microfinance institutions and fifty five customers each from these Institutions within Techiman. The customers of these Institutions will be the focus of the study.

1.6 Significance of the Study

Microfinance Institutions play an important role in the economy, the help provide financial services to low income population. Loan portfolio of microfinance Institutions plays an important role in determining their financial performance, it therefore has a positive relationship with the financial performance of lenders. The healthier the loan portfolio, the better their financial performance. It is imperative to carry out this research because this study will help find out determinates of loan default among microfinance Institution within Techiman Municipality.

The outcome of the study will enable microfinance Institutions within Techiman Municipal to adopt effective and proactive strategies and measures to control the problem of growing loan default rate. This will aid microfinance Institutions to improve their financial performance, profitability and their ability to stay in business. The sustainability of Microfinance Institution will give low income population the opportunity to acquire higher loans to undertake bigger projects, expand their businesses etc. which will help improve their financial and general wellbeing.

Furthermore, researchers and academicians will benefit from this study: thus they will be furnished with relevant information on determinant of loan default among microfinance Institutions and its effect on financial performance. This will also contribute to the general body of knowledge and form a basis for future and further research.

1.7 Limitation of the Research

The main limitation of this study is time, since the researcher had to balance this thesis with his daily professional activities. The timing of the study also coincided with the COVID 19.

Also, financial and personnel constraints: there were not enough funds and hence only a handful qualified personnel could be engaged to assist in the data collection. As a result, the scheduled time had to be extended.

Furthermore, the unwillingness of some microfinance customers to answer questionnaire had been a challenge. Some found questions to be sensitive and confidential to them and as a result were reluctant to provide the necessary information.

Lastly, because the study focused on only two microfinance Institutions and fifty customers, it will be difficult to generalize the results to cover the whole of Ghana. The researcher recommends that similar studies should be carried in various regions and Municipalities to provide a strong generalization.

1.8 Organization of the Study

The study is structured into five chapters. Chapter one of the study consist of the background to the study, problem statement, research objectives and questions, significance of the study, the scope of the study, its limitations and how the entire thesis is organized.

The Chapter two of the study captured the relevant literature related to the topic under study. The methodology used to achieve the stated objectives for the research is captured in Chapter Three. The Chapter four focuses on data presentation, analysis and discussion. The Last Chapter outlines the summary of research findings, conclusions and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter examines existing literature on loan default to have a theoretical understanding of loan default determinants in the microfinance institution. Definition of some key terms. The review comprises of the definition of terms; empirical studies of determinants of loan default and conceptual framework of the study will be elaborated.

2.2 Conceptual Review

2.2.1 Definition of Key Terms

a. **Delinquent or Bad Loans**

A delinquent loan becomes a defaulted loan when there is minimal chance of recovery. When a borrower refuses to make a repayment of the loan on time, such debt is deemed "delinquent". Many lenders encourage their creditors to make up for a grace period for a missed payment to have their delinquency loan. However, if a loan is overdue after a given amount of time, it is at risk of default. According to Berger and De Young (1997), such types of debt as unsustainable loans in a wider alternative where all principal and interest payments are treated as overdue or due payment while a loan is outstanding for a projected term in the form of a credit arrangement. Alton and Hazen (2001) consider three months or long overdue debts that no longer add interest, as default debts. Caprio and Klingebiel (1990) deduced from Fofack (2005) that unpaid debts of at least three months and beyond is non-yielding income. Some literature or books define various types of delinquency, others use amounts which are the cumulative number of days that the loan passes due, and some use attributes to assess delinquency. For example, the faithfulness of the clients or lenders. (Bloem and Gorter, 2001).

b. The Concept of Loan Defaults

A loan default occurs when the creditor does not make the necessary payments or does not follow the terms of loan. Murray, (2011). Default loans occurs when payments of loans are late or delayed. (CGAP, 1999). A delinquent loan becomes a defaulted loan when the prospect of recovery is minimal. Delinquency is calculated because it demonstrates an increased risk of failure, warnings of operating issues which can help determine how much of the fund will potentially be lost and it can never be repaid. Addae-Korankye, (2014). From the above, a loan default is the failure of a borrower to repay its debt or amount owed on the due time according to the initially agreed arrangements of payments. Defaults happen because the borrower has not met his or her legitimate duties under the loan arrangement. For example, the debtor did not make a scheduled payment or break the loan agreement or condition. Ameyaw-Amankwah, (2011).

According to (CGAP, 1999), There are three broad categories of defaults indicators; payment rates, measuring sums already charged against amounts due; arrears rates, measuring amounts delinquent against total amounts of loans; and probability level index, calculating the unpaid balance of loans not received on time against the outstanding balance of total loans.

In addition, Pearson and Greeff (2006) described default as a risk threshold that defines the point in the repayment history of the borrower at which he or she skipped at least three installments within a period of 24 months. This reflects a pacing and behavioral predictor, whereby there is a demonstrable rise in the probability that the creditor will ultimately become genuinely default by ceasing all repayments. The definition is in accord with international standards and was appropriate because coherent research needed a specific description for loan defaults. This does not mean or indicate that the borrower had stopped paying the loan and thus necessary actions are taken to recover the loan; or from an accounting point of view, the loan has been written off or described as bad or doubtful debt. Loan default is when a borrower is unable to fulfill his or her loan obligations at an agreed period of time (Balogun and Alimi, 1988).

c. Impact of Loan Defaults on the Operations of Microfinance Institutions

Key sections of microfinance income are typically extracted from the loans issued. However, when loans go wrong, the effects on the microfinance organization's operations are very disturbing. Bank of Ghana has a strategy that the microfinance Institutions must make provision for bad loans that lead the profit margins to be reduced. The capital or loop amount of the microfinance organization decreases and therefore its power to grant other loans decreases when the majority of its clients struggle through delay or failure to repay granted loans on their part of the loan agreement. Because of bad loans, the capital is minimized and dividend payables are also negatively affected as credit losses are deducted before Dividends are announced. Other effects of bad lending on microfinance institutions are the large portions of written-off loans.

According to Berger and De Young (1997), some foreign books talk about bank failures and non-bank institutions have large records of bad loans due to failure due to large amounts of bad loans and that of asset quality is a significant predictor of insolvency. Most of the Microfinance Institutions fell apart because of poor lending. Noble Dream Financial Services, Eden Financial Services, Supreme Savings, DKM and many more are examples of these Microfinance Institutions in Ghana.

2.2.2 Conceptual Framework

The framework for this study is shown in Figure 2.2.1. It demonstrates how independent variables are related to dependent variables. The variables are explained as follows; Delay in processing and disbursement of loans as stated by Bichanger and Aseya, (2013). Clients normally apply for loans mostly to undertake time-bound projects especially those into farming. Delay in the disbursement of loan negatively affect their projects mostly leading to loan delinquency or default.

Interest charged by Microfinance Institutions on loans is mostly high which makes some clients find it difficult to repay their loans leading g to default. Okpugie (2009) pointed out that high interest paid by microfinance banks was the reason for the troubling default. It was verified also by Vandel (1993), that huge interest rates that are charged by banks on loans granted to appeared to encourage borrowers' default

Poor monitoring and supervision on behalf of Microfinance Institutions have been an influential factor to loan defaults. According to Ameyaw-Amankwah, (2011), repayment of loans should be strictly monitored and whenever borrowers' defaults, necessary actions should be taken to deter other clients from defaulting.

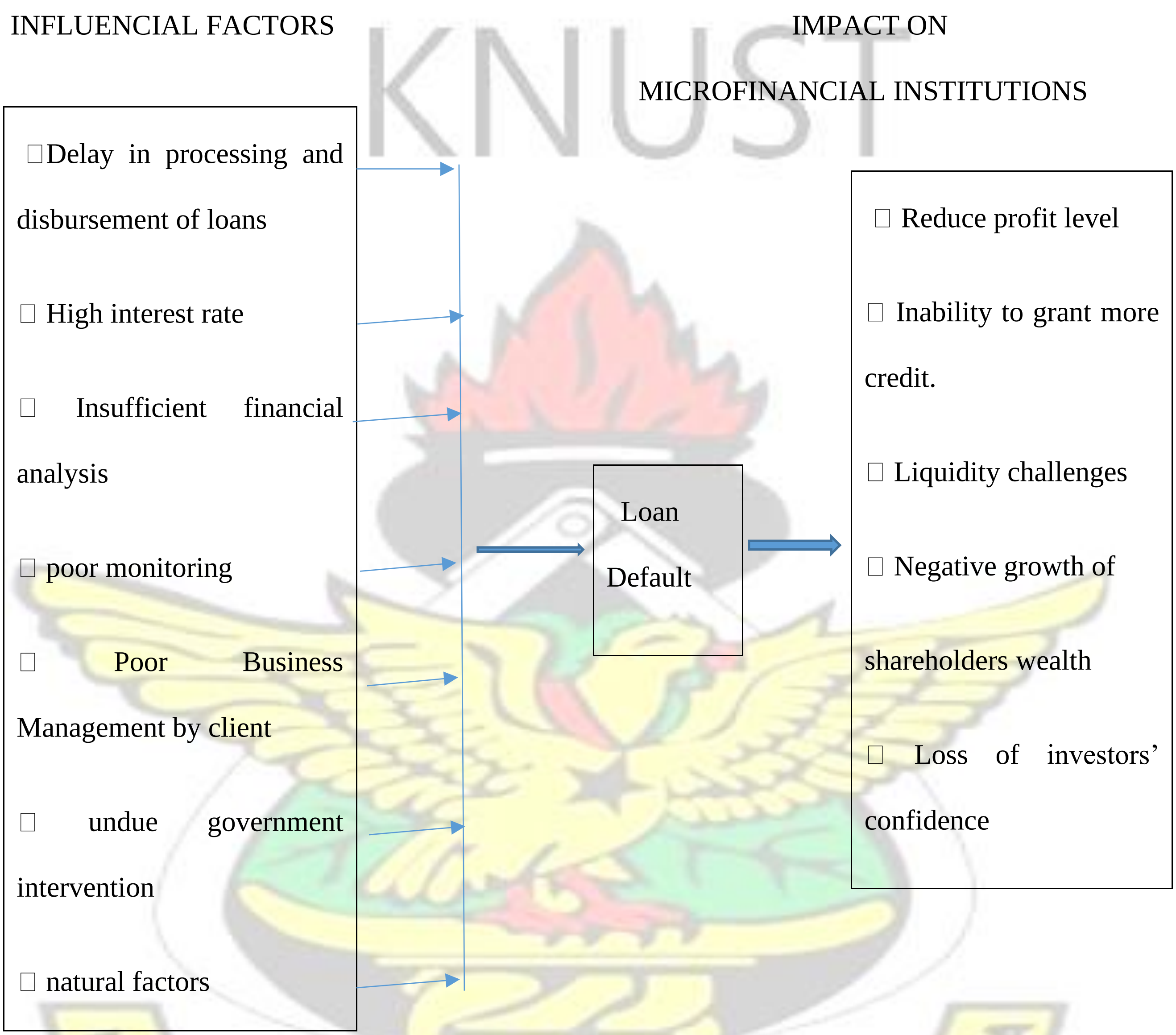
Sheila found in 2011 that financial analysis is one popular factor leading to loan default. That is because the officers do not take close consideration of the borrowers in the loans department to ensure that he/she has a solid financial basis such that in case of default, the risk of failure is mitigated. Therefore, critical evaluation should be carried out on each client and the appropriate amount should be made available to them based on their repayment capabilities.

Kasozi (1998), believed that bad business practices are the borrower's weaknesses that the lender has little control over. Poor business management by borrowers is also an influential factor of loan defaults. Many borrowers lack the technical skills and expertise to manage their businesses to the extent of not keeping records and checking the performance of their businesses.

Natural factors like drought affect farmers who secure loans to produce their crops. Natural calamities like volcanoes, earthquake, and outbreaks of disease pandemic such as Covid-19 affects the operations of businesses and its profitability leading to the default of loans.

The impact of loan defaults on Microfinance Institutions are as follows; reduce profit level, high default rate affect the profitability of Microfinance Institutions. This results in the inability to grant more loans to clients who are really in need of financial support. Moreover, there is a loss of investors' confidence when profitability is low. Investors become reluctant to invest or save with these Microfinance Institutions due to the anticipation of liquidity challenges which may lead to the collapse of these Institutions. In the end, it is the shareholders who suffer by losing their wealth or shares

Figure 2.2.1 Conceptual Framework



Source: Author's Construct, 2020

2.3 Theoretical Review

2.3.1 Related Theories on Loan Default

a. The Theory of Agency

This theory was developed by Alchian and Demesetz (1972). The agency's theory is an assumption that tries to clarify the link between the main decision-makers and those permitted to run entities for company owners. Its key aim was to solve problems that could occur within an Agency. That is, the theory tries to address problems that might occur between the organization's shareholders and the people managing the organization. The two basic issues that the theory is supposed to address are the problems that may occur when the objectives and interests of the shareholders and the workers of the organization are dissimilar. Secondly, the problem that may occur when the shareholders and staff have different views of risk. This scenario mostly occurs as the shareholders or owners and the workers may be motivated by different actions (Lan & Haracleous, 2010).

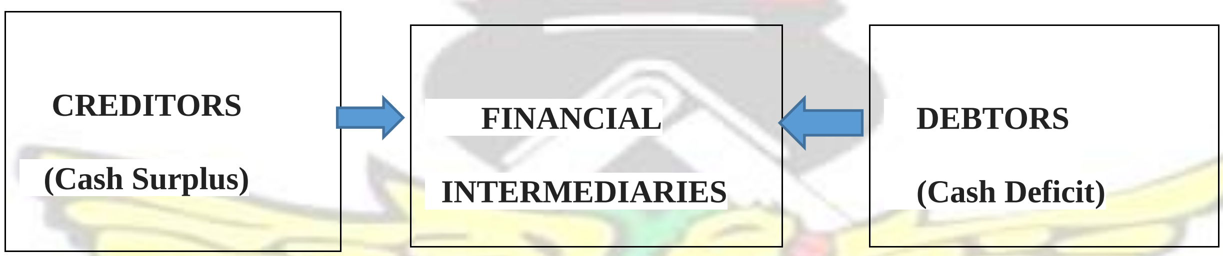
According to this theory, managers or staff of organisations will always seek methods to maximize their own use on capital and labour markets which are imperfect at the cost of corporate shareholders. In most instances, management might choose to work in their very own interests instead of doing what's best for the organisation they run. Furthermore, managers may also have the authority to influence a result and prevent taking accountability for it or they may go against shareholders ' wishes or desires. On the other hand, some agents may have some self-interested supervisory behaviour, which may include the use of other corporate resources in the form of fringe benefits without the shareholders being conscious of the powers sometimes granted by the managers (Fama & Jensen, 1998).

This theory usually attempts to comprehend why distinct behaviours or choices are taken by distinct members of an entity differ. That is, it basically offers an explanation as to why the variations in behaviours or objectives between members who have come together for a common goal may eventually differ, more so with regard to their attitude towards risk. It should be noted that this theory focuses more on the incentives given to staff, the price of rewards and the probable result of behaviours and actions arising from the use of these incentives. Agency problems usually occur in most situations owing to inefficiencies and incomplete information or when there is some degree of uncertainty (Eisenhardt, 2000). While this concept may not necessarily be directly related to loan defaults, however, Microfinance Institutions are managed by people distinct from their shareholders or owners. Managers or workers in their own interest and benefit may not conduct effective and efficient financial background assessment before granting loans to some specific clients. Sometimes, the required documentation needed to qualify a customer for credit facility is not adhered to due to benefits or interests Managers turn out to achieve. Furthermore, necessary supervision and monitoring by the Microfinance Institutions on loans granted to clients may not be effectively and efficiently conducted by those assigned to do so on behalf of the Microfinance Institutions. These distinct interest of Managers from shareholders affects the operations of Microfinance Institutions and may lead to loan delinquencies.

b. The Theory of Financial Intermediation

Beginning in the 1960s, the principle of financial intermediation was established in the 20th century, the starting point being the work of Gurley and Shaw (1960). A financial intermediary refers to an entity that serves as a middle man for two parties in order to initiate a financial exchange. Simply stated, financial intermediaries channel money from individuals or companies with excess resources to other individuals or corporations seeking cash for such economic activities. The theory of financial intermediation is based on informational asymmetry theory and the theory of the organization. The presence of financial intermediaries is, in theory, justified by the presence of the following types of factors: high transaction rates, lack of full details in a timely manner, and regulatory methods. Andrieş, (2009). These financial intermediaries have emerged specifically in order to eliminate, at least in part, the high cost of transactions. For instance, banks are considered by Diamond and Dybvig (1983) as a coalition of depositors that guarantees those who save against the risks that could threaten their liquidity status.

Financial intermediaries may be considered as commercial enterprises that provide various forms of loan items for individuals who wish to borrow. Loans issued to customers are the key finished products of financial intermediaries, and deposits taken by depositors are the main variable inputs.



Source: Author's Construct, 2020

Microfinance Institutions serves as a financial intermediary for most people in small to medium scale businesses. Microfinance Institutions are licensed to accept deposits, give loans and offer many other financial services to the public to provide financial services at a relatively lower cost compared with other financial intermediaries. The role played by the Microfinance Institutions help in easy accessibility of loan, reduction in transaction cost, provision of information and reduction of liquidity risk. The existence of Microfinance Institutions has provided the opportunity for people to easily acquire loans to commence or expand their businesses.

c. The Theory of Information Asymmetry

In the 1970s and 1980s, the theory of Information asymmetric was created as a logical reason for market failures. The hypothesis implies that information imbalance between buyers and sellers may lead to market failure. Information asymmetry deals with the study of decisions in transactions where one party has more or better information than the other. Asymmetric information is also assumed to cause credit market failures. A broad literature of theoretical papers on the role of Information asymmetry in credit markets was introduced by Stiglitz and Weiss (1981); this literature has informed economic policy and practice worldwide.

Karlan, and Zinman, (2009) indicated from their study that about 20% of default is due to asymmetric information problems. This helps explain the prevalence of credit constraints even in a market that specializes in financing high-risk borrowers at a very high rate.

Microfinance Institutions and their clients are exposed to information asymmetry. Customers have full knowledge of their financial situation which may be oblivious to Microfinance Institutions. Therefore, before approving a loan, Microfinance Institutions should perform due diligence to make sure that customers are reliable and unlikely to default. However, the credit history of customers provides limited information about the borrowers' financial state.

It is prudent for Microfinance Institutions to take into consideration Information asymmetry since according to literature, it leads to the default of loans by customers.

On the other hand, customers are only exposed to information provided by their financial institutions. These financial Institutions who are trying to sell their products may provide biased and incomplete information to their clients. Unfortunately, Information asymmetry is difficult to identify in practice.

The theory of Information asymmetry exists in the operations of financial intermediaries, as one party to a transaction may have more or better information than the other party.

2.4 Empirical Review

2.4.1 Causes and Measures of Loan Defaults

The study conducted by Okorie (1986) in Ondo State in Nigeria on the major determinants of agricultural smallholder loan repayments in a developing economy established some major determinants of loan defaults, which had a profound impact on farmers' loan repayment results, as demonstrated by their significant correlation to repayment rates. These factors were the nature and period of disbursement, the number of supervisory visits by credit officers and the profitability of the enterprise on which loan funds were invested. This empirical data appears to indicate that the repayment of agricultural loans by farmers in a developing economy like Nigeria could be significantly strengthened by better control of these main determinants.

According to Berger and De Young (1995), Inappropriate entrepreneurial collection, inadequate project feasibility study, insufficient collateral security / fair mortgage against loans, unreasonable terms and repayment timetable, lack of follow-up steps and default due to natural calamity are identified as key causes of default of industrial sector loans after numerous banks survey in India. Siaw, Ntiamoah, Oteng, and Opoku (2014) conducted a study on empirical analysis of the loan defaults rate of microfinance Institutions. The study was conducted to identify the causes of loan default and the processes involved in granting loans by Microfinance institutions. The study adopted both qualitative (case study) and quantitative methods respectively. The statistical findings revealed clearly that loan default rates were triggered by a variety of factors and there was a significant relationship between the dependent variable and the independent variables. The dependent variable used was the delay in time of loan delivery (DLD) whiles the independent variables were defaulted due to natural calamities (DNC), high-interest rate (HIR) scale of operations (SO), unrealistic terms and schedule of repayment (USR), lack of follow up measure (LFM). In the conclusion of the study, the researchers found that the respondents agreed that the default loan rate is caused by a number of factors used as variables by the researchers.

Richard, (2010) investigated the factors that cause non-performing loans in commercial banks in Tanzania and strategies to resolve them. A semi-structured survey was conducted face-to-face with 48 bank officers from 14 commercial banks offering corporate loans and working for at least five years. Bank officials who were engaged had at least five years in lending operations. Findings indicate that variables that can be regulated by commercial banks are the key contributors to non-performing loans specifically, fund diversification (borrowers use funds for purposes different from the agreed ones), and inadequate credit review. The creation of an environment for banks to be seen as problem solvers and trusted borrowers' advisors was cited as the main strategy to resolve non-performing loans (NPLs) challenges. Findings suggest that tight supervision of lenders is crucial to the lending sector.

Sileshi, (2012) on the thesis factors affecting loan repayment performance of smallholder farmers in Eastern Hararghe - Ethiopia, used the two-limit Tobit model to analyze the variables that have an influence on loan repayment in the area. The findings of the two-limit Tobit model showed that seven of the 16 explanatory variables considered affected the success of loan repayments in the region. Agro-ecological environment, off-farm operation, and frequency of communication with extension agents positively and significantly influenced loan repayment, while lack of productivity, informal credit, social ceremonies and loan-income ratio negatively influenced the loan repayment output of smallholder farmers in the study area. The study advises increasing the number of development agents to improve the farmers' attitude toward agricultural transition and timely settlement of the debt. Rural planning policies should focus not only on increasing agricultural production but also on encouraging off-farm activities in the rural areas at the same time thus, the elders, community leaders, local associations and religious organizations should be sensitized to realize the need to minimize these traditional ceremonies and mitigate the associated expenditure over time. Finally suggested that in the agro-ecology zone, strategies and policies aimed at developing and encouraging emerging technology appropriate for areas with a deficit in humidity should therefore be given sufficient focus to increase the loan repayment ability of smallholder farmers living in these drier areas of the region.

Warue, (2012) on the research on factors affecting loan delinquency in microfinance Institutions in Kenya used the multiple regression analysis to create relationships between loan delinquency and microfinance agencies, self-help groups and external influences. The findings of the study suggested that microfinance Institution specific factors, self-help groups' specific factors and external factors have a significant effect on loan delinquency performance among microfinance institutions in Kenya. The study advises the management of Microfinance Institutions should concentrate primarily on the internal causes of delinquency which they have greater influence over and pursue realistic and feasible solutions to problem resolution of loan delinquency.

Addae-Korankye, (2014) investigated the causes and control of lending delinquency/default in Ghana's microfinance institutions. The study found the causes of loan default to include; high-interest rates, insufficient loan amounts, poor valuation, lack of supervision and inappropriate collection of clients. Measures to control default were found to include pre- and post-disbursement preparation, fair interest rate, borrower supervision, and adequate loan assessment. Among others, it was recommended that Microfinance Institutions (MFIs) should have transparent and efficient credit policies and procedures and must be reviewed annually. It was concluded that the government and therefore the Bank of Ghana should track and supervise the Microfinance Institutions (MFIs} on a regular basis in order to ensure the stability of the investments of clients and the trust of clients.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

According to Cooper and Schindler, (2006), research methodology is the systematic and scientific way in which your study objectives and findings are measured against the claims for knowledge and always directed towards the study scope. This Chapter discusses the study area, data collection methods and how the data was analyzed.

3.2 Research Approach

This research uses both qualitative and quantitative approaches aimed at acquiring the necessary information that is aligned with the objectives the study seeks to achieve. Qualitative research is a kind of research approach used to find out the minds of people, their thought, know-how and their feeling about a particular issue or problem. The quantitative technique of conducting research has a lot of advantages. According to (Schutt, 2018), it is highly built, also cost-efficient and less frustrating in analyzing data. Closed-ended questions are used in the survey questionnaire, the instrument by which the quantitative approach is carried out. These questions are answered and provide specific choices from which the respondent can choose to articulate his views and thoughts on the subject (Creswell, 1994). Furthermore, the quantitative approach also allows for the summation of statistics, from whose interpretations are derived for conclusions of the research. Researchers' findings are tested by statistical results and the selection of statistical tests is based on the level of data measurement; the validity of the instrument used to measure interest variables; the power of the selected statistical test; and the methodological limitations of the research. (Teddlie and Tashakkori, 2009).

Statistics are the key instrument on which inferences arising from the quantitative analysis are focused. The method involves a building survey, a questionnaire being distributed to a sample. The numbers derived from statistical analysis are then interpreted to provide valuable insights into the phenomena being studied (Creswell, 1994).

The quantitative approach also has its inconveniences. The quantitative approach does not permit an in-depth examination of the answers or the reasons behind the responses of the respondents.

The qualitative approach calls for answers arising from the participant's expertise and experience (Denzin and Lincoln 2003). The use of open-ended interview questions to ascertain the views, suggestions, ideas and personal experiences of Loan Officers, is the tool by which the qualitative approach is taken. Whiles the issue of closed-ended questionnaires to clients is the instrument by which the quantitative approach is carried out.

This will make it possible for the researcher to perform a strong analysis of the responses in order to achieve the study objectives. The primary aim is to ascertain the determinants of loan defaults, their impact on profitability and challenges in managing loan portfolios among Microfinance Institutions in Techiman from the viewpoints of the clients and loan officers.

3.3 Research Design

Research design is a plan of action to move from here to there, where" here" can be defined as the initial set of questions to be answered and some set of answers (inferences) are "there" according to (Yin 2003). Furthermore, Bryman (1996) adds that the research design aims to prepare, organize and carry out the work to improve the "validity of the results". It provides guidance for research design and data collection from the underlying theoretical assumptions. The research design employed in the study by the researcher is basically descriptive in nature. In descriptive research, what actually transpires on the ground is revealed without the researcher's intervention (Robson, 2002). Research design is a scheme that helps the researcher to formulate a research question in such a way that the answer is relevant in achieving the research objective. Descriptive research seeks to provide an objective explanation of the use of hypothesis questionnaires (Yin 2003).

3.4 Population

There are over five Microfinance Institutions operating within Techiman Township. In this study, Christian Community Microfinance Limited and K.B Star Microfinance Limited are purposively selected. These two Microfinance Institutions were selected because of their large customer base of which the researcher can easily obtain an adequate sample size to reflect the general population. According to Saunders (2009), the population is the total number of cases or items under consideration. The population has the same and identical characteristics of a group of persons or things in a particular location at a particular time. .

The population the researcher intends to use for this study is made up of the entire customers who have credit facility with Christian Community Microfinance Limited and K.B Star Microfinance Limited. This constitutes 580 customers from Christian Community Microfinance Limited and 432 from K.B Star Microfinance Limited, making a total of 1,012 customers.

3.5 Sample Size and Sampling Technique

Sampling is a part of the population or segment to represent the whole population. Sampling techniques provide the researcher with various options to reduce the data required by gathering only a subgroup data (sample data) instead of all potential cases or components (Saunders, 2009).

The total population from which the sample size will be drawn is 1,012 customers with credit facility with both Christian Community Microfinance Limited and K.B Star Microfinance Limited. The researcher relies on samples to represent the population because of the time consumption and expense.

Slovin's sample size determination formula is used to determine the sample size for the study.

n = N / (1+Ne^2)

Where:

n = Number of sample size

N = Total Number of Population

e = Error Tolerance

Using the total population of 1,012 and a confidence level of 91% (percent), thus an error tolerance of 9% which equals 0.09.

n = 1012/ (1+1,012*0.09^2)

n = 1012/ (9.1972)

n = 110.033488

n = 110 (approximated)

From the above formula, the sample size of the study is made up of 110 clients or customers. These 110 customers are equally divided into two, consisting of 55 customers from each of the two Microfinance Institutions. This is to obtain even and fair information from each of the Microfinance Institutions under study.

For this study, a simple random sampling technique was used to select the 55 clients from each of the two Microfinance Institutions. Simple random sampling is a technique of probability sampling, where every item in the population has an even chance and likelihood of being selected. With this sampling technique, the selection of items completely depends on chance. Purposive sampling was used to select loan officials who have more than three (3) years of working experience. Two lending officers were selected purposively, one from each of the two Microfinance Institutions.

Table 3.1 Summary of sampling size and sampling technique for clients

POPULATION	**SAMPLE SIZE**	**SAMPLE TECHNIQUE**
Christian Community Microfinance Limited (customers)	55	Simple Random Sampling
K.B Star Microfinance Limited (customers)	55	Simple Random Sampling
Total	110	

Table 3.2 Summary of sampling size and sampling technique for loan officers

POPULATION	**SAMPLE SIZE**	**SAMPLE TECHNIQUE**
Christian Community Microfinance Ltd (Loan Officer)	1	Purposive Sampling
K.B Star Microfinance Limited (Loan Officer)	1	Purposive Sampling
Total	2	

3.5 Data Collection Techniques

Questionnaire is a method of data collection in which individuals' minds are checked for their views by questioning them in a prearranged manner for their responses to the same set of questions (DeVaus, 2002). The self-administered questionnaire, consisting of open and closed-ended questions and an interview guide, was used to collect information to better achieve the study objectives. There was a face-to-face meeting between the interviewer and the loan officers to answer questions based on the interview document. The researcher reads the question for the loan officers to respond to the questions.

3.6 Source of Data

Primary and Secondary data gathering are the two methods used in this research. The primary data collection is done using the questionnaire. In the administering of the questionnaires, customers who have a credit facility with Christian Community Microfinance Limited and that of customers of K.B Star Microfinance Limited were given the same set of questions. Explanations were given to those respondents needing clarification on the questionnaire. Consequently, the selection of these sets of questions allows views to be collated from the people directly involved in the loan portfolio.

Although the result of the research is highly dependent on the primary sources that will be gathered from the structured interview, yet, it also required some secondary sources to understand the various views that were shared by respondents. The researcher used the financial statements of Christian Community Microfinance Limited and K.B Star Microfinance Limited as the secondary source of data for the study.

3.7 Methods of Data Analysis

The secondary data collected were analyzed to assess their suitability, precision, appropriateness, and accuracy. The responses from the questionnaire for various clients as well as the staff and management were coded. Statistical Package for Social Sciences (SPSS) and Excel were used to analyze data. Tables and statistical diagrams like bar charts, and pie charts also aided in the data presentation. The Presentation of the data on these statistical tools made the analysis very easy. The statistical tools used conveyed the meaning of the figures captured and as such made the analysis straightforward.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter deals with the presentation and analysis of the data used in the study. This chapter also displays the test results that aim to address the research questions in relation to the objectives of the study.

4.2 Characteristics of Respondents

4.2.1 Gender of Sampled Clients

Table 4.1.1 shows the gender distribution of sample clients interviewed. The findings indicated that 47 (42.7%) of the respondents were males whiles 63 (57.3%) of the respondents were females. This shows that majority of those who access loans from microfinance Institutions are females compared to males. This is because a lot of women are involved in small and medium-scale trading and as a result seeks financial support from microfinance institutions.

Table 4.1 Gender Distribution of Respondents

GENDER	FREQUENCY	PERCENTAGE
MALE	47	42.7
FEMALE	63	57.3
TOTAL	110	100

Source: Survey 2020

4.2.2 Age Distribution of Respondents

In relation to the age distribution of the respondents in table 4.2.2, the results indicated that 12 (10.9%) of the respondent were 29 years and below, 26 (23.6%) of the respondents were within the ages of 30 and 39. Respondents with the ages from 40 to 50 years were 39 (35.5%), respondents with the ages of 50-59 years were 17 (15.5%) and 16 (14.5%) of the respondent were 60 years and above. The findings indicate that majority of the customers are within the middle age group whiles young ones below 29 years are not attracted by the credits facility of Microfinance Institutions.

Table 4.2 Age Distribution of Respondents

AGE	FREQUENCY	PERCENTAGE
29 AND BELOW	12	10.9
30-39 YEARS	26	23.6
40-49 YEARS	39	35.5
50-59 YEARS	17	15.5
60 AND ABOVE	16	14.5
TOTAL	110	100

Source: Survey 2020

4.2.3 Educational Background of Respondents

The study revealed that 23 (20.9%) of the respondents had no formal education, 48 (43.6%) of the respondents were Basic School Certificate Holder, 32 (29.1%) of the respondents were Secondary School Certificate Holders and 7 (6.4%) of respondents were Tertiary Certificate Holders. The results show that most of the clients have at least basic education; which is good for normal banking procedures. This makes it easy in terms of filing of documents and signing or thumb printing of documents to access loans.

Table 4.3 Educational Background of Respondents

AGE	FREQUENCY	PERCENTAGE
NO FORMAL EDUCATION	23	20.9
BASIC SCHOOL CERTIFICATE HOLDERS	48	43.6
SECONDARY SCHOOL CERTIFICATE HOLDERS	32	29.1
TERTIARY CERTIFICATE HOLDERS	7	6.4
TOTAL	110	100

Source: Survey 2020

4.3 Determinant of Loan Default

4.3.1 Factors that cause loan default from the viewpoint of Clients or Customers.

Sampled clients were asked to outline some of the factors that cause clients to default their loan repayment in order to enable the researcher to determine some major factors of loan defaults among Microfinance Institutions in Techiman. From the viewpoints of the sampled client, as indicated in table 4.4, 92 out of 110 clients interviewed are of the view that lack of monitoring by financial Institutions is the major cause of loan default, this was followed by the late or delay in the disbursement of loans, high interest rate, short repayment period, poor business management or by clients, lack of advisory services by microfinance institutions and lastly natural factors like bad weather, drought, Covid-19, etc.

Table 4.4 Causes of Loan Default from the viewpoint of clients

Causes of Loan Default	Frequency	Rank
Lack of Monitoring by Microfinance Institutions	92	1st
Delay in the disbursement of loans	87	2nd
High Interest Rate	78	3rd
Short Repayment Periods	75	4th
Poor Business Management by clients	67	5th
Lack of Business Advisory Services	62	6th
Natural Factors	47	7th

Source: Survey 2020

Therefore it is categorically clear that the high default rate is due to the failure of Microfinance Institutions to adequately track the loans they lend to their customers.

4.3.2 Factors of loan defaults from the viewpoint of Loan Officers

From the interview with the Loan Officers, there were allowed to rank the causes of loan defaults from their own perspective based on their experiences on the job and the relationship they have with their clients through which they get to know the root causes of loan default or delay repayment from their customers. As indicated in table 4.5, both loan officers are of the view that ineffective monitoring is a major cause of loan defaults. They assented to the fact that a lot has to been done to track customers to ensure they use the loans for the purpose intended and also to ensure that the loan is efficiently utilized. Loan Officer 1 ranked Diversion of loans 2nd which was ranked 3rd by Loan Officer 2, he further explained that due to ineffective monitoring most customers use the loan for purposes different from the one known by the financial Institutions. However, the delay in loan approval was ranked 2nd by Loan Officer 2 and ranked 3rd by Loan Officer 1. He explained further that the requirements for granting loans are not sometimes met by customers and the general processes of granting loans sometimes delay. Both Loan Officer ranked lack of business management knowledge, unwillingness to repay loans by clients and natural factors as 4th, 5th and 6th respectively.

Table 4.5 Factors of loan defaults ranked by loan officers

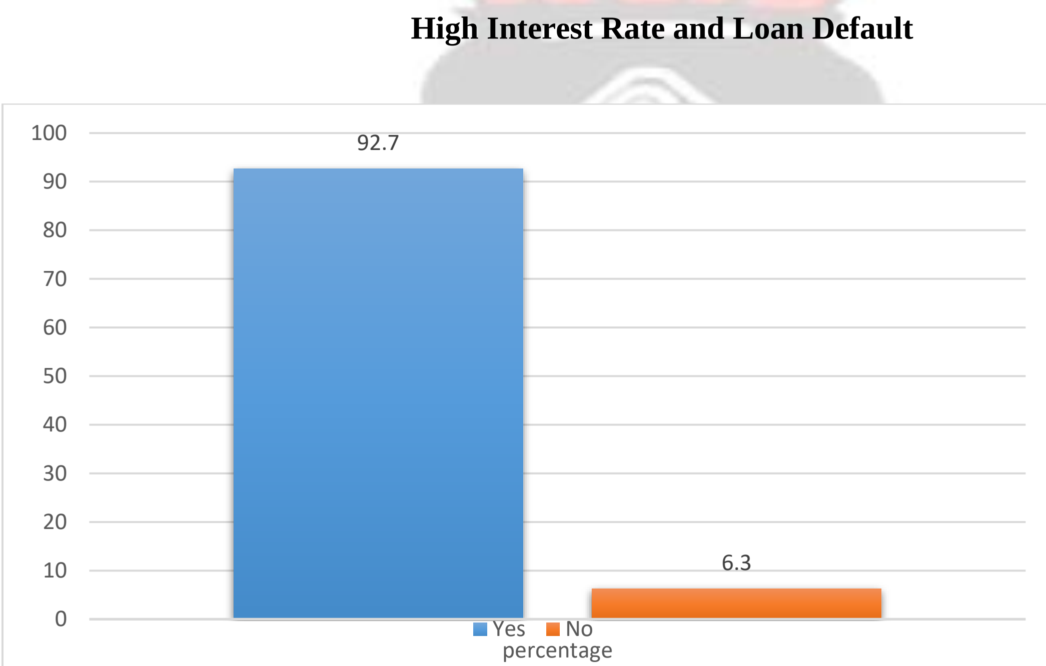
Causes of Loan Default	**Ranked by Loan Officer 1**	**Ranked by Loan Officer 2**
Delayed loan approval	3rd	2nd
Diversion of loans	2nd	3rd
Ineffective monitoring	1st	1st
Lack of business management knowledge	4th	4th
Unwillingness to repay loans	5th	5th
Natural Factors	6th	6th

Source: Survey 2020

4.3.3 Is interest rates a contributory factor of loan default?

From the figure below, 102 (92%) out of the 110 sampled clients were of the view that high-interest rate can lead to loan defaults whereas 8 (7%) out of the 110 respondents had a contrary view. This is shown in the figure below;

Figure 4.1 High Interest Rate and Loan Default



Source: Survey 2020

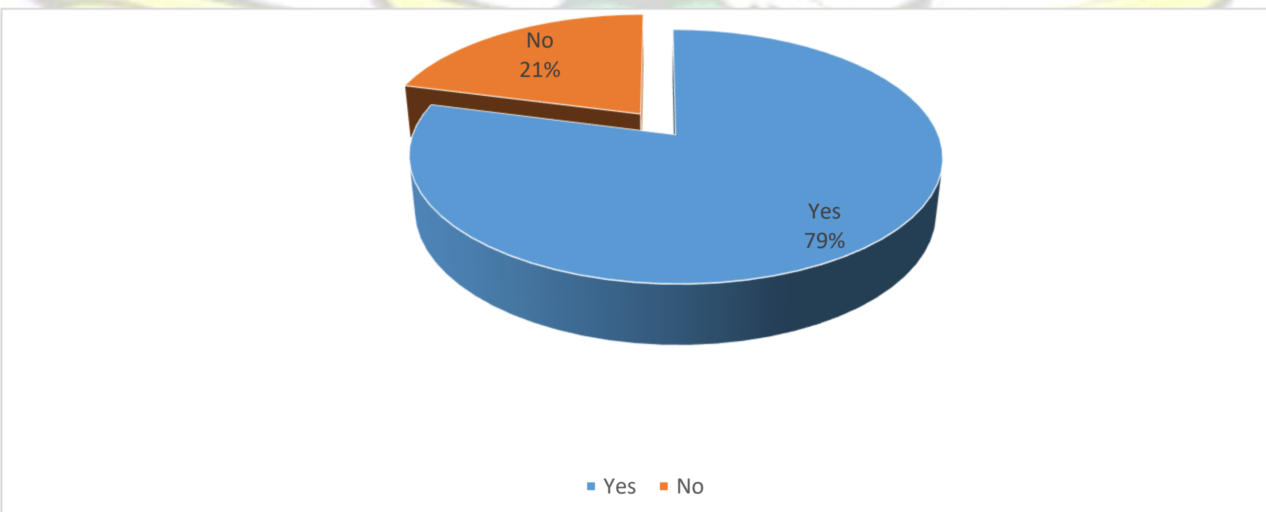
However, Loan Officers were of the view that high-interest rates cannot cause a client to default in the repayment of his/her loan because credit analysis is done by Microfinance Institutions to determine the cash flow of a project before loans are advanced.

4.3.4 Is the delay in approval and disbursement of loans a contributing factor to loan Default?

From the questionnaire issued out to the sampled clients, 87 (79%) of the respondents from a total of 110 clients were of the view that a delay in the approval and disbursement of loans by financial institutions play a massive contribution to loan default. 23 (21 %) of the respondent were of the view that delay in the approval and disbursement of loans by the financial institutions should not have little or no influence in defaulting repayment of the loan by clients. This is illustrated in the figure below;

Figure 4.2 Delay in the Approval and Disbursement of Loans and Loan Defaults

Delay in the Approval and Disbursement of Loans and Loan Defaults



However, Loan Officers were of the view that the delay of loan approval and disbursement are mostly of the faults of the clients applying for the Loan. They further explained that most of the applicants do not have the requisite requirements that qualify them to be granted loans. Most often they may possess almost all the requirements but may be lacking one or two which often makes it difficult for the financial Institutions to approve and disburse loans to them. They also agreed to the fact that liquidity problems, rigid approval procedures and poor credit appraisal reports are some factors that do affect the delay in the approval and disbursement of loans to customers.

4.4 Difficulties in managing the Loan portfolio of Microfinance Institutions.

A Loan Officer each from the two microfinance Institution under study (Christian Community Microfinance Limited and K.B Star Microfinance Limited) were engaged in a face to face interview by the researcher to ascertain the challenges they encounter in managing their loan portfolio. The Loan Officers were asked to outline and rank the factors that impede the smooth management of their loan portfolios, Table 4.6 provides an illustration of their response.

Table 4.6 Difficulties in managing the Loan portfolio ranked

Loan Officer 1		**Loan Officer 2**	
Factors	**Ranked**	**Factors**	**Ranked**
Difficulty in locating Clients	1st	Difficulty in locating clients	1st
Low staff capacity	2nd	Unwillingness to repay loans	2nd
Inadequate logistics	3rd	Lack of motivation /Incentives	3rd
Unwillingness to repay loans	4th	Low staff capacity	4th
lack of motivation/Incentives	5th	Influence by top managers	5th
Poor Documentation	6th	Inadequate Logistics	6th
Influence by top managers	7th		

Source; Survey 2020

After a thorough interview with the Loan Officers of both Microfinance Institutions about the challenges they go through in managing their loan portfolio, they assented to the fact that the difficulty in locating clients was a bigger problem to them. The reason being that the location details they provided during the loan acquisition process does not reflect the exact place they stay. This makes tracking of clients sometimes difficult and also hinders effective monitoring of clients very challenging. Loan Officer 1, ranked low staff capacity 2nd. He explained further that the staff is not adequate and as a result makes regular monitoring to ensure loans provided are used for the intended purposes very difficult. The following factors inadequate logistics, unwillingness to repay loans, lack of motivation from microfinance Institutions, poor documentation and Influence by top managers were ranked 3rd, 4th, 5th, 6th, and 7th respectively.

Loan Officer 2, also ranked difficulty in managing loan portfolio 1st, same as Loan Officer 1. He went further to rank the unwillingness to repay loans by some clients 2nd. He explained that some clients become reluctant to repaying their loans when it's due. This usually occurs when the project they invested in did not yield any profits. He further ranked lack of motivation, low staff capacity, influence by top managers and inadequate logistics 3rd, 4th, 5th and 6th respectively.

In conclusion, it was realized that difficulty in locating customers is a major problem to loan Officers in their management of loan portfolios. Other factors such as low staff capacity, the unwillingness of clients to repay loans, lack of motivation, poor documentation, and influence of top and inadequate logistics were outlined by the Loan Officers as the challenges they encounter in managing their loan portfolio.

4.5 Impact of Loan Defaults on Profitability of Microfinance Institutions.

4.5.1 Analysis of the trend of loan default (Arrears rate) in Christian Community Microfinance Limited and K.B Stars Microfinance Limited.

This analysis is to establish the trend of loan default rates during the period under consideration. Table 4.7 depicts the trend of loan default rate of both microfinance Institutions over the past four years.

Table 4.7 Loan Default Rate

CHRISTIAN COMMUNITY MICROFINANCE LTD		K.B STAR MICROFINANCE LIMITED	
YEAR	DEFAULT RATE	YEAR	DEFAULT RATE
2017	20.75%	2017	22.23%
2018	16.02%	2018	15.45%
2019	22.98%	2019	23.43%

Source; Financial Statement 2017-2019

Table 4.7 indicate the trend of loan default rate of Christian Community Microfinance Limited and K.B Stars Microfinance Limited during the four year period under review. The non-performing loans ratio refers to the total amount of bad loans expressed as a percentage of the total loan portfolio during the period. The nonperforming loans for 2017, 2018 and 2019 are 20.75%, 16.02%, 22.98% for Christian Community Microfinance Limited and 22.23%, 15.45%, 23.43% for K.B Stars Microfinance Limited respectively.

The table further revealed that for Christian Community Microfinance Limited, 2019 recoded the highest rate of loan default by clients followed by 2017 whiles 2018 recorded the lowest ratio. A personal interview with the Loan Officer revealed that in 2019 there was an increase in the loan portfolio of without an increase in the number of Credit Officers. This resulted in the inability to conduct effective and efficient monitoring which resulted in the high rate of default by loan clients. He further explained that the management has employed three additional Loan Officers to help curb the problem they encountered in the year 2019. He then emphasized that the decision taken by management will hopefully help to reduce the default rate in the years ahead.

In regards to K.B Star Microfinance Limited, 2019 had the highest rate of loam default. Personal interaction with the Loan Officer of K.B Star Microfinance Limited revealed that the high rate of default was in relation to the failure of cashew farmers, cocoa farmers and Sellers Association to repay their loan facility. He further explained that most of these creditors have been contacted and they have shown the willingness to repay the loan owed to the Microfinance Institution. He hinted that Management has developed a new payment plan for these creditors which help them repay their loans. He emphasized that most of the creditors showed desire, willingness, good intention and great concern by walking to the Institution to plead for a new payment plan due to some challenges they encountered in their businesses.

The researcher realized from the study that some operations of the Microfinance Institutions were manual (not automated) hence making the assessment of certain information very difficult.

4.5.2 Analysis of the effect of loan defaults on profitability

This analysis is to ascertain the effect of loan default on the profitability of Microfinance Institutions in Techiman. Table 4.8 and 4.9 show the effect of loan loss provision on operating profitability of Christian Community Microfinance Limited and K.B Star Microfinance Limited respectively over the last four years (ie 2016-2019).

Table 4.8 Effect of loan default on the profitability of Christian Community Microfinance Limited

Year	Operating profit before bad debt	charge for bad debt	operating profit after charge of bad debt	Percent of bad debt to operating profit
2017	72,234.30	20,290.90	51,943.40	39.10%
2018	90,465.17	26,861.08	63,604.09	42.20%
2019	105,775.00	38,660.00	67,115.00	57.60%

Source: Financial Statement 2017-2019

Table 4.9 Effect of loan default on the profitability of K.B Stars Microfinance Limited

Year	Operating profit before bad debt	charge for bad debt	operating profit after charge of bad debt	Percent of bad debt to operating profit
2017	59,374.20	12,883.00	46,491.20	27.70%
2018	73,862.00	18,604.03	55,257.97	33.70%
2019	92,304.00	25,811.70	66,492.30	38.80%

Source: Financial Statement 2017-2019

The analysis showed that the operating profit has been reduced by 39.10%. 42.20%, 57.60% for the years 2017, 2018, 2019 respectively. As indicated in table 4.8, it is clear that loan loss provision reduced the profitability of the Microfinance Institution by 39.10% in 2017. 42.20% in 2918 and 57.60 in 2019%. This depicts the impact of bad debt as a result of loan default by customers on the operating profit of the Microfinance Institution during the periods (2017-2019). The year 2017 recorded the least percentage of bad debt to operating profit which lead to a higher profit level during that period. Table 4.8 also indicates that there was an increase in the provision of bad debt in the year 2018. The Christian Community Microfinance Limited recorded the highest bad debt provision in the year 2019 which massively reduced the operating profit of the Institution by 57.60%.

Table 4.9 also indicate that operating profit of K.B Star Microfinance Limited was affected by the bad debt provisions by 22.70%, 33.70%, 38.80% in the year 2017,2018 and 2019 respectively.

It was obtained from Management that, the colossal loan loss provision in the year 2019 was due to the decision to make additional provision of GHS 15,000.00 by Christian Community Microfinance Limited and GHS 7,000.00 by K.B Star Microfinance Limited since they came to the realization that they are under providing for their loans.

Table 4.10 Relationship between loan defaults and profitability; Simple Correlation Analysis

	Operating profit before bad debt	**operating profit after charge of bad debt**
Charge for bad debt	**0.977374752**	**0.894440958**

Author's Construct, 2020

From table 4.10, Operating profit before and after bad debt provision are highly depend on loan default since the correlation co-efficient are 0.977374752 and 0.894440958 respectively. These correlation co-efficient (0.977374752 and 0.894440958) shows a strong relationship between operating profit before and after bad debt and charge for bad debt. This means that the Microfinance Institutions must recover most of their overdue loans to obtain more profit.

The significance of this study is to illustrate the reasons that result in a high degree of bad debt provision as a result of the clients' inability to repay the credit facilities advanced to them and these have a negative effect on profitability.

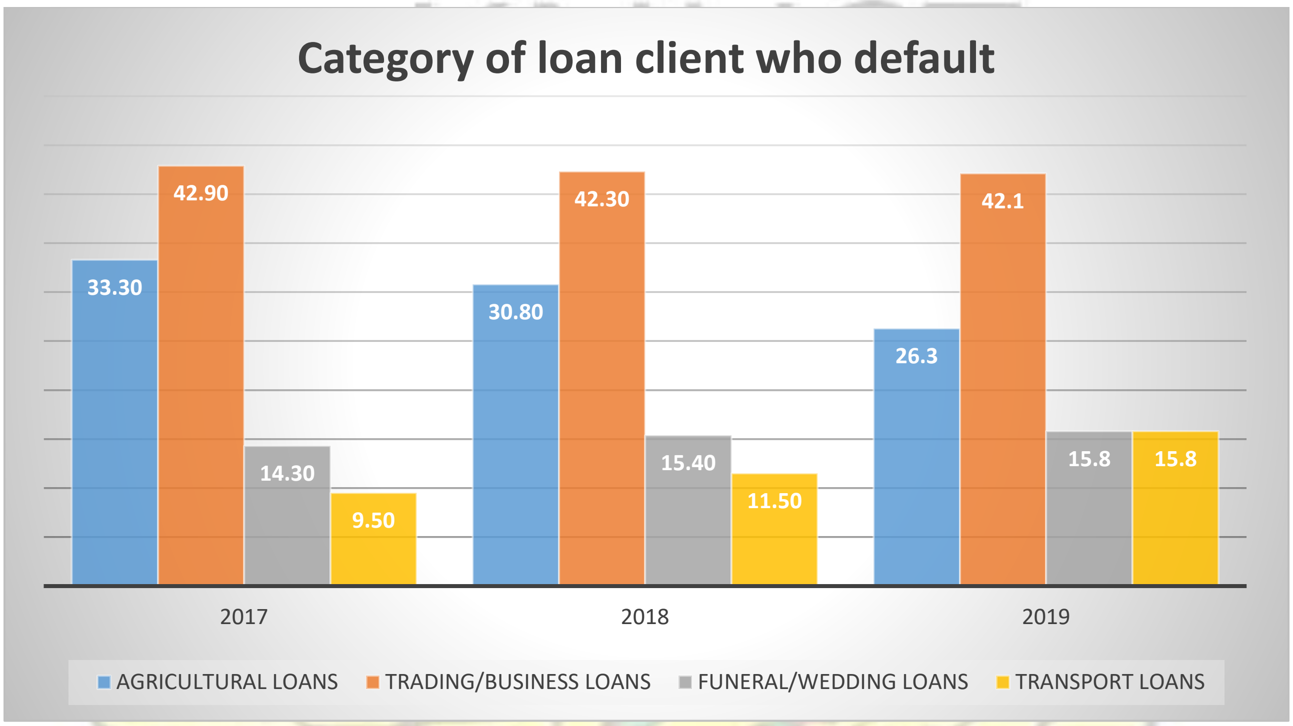
4.6 Category of Loan Clients Who Default

Microfinance Institutions have several loan products: Salary loans, Transport Loans, Trading/Business loans, Microfinance loans, Agricultural loans, Susu loans, Funeral loans, etc.

4.6.1 Category of Loan Clients who default (Christian Community Microfinance Limited)

Christian Community Microfinance Limited had 21, 26 and 19 clients defaulting their loans for the years 2017, 2018 and 2019 respectively. Of all the various categories of Loans granted, trading/business loans had the highest defaults rate with 9 clients representing (42.90%), in the year 2017, 11 clients representing (42.30%) in the year 2018 and 8 clients representing (42.10%). Agricultural Loans had the second default rates with 7 clients (33.30%), 8 clients (33.80%) and 5 clients (26.30%) in the years 2017, 2018 and 2019 respectively. Funeral/wedding loans had 3 clients (14.30%) defaulting in 2017, 4 clients (15.40%) in the year 2018 and 3 clients (15.80%) in the year 2019. Transport Loans had the lowest default rate in the years 2017 and 2018 with 2 clients (9.50%) and 3clients (11.50%) respectively. Transport Loans had the same number of defaulters 3clients (15.80%) as funeral/wedding 3clients (15.80%) in the year 2019.

Figure 4.3 Category of Loan Clients who default (Christian Community Microfinance Limited)

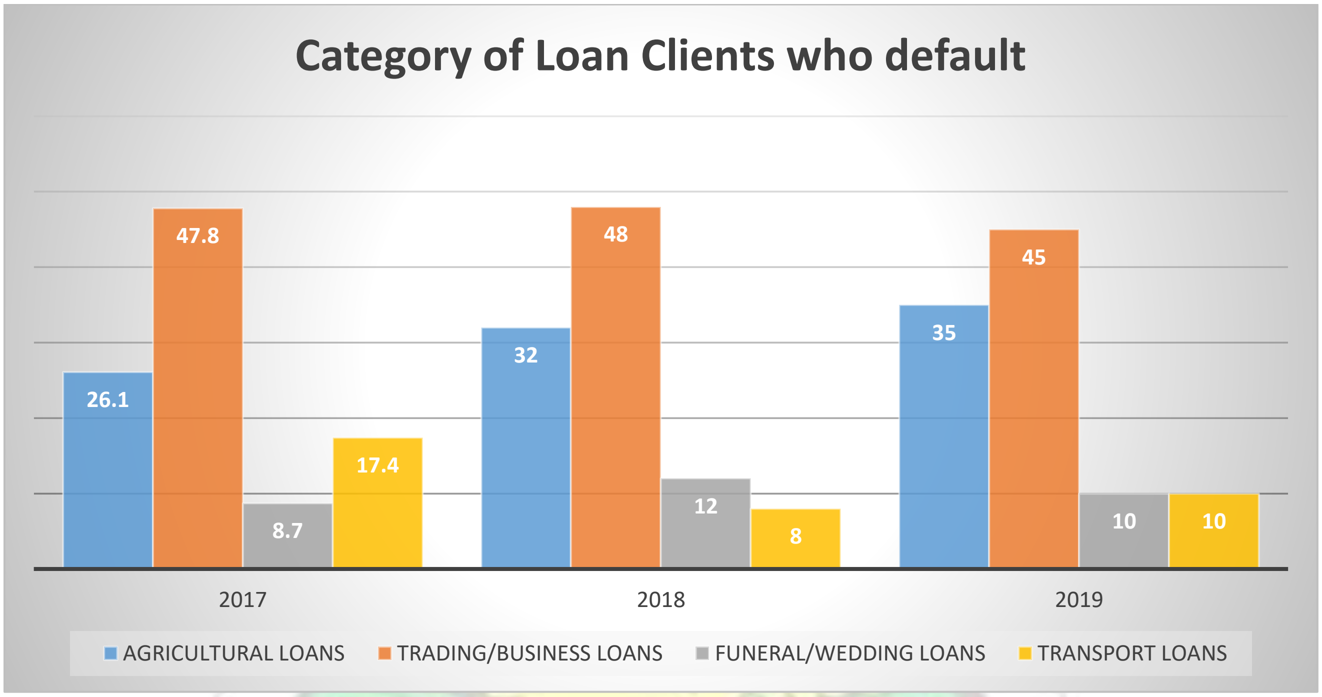


Source: Author's Construct, 2020

4.6.2 Category of Loan Clients who default (K.B Stars Microfinance Limited)

K.B Stars Microfinance Limited had 23, 25 and 20 clients defaulting their loans for the years 2017, 2018 and 2019 respectively. Of all the various categories of Loans granted, trading/business loans had the highest defaults rate with 11clients representing (47.80%), in 2017, 12 clients representing (48%) in the year 2018 and 9 clients representing (45%). Agricultural Loans had the second default rates with 6 clients (26.1%), 8 clients (32%) and 5 clients (35%) in the years 2017, 2018 and 2019 respectively. Funeral/wedding loans had the lowest default rate of 2 clients (8.7%) in 2017, 3 clients (12%) in the year 2018 and 2 clients (10%) in the year 2019. Transport Loans had the lowest default rate in the year 2018 with 2 clients (8%). 4 clients (17.4%) in the year 2018 defaulted on their loans in the transport category. Transport Loans had the same number of defaulters 2clients (10%) as funeral/wedding loans 2clients (10%) in the year 2019.

Figure 4.4 Category of Loan Clients who default (K.B Stars Microfinance Limited)



Source: Author's Construct, 2020

It was observed from the two Microfinance Institutions that trading/business loans had the highest default rate, followed by agricultural loans in the years 2017, 2018 and 2019. The Loan Officers indicated that most of their clients are into the trading/business and the agricultural sector. Moreover, Techiman is the leading market town in South Ghana and as a result, have most of the populace are into small to medium scale trading/business and agriculture.

The study found out that clients on Salary Loans are unlikely to defaults because payment of loans is deducted directly from their salaries and not under the control of the clients compared to clients in the trading, agricultural, etc. sectors.

4.7 Discussion of Findings

Study results uncovered multiple causes that lead to loan default. Lack of monitoring by Microfinance Institutions and the delay in the disbursement of loans to clients were highlighted by the respondents as the major determinants of loan default among Microfinance Institutions in Techiman Municipality. The findings also indicate that other factors such as high-interest rate, short repayment period, lack of business management knowledge also influence loan default.

The study conducted by Okorie (1986) in Ondo State in Nigeria on the major determinants of agricultural smallholder loan repayments in a developing economy established that the period of disbursement and ineffective supervision by credit officers as the major causes of loan default in his study. This supports the findings of this study, indicating the lack of monitoring on the part of financial institutions and the delay in the disbursement of loans to clients to be the major determinants of loan default in Techiman Municipality. The study, therefore, supports the recommendation of Okorie (1986) that there should be regular and effective supervision by Loan Officers of financial institutions.

Furthermore, a study conducted by Siaw, Ntiamoah, Oteng, and Opoku (2014) indicated that in time of loan delivery, natural calamities, high-interest rate, unrealistic terms and schedule of repayment, lack of follow up measures as the determinants of loan default. These factors were also identified in Techiman Municipality as causes of loan default.

Warue, (2012) on the research on factors affecting loan delinquency in microfinance Institutions in Kenya suggested that almost all loan default factors are external and none of the stakeholders have any influence over it. The findings of this research contradict his suggestion as this study finds out some major internal factors as the major determinants of loan default in Techiman Municipality. This may arise from the difference in economic conditions of the countries. However, this study assent to Warue (2012) recommendation that the management of Microfinance Institutions should concentrate primarily on the internal causes of delinquency which they have greater influence over and pursue realistic and feasible solutions to problem resolution of loan delinquency. This study also outlines some major internal factors of loan default that need the conscious effort of the management of financial Institutions to take internal proactive measures to problems of loan default.

CHAPTER FIVE

SUMMARY OF FINDINGS CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter summarizes the results of the analysis and the techniques used to collect the study data. It also points out findings and recommendations relating to the study objectives. This is very significant as it provides the ramifications of the results and the potential steps that may help to minimize loan default among Microfinance Institution in Techiman.

5.2 Summary of Findings

The subject of this study is a descriptive one to find out the determinants of loan default among Microfinance Institutions in Techiman.

Study results uncovered multiple causes that lead to default loans and therefore bad loans. Lack of monitoring by Microfinance Institutions and the delay in the disbursement of loans to clients were highlighted by the respondents as the major determinants of loan default among Microfinance Institutions in Techiman.

The findings indicate various factors that make it difficult for Microfinance Institutions to manage their loan portfolio. Difficulty in locating client was outlined by Loan Officers as the major challenge in managing loan portfolio among Microfinance Institutions within Techiman Municipality. Also, low staff capacity to undertake routine monitoring and the unwillingness of some clients to repay loans were highlighted by Loan Officers as challenges in managing their loan portfolio.

The study also indicated that operating profit reduced by 39.10%, 42.20% and 57.60% in the year 2017, 2018 and 2019 respectively for Christian Community Microfinance Institution whiles K.B Stars had a reduction in operating profit by 27.70%, 33.70%, 38.80% in the year 2017, 2018 and 2019 respectively. These figures show an increase in defaults rate every year, signifying that bad debt charges reduce profits of Microfinance Institutions. It can be concluded that bad debts negatively affected the financial health of Microfinance Institutions over the past three years under consideration.

It is also worth noting that the trading/business and agricultural sectors reported the highest occurrence of loan defaults among the sectors of Microfinance Institutions' lending activities. The study found out that clients on Salary Loans are unlikely to defaults because payment of loans is deducted directly from their salaries and not under the control of the clients compared to clients in the trading, agricultural, etc. sectors.

5.3 Conclusion

This study generally investigate determinates of loan default among microfinance Institutions within Techiman township.

Random sampling technique was used to sample 110 respondents from the two Microfinance Institutions. Fifty five (55) respondents from each Microfinance Institution. Purposive sampling was used to select two loan officials who have more than three (3) years of working experience. One each from a Microfinance Institution. The responses from the questionnaire for various clients as well as the staff and management were coded. Statistical Package for Social Sciences (SPSS) and Excel were used to analyze data. Tables and statistical diagrams like bar charts, and pie charts also aided in the data presentation.

The results briefly outlined above, give rise to certain conclusions that may be taken from the study.

The determinants of loan default among Microfinance Institutions in Techiman Municipality includes; lack of monitoring by Microfinance Institutions, delay in the disbursement of loans, high interest rate, short repayment periods, poor business management by clients, lack of business advisory services, natural factors, diversion of loans and unwillingness of some clients to repay loans.

On the second objective, difficulty in locating clients, low staff capacity, inadequate logistics, unwillingness of clients to repay loans, poor documentation, lack of incentives/motivation, poor documentation and influence of top managers were highlighted by Loan Officers as challenges in managing loan portfolio by Microfinance Institutions within Techiman Municipality.

In view of the decrease in the volume of the loan interest income and operating benefit, it can be inferred that loan default influences the financial performance of Microfinance Institutions by the following: increase provision for bad and doubtful debt, causes liquidity issues that may lead to the collapse of Microfinance Institutions, increase expenditure in the form of human hours used in the search of loan defaulter.

Lastly, looking at the categories of clients who usually defaults, it was identified from the study that finance in the trading/business and agriculture sectors are highly exposed to credit risk than in other sectors among Microfinance Institutions within Techiman Municipality. Findings also indicate that most of the populace within Techiman Municipality are into small to medium scale trading/business and agriculture.

5.4 Recommendations

The above results of the study show a troubling condition about defaults on loans and their effect on Microfinance Institutions' entire loan portfolio during the time under review as a result of defaults of loans by clients. In view of the significant role played by Microfinance Institutions in the economic growth of Ghana, it is very imperative for all stakeholders, in particular management, to take realistic and constructive steps to minimize the issue of loan defaults. The foregoing recommendations are also made with the expectation that they will mitigate the causes of defaults on loans by customers.

Microfinance Institutions are to ensure constant and efficient monitoring and inspection of credit facilities provided to customers. This will avoid the diversion of funds to commercial activities other than the agreed purposes. It should be stressed that efficient supervision of loan facilities through field visits and frequent examination of customer accounts helps the lender to determine the actual financial conditions of borrowers, ensure the adequacy of collateral, ensure that loans conform to the terms and conditions of the facility, and detect possible loan issues for measures to be taken.

Furthermore, in order to ensure successful monitoring and tracking of loans, management should ensure that credit departments in all branches are sufficiently resourced in terms of manpower, vehicles and other logistics to facilitate monitoring operations in all branches. Management should also maintain the continuous supervision of Loan Officers at the branches through the internal credit auditing processes of Microfinance Institutions.

Also, credit officers are to provide some training and advisory services to support clients who are facing some business management problems, such as poor record-keeping, and over-trade that impair their business operations

The amount of the maturity term can be extended in such a manner that the institution would not lose the worth of its money advanced but at the same time decreases the risk of default due to the short repayment period.

Microfinance Institutions need to expedite their loan approval processes to ensure that credit facilities are granted to qualified clients on time. The credit review format must be streamlined in such a way that credit officers waste less time in its preparation in order to speed up loan approvals. This will help clients to have access to their loans at the time they need it most and therefore can make effective and efficient use of credit facilities acquired.

It is recommended that loans given to borrowers should be well protected in terms of the adequacy of the collateral offered and that adequate legal documents should also be put in place.

The Internal Audit Unit must also be strengthened in order to be proactive and to verify if the proper practices are followed prior to the disbursement of loans and to ensure effective monitoring by credit officers and management.

In conclusion, Microfinance Institutions should ensure that all the requisite procedures and documentation are adhered to before granting Trading/Business and Agricultural loans due to their high rate of default. Also, special attention should be given to Trading/Business and Agricultural loans in terms of monitoring and tracking of loans. Management also has to introduce realistic risk reduction strategies in these sectors to boost the efficiency of Microfinance Institutions' overall loan portfolio. Microfinance Institutions can consider shifting their attention to Salary loans due to their minimal default rate.

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APPENDIX 1

QUESTIONNAIRE FOR LOAN OFFICERS

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated strictly confidential. Your response to this questionnaire would be highly appreciated.

1. How long have been with the Microfinance Institution?

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2. What is the application procedure for your Loans?

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3. What documents are normally requested for before the credit facility is processed?

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4. What is normally the duration of your Loan facility?

i. 6 – 12 months
ii. 12 - 24 months
iii. 24 months and above

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5. How is the loan default rate of your Microfinance Institution?

High [ ] Moderate [ ] Low [ ] (tick as applicable).

6. Has the default rate affected your Microfinance Institution's operations?

[ ] Yes [ ] No

Please give reasons for your answer

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7. In your opinion, which of the following are the major factors which cause loan defaults in microfinance institutions?

i. delayed loan approval [ ]
ii. ineffective monitoring [ ]
iii. poor credit appraisal [ ]
iv. diversion of loans [ ]
v. lack of business management knowledge
vi. unwillingness to repay loans [ ]

Others, please specify……………………………………………………………

8. How would you rank the following factors you have indicated above as causes of loan defaults among Microfinance Institutions in Techiman? From your experience as Loan Officer, rank these factors from first to last (based on their magnitude on the determinant of loan default within Techiman)

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9. What are the problems faced in managing the loan portfolio of your Institution?

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10. How would you rank the following challenges faced in the management of loan portfolio of your Institution. From your experience rank these factors stated above, from first to last (based on their magnitude on the determinant of loan default within Techiman)

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11. What are the factors that hinder effective monitoring by Credit Officers in your Microfinance Institution?

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12. What types of credit facilities are normally applied for in your Institution?

a. Salary Loan

b. Trading/Business Loans

c. Agricultural Loan

d. Susu Loan

e. Funeral Loan

f. Others, Specify………………………………………..

13. Which of the following loan types record the highest default rate?

i. Agricultural loans

ii. Trading/Business loans

iii. Transport loans

iv Microfinance loans

v Susu loans

vi Salary loans

14. In your opinion, what are the effects of loan defaults on your Microfinance Institution's profitability?

1………………………………………………………………………………….

2…………………………………………………………………………………..

3…………………………………………………………………………………..

4………………………………………………………………………………………

15. What are some of the measures that should be put in place by management to reduce loan defaults?

a) ………………………………………………………………………………………………

b) ……………………………………………………………………………………………..….

c) ………………………………………………………………………………..………….

d) ………..……………………………………………………………………..………………

Other relevant but confidential information such as financial statement, number of defaulters (categorically grouped) among others imperative to this study were requested to aid in the analysis.

APPENDIX 2

QUESTIONNAIRE FOR CLIENTS

The following questionnaire is meant to collect data for academic purposes only. All responses shall be treated strictly confidential. Your response to this questionnaire would be highly appreciated.

1. Age

29 and Below [ ]

30 – 39 [ ]

40 – 49 [ ]

50 - 59 [ ]

60 and Above [ ]

2. Gender [ ] Male [ ] Female

3. What is your educational background? No Formal Education [ ] Basic [ ] Secondary [ ] Tertiary [ ]

4. What type of business are you engaged in? Trading [ ], Agriculture [ ]

Transportation [ ] Cottage Industry [ ], Others, Specify………………………..

5. How many times have you benefited from loan facilities from your Microfinance Institution?

Once [ ] Twice [ ] Trice [ ] Others [ ] Others, Specify………………………

6. Did the Microfinance Institution give you the amount requested? Yes [ ] No [ ]

7. If no, why were you denied?

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8. Were you able to repay it as scheduled? Yes [ ] No [ ]

9. If No, what accounted for the default (State as many causes as you can)

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10. In your opinion, which of the following are the factors that will make you default your loan?

i. delayed loan approval [ ]
ii. ineffective monitoring [ ]
iii. poor credit appraisal [ ]
iv. diversion of loans [ ]
v. lack of business management knowledge
vi. unwillingness to repay loans [ ]

Others, please specify………………………………

11. In your opinion what do you think can be done to reduce clients default rate?

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12. What was the interest rate charged by the Microfinance Institution for the loan you have defaulted?

Less than 30% [ ], Between 31 – 40% [ ], Over 40% [ ]

13. Do you think high interest rates on loans can cause loan defaults? Yes [ ] No [ ]

14. Do you think Microfinance Institution delay in the approval of loans? Yes [ ] No [ ]

15. Do you think delay in the approval of loans can cause loan defaults? Yes [ ] No [ ]

16. Do you like your Microfinance Institution's loan processing procedures? Yes [ ] No [ ]

17. If no, what improvement would you like to see in the loan processing of the Microfinance Institution?

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