A CRITICAL ANALYSIS OF FACTORS AFFECTING LOAN REPAYMENT PERFORMANCE IN STATE OWNED MICROFINANCE INSTITUTIONS: THE CASE OF MALAWI ENTERPRISE DEVELOPMENT FUND (MEDF)

MASTER OF BUSINESS ADMINISTRATION THESIS

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UNIVERSITY OF MALAWI

THE POLYTECHNIC

December, 2016

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MASTER OF BUSINESS ADMINISTRATION THESIS

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Submitted to the Department of Management Studies, Faculty of Commerce, University of Malawi, in partial fulfilment of the requirements for the degree of Masters of Business Administration (MBA)

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DECLARATION

I declare that this dissertation is my own work and has not been submitted before for any degree or examination in any other university. Where other people's work has been used, acknowledgements have been made. It is being submitted in partial fulfilment of the requirements for the award of the degree of Master of Business Administration of the University of Malawi.

CERTIFICATE OF APPROVAL

We, the undersigned, certify that we have read and hereby recommend for acceptance by the University of Malawi a thesis titled, *"A Critical Analysis of Factors Affecting Loan Payment Performance in State Owned Microfinance Institutions: The Case of Malawi Enterprise Development Fund (MEDF)."*

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DEDICATION

I sincerely dedicate this work to my dear husband Gregory and my children, Glory, Hope, Joshua and Joanna who stood firmly by me throughout the long journey. Above all to the Almighty God who granted me the grace to succeed in this journey.

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ABSTRACT

Loan default is one of the major challenges facing MFIs. Existing literature highlights social capital and successful implementation of group lending as a solution to loan repayment. A lot of loan success of loan repayment comes from the private and NGOs and not state owned MFIs. The main objective of this study therefore, was to investigate the factors affecting loan performance in state owned MFIs with a focus on MEDF. The specific objectives of the study were, (1) to find out the characteristics of MEDF loan beneficiaries; (2) analyse the self-selection process in group formation (3) examine MEDF's institutional framework in serving the loan administration process and (4) to analyse the challenges with loan administration processes in enhancing loan repayment.

The study adopted both qualitative and quantitative approaches. Data was collected through unstructured interviews, focus group discussion and a survey. The study's population was drawn from loan beneficiaries, group leaders and MEDF credit officers using systematic and purposive sampling.

The results reveal that while the MEDF has a robust institutional framework, it is caught up in a number of challenges: Political interference, inadequate financial resources, late loan disbursement, failure to provide repeat loans and training, interference in group formation, adequate appraisal and monitoring are the factors affecting repayment. Furthermore, the trust that MEDF had used in disbursing its loans is working against it due to loan beneficiaries' incapacitated social capital.

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LIST OF ACRONYMS

CDA	Community Development Assistant
CUMO	Concern Universal Microfinance Operations
DEMAT	Development of Malawian Enterprises Trust
ECLOF	Ecumenical Church Loan Fund
FGD	Focus Group Discussions
FINCA	Foundation for International Community Assistance
GOM	Government of Malawi
IGA	Income Generating Activity
MARDEF	Malawi Rural Development Fund
MDG	Millennium Development Goal
MEDF	Malawi Enterprise Development Fund
MFI	Microfinance Institution
MGDS	Malawi Growth Development Strategy
MK	Malawian Kwacha
MMF	Malawi Mudzi Fund
MPAP	Malawi Policy Action Plan
MRFC	Malawi Rural Finance Company
MSB	Malawi Savings Bank
NGO	Non-Governmental Organization
NSO	National Statistical Office
OIBM	Opportunity International Bank of Malawi
PRIDE	Promotion of Rural Initiatives & Development Enterprises
SEDOM	Small Enterprise Development Organisation of Malawi
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
SMEF	Small Medium Enterprise Fund
SSA	Sub Saharan Africa
UN	United Nations
UNDP	United Nations Development Program

CHAPTER 1
INTRODUCTION

1.1 Background

Poverty is one of the worst problems affecting people in the world especially in developing countries. The United Nations [UN] report (2016) on Sustainable Development Goals [SDGs] shows that 1 in every 8 people still lived in extreme poverty in 2012. Further, United Nations (2016) report indicate that poverty remains widespread in Sub Saharan Africa [SSA] where more than 40% percent of the people in 2012 lived on less than US$1.90 per day. Like many developing countries, Malawi remains one of the poorest countries in the world with a vast majority of its population of over 17 million people living on less than $2 a day and over half of the population living below the World Bank poverty line of $1.25 per day (National Statistical Office, 2011).

Although increasing poverty is one of the major development challenges facing developing countries today, there is a widespread recognition that, access to microfinance to Small Medium Enterprises [SMEs] has long been believed to lift people out of poverty (Chipeta & Mkandawire, 1991). Statistics indicate that over 3 billion people in developing countries cannot access financial facilities (Robinson, 2001). The situation is particularly acute in SSA where only less than 25% of the households have formal relationship with financial institutions. Comparatively, (with SSA), Malawi's situation is even worse. Finscope Consumer Country Survey (2014) estimates that 47% of the adult population is excluded from financial services.

It is against this background, that both developing and developed countries have particularly isolated microfinance as a panacea to reducing poverty. SMEs are currently presented and perceived as a solution to achieving he objectives of poverty reduction, economic growth and social development in developing countries (Chirwa, Mvula, Namata & Zgovu, 1996; Malawi Growth Development Strategy I [MGDS], 2006). The MGDS I specifically targeted SMEs for Income Generating activities [IGAs] and sustainable economic development (MGDS, 2006).

It is not surprising that the Government of Malawi [GOM] established a number of Microfinance Institutions [MFI] in Malawi to increase SMEs accessibility to the much sought credit. Coupled with this, the GOM also created a conducive environment for the blossoming of the microfinance industry by passing the Microfinance Act Bill 2010. MFIs are considered a veritable effective channels to ensure programme implementation, particularly in poverty

alleviation projects (Addea-Korankye, 2014; Khandker, Khalil, & Khan, 1995; Okunmandewa, 1998). Specifically, Malawi witnessed a proliferation of MFIs in the 1990s after attainment of democracy and implementation of Structural Adjustment Programs. According to Reserve Bank report (2015), there were twenty-six MFIs in 2015 from only two in 2001. This therefore shows that, there is an increased number of SMEs financed by MFIs hence achieving their role of alleviating poverty among the poor.

However, performance of MFIs in most developing countries has been poor when measured by key performance indicators such as loan repayment among SMEs (Amwayi, Omete & Asakania, 2014; Simtowe, Zeller, & Phiri, 2006: Uwusu, Uppong, & Agyeiwaa 2015). To this end, there has been increased experimentation by MFIs with different lending models with a view to improve their performance. Group Lending with Joint Liability [GLJL] and peer pressure have become overriding approaches to preventing loan default and delinquency among SMEs (Alam & Getubig, 2010). Globally, loan default among SMEs is one of the major factors accounting for failure of many MFIs (Amwayi et. al, 2014; Uwusu et al., 2015).

Founded on the contribution of the outstanding performance of Grameen Bank of Bangladesh, group lending highlights the role of social capital in form of social networks, trust and solidarity in incentivizing group members to use their social ties embedding their social capital to screen, monitor and enforce loan repayment on their peers (Amwayi et al., 2014). Equally important, adequate screening, adequate credit appraisal and monitoring and due diligence have been presented as key in minimizing loan default (Uwusu et al, 2015).

To this end financing for SMEs in Malawi has been based on group lending since the 1990s (Buckley, 1996; Burrit, 2006; Chirwa et. al, 1996). Group lending was in response to poor loan repayment record that rocked the country hitherto. To this end financing for SMEs in Malawi is mostly based on group lending upon which mechanisms of peer pressure are upheld.

1.2 Research Problem

Performance of MFIs is attributed to group lending methodology which is based on the premise that all group members are jointly liable for repayment (Hermis & Lensink, 2001). The present shift towards microfinance contradicts earlier theoretical understanding that microfinance is riskier in terms of loan repayment (Addea-Karonkey, 2014; Uwusu et al, 2015). The shift is currently held on the concept of group lending of Grameen Bank to address risks associated with loan repayment. Grameen Bank of Bangladesh, the pioneer has succeeded in offering loans

to those excluded by the traditional banks and yet still maintaining high repayment rate averaging 98% (Sengupta & Auchobod, 2008). Much of Grameen Bank success is attributed to the peer pressure which is used by group members to screen, monitor and enforce repayment.

Replication of Grameen Bank group lending model has yielded mixed results both internationally and locally in enhancing repayment. For instance, the model has significantly yielded high repayment results in India, Venezuela, Lesotho and Egypt. However, the United States of America [USA] through Good Faith Fund performed poorly even after adopting the model (Sengupta & Auchobod, 2008). In Malawi, replication of Grameen Bank model produced mixed results as well. While, repayment performance of private MFIs and Non-Governmental Organisations [NGOs] such as Pride Malawi, Ecumenical Church Fund [ECLOF], Foundation for International Community assistance [FINCA] and Concern Universal Microfinance Operations [CUMO] averaged between 85 to 97 %, state owned lending schemes repayment performance has been low (Burritt, 2006; Simtowe et. al., 2006; Transparency Report, 2011; Whitby, 2012).

Specific examples of such state owned lending schemes include Small Medium and Enterprise Fund [SMEF] administered by Development of Malawian Enterprises Trust [DEMAT] and Small Enterprise Development of Malawi [SEDOM]; Smallholder Agriculture Cooperatives Administration [SACA] and Malawi Rural Finance Company [MRFC]. All these credit programs were phased out due to poor repayment performance (Buckley, 1996; Burritt, 2006; Chirwa 2002; Kalanda 2006; Reserve Bank of Malawi [RBM] 2015; Whitby, 2012).

Further, reports indicate that the Malawi Enterprise Development Fund Limited [MEDF] which adopted the Grameen group lending methodology is performing poorly as observed from repayment rates of less than 30% (RBM, 2015; Simtowe, et al., 2006). The low repayment rate raises the issue of sustainability. It is important to determine the sustainability of MEDF in the face of low loan repayment.

Even though the culture and economy of Bangladesh and Malawi may not be comparable, the question that comes to mind is: what is the problem with state owned credit programs? Is it credit program design that is problematic, or is it the implementation of the loan administration processes? It is important to probe into MEDF's institutional loan administration processes to analyse the major reasons behind this poor repayment performance.

Therefore, the intention of this study was to analyse the factors affecting loan repayment performance in state owned MFIs through the lenses of MEDF with a particular focus on loan repayment.

1.3 Research Objectives

The overall objective of the study, was to analyse factors affecting loan repayment in state owned microfinance institutions in Malawi with emphasis on group lending. Specifically, the study sought to:

1. To find out the characteristics of MEDF loan beneficiaries.
2. Analyse the self-screening process in identifying group members.
3. To examine MEDF's institutional framework in serving the loan administration process.
4. To analyse the challenges with loan administration processes in enhancing loan repayment.

1.4 Research Questions

The following research questions guided the study:

1. What are the characteristics of MEDF loan beneficiaries?
2. How is self-screening process carried out in identifying group members?
3. How is MEDF's institutional framework carried out in serving loan management process?
4. What are the challenges associated with MEDF's loan administration process in enhancing loan repayment?

1.5 Significance of the Research

Credit is inevitably needed not only by SMEs but also the government in alleviating poverty levels and economic growth (MGDS I, 2006). SMEs continue to create jobs and are a seedbed for the development of economy in developing countries. Thus, SMEs have been hailed as an engine for economic growth leading prompting many developing countries to formulating and developing policies to support them through provision of microfinance (Chirwa et al., 1996). It is therefore, imperative to ensure the survival of MFIs if the GOM is to achieve the first SDGs of the seventeen goals which is eradication of extreme poverty by 2030 (United Nations, 2016). Since MFIs provide credit to SMEs, the analysis of factors affecting MFIs would improve in

the effectiveness of SMEs financing for economic performance. Hence this fulfils the need for the study.

1.6 Chapter Summary and Organisation of the Thesis

The Chapter has presented background information to the study on critical analysis of factors affecting loan repayment in state owned microfinance institutions in Malawi. It has also presented research problem, research objectives and research questions. The chapter has concluded by providing the significance of the study. The rest of the study is organised as follows: Chapter two reviews literature and provides a theoretical framework employed in the study. It is from this literature review that the context of social capital and microfinance performance is placed. Chapter three gives an outline of the research methodology including; research design, a description of population and sampling, data collection and data analysis methods. The research ethical considerations and research limitations are also presented. Chapter four presents the findings of the study. Chapter five presents the discussion of the research findings and finally Chapter six presents the summary of the study findings and the recommendations.

CHAPTER 2
LITERATURE REVIEW

2.1 Chapter Overview

As indicated in chapter 1, this study aims at analysing factors affecting loan repayment in state owned microfinance institutions in Malawi. Hence, the literature reviewed in this chapter focuses on scholarly research work on group lending methodology with particular emphasis on Grameen Bank lending methodology and how it has been successful in achieving high repayment rate. Therefore, section 2.2 the concept of microfinance, section 2.3 discusses the global shift to microfinance institutions, section 2.4 discusses microfinance lending models, section 2.5 discusses Grameen analytical framework, social theoretical framework for the study is discussed in section 2.6 followed chapter summary in 2.7.

2.2 The Concept of Microfinance

Microfinance has been accepted globally as a tool for poverty alleviation especially in developing countries. The term microfinance involves the giving of very small loans to poor people living both in urban and rural settings without requiring collateral (Alam & Getubig, 2010). Robinson (2001) defines microfinance as the provision of a broad range of financial services such as savings, credit insurance and payment services to low households and SMEs who are excluded from traditional banks.

Furthermore, the Malawi Microfinance Act [MMA] (2010) defines microfinance as the provision of small loans to SMEs or low income customers or as determined by the registrar of companies where such loans are given to a person whose income depends on his own business.

Based on the definitions, it can be concluded that the basic principle in microfinance is about the provision of small loans to the poor. In the context of this study, microfinance is based on the definition provided in MMA (2010) because it best fits the clientele who are financially excluded from the traditional banks due to lack of collateral.

2.2.1 Microfinance Institutions

MFIs provide a bridge between the formal and the informal financial markets by using innovative ways of delivering services to SMEs. According to Addea-Karonkye (2014), MFIs are defined as any financial institution which offer not only small loans to microenterprises and SMEs but also provides other financial services such as savings, insurance, investment advice

and even training to its clients. These MFIs include among others: microfinance agency, credit unions, credit lenders, NGOs, self-managed groups, community banking, village banks, specialised government banks, and cooperatives (Armendariz Agion & Morduch, 2005; RBM, 2015). MFIs vary widely by their scale of operation, professionalism, and type of financial services offered.

2.3 Global Shift of Microfinance

During the 1980s, state-owned MFIs and agricultural agencies were highly selective of their clientele because they favoured the class that had collateral and met other assessment criteria (Robinson, 2001). Hence, the poorer classes of the society did not benefit and this increased the gap between the rich and the poor. However, to meet the needs of the poor, there has been a growing interest by many governments in developing countries in formulating and adopting policies to increase access of microfinance to SMEs.

Internationally, the emergence of microfinance can be traced to the early 1990s when poverty reduction became the objective of extraordinary attention at international summits (Morduch & Haley, 2001). At that time, there was adequate evidence to substantiate the positive impact of microfinance on poverty reduction (Morduch & Haley, 2001; Okunmandewa, 1998). In particular, Morduch and Haley (2001) argued that MFIs help achieve six out of seven of the Millennium Development Goals [MDGs]. Topping the current seventeen SDGs which are built on MDGs is the agenda to end poverty in all forms by the year 2030. The GOM also emulates this policy shift by considering the development of SMEs as a tool for poverty reduction through creation of IGAs. The development and approval of Microfinance Act (2010), Microfinance Policy and Action Plan [MPAP] and the establishment of MEDF shows government commitment in providing access to financial services particularly credit to SMEs. These have created significant opportunities to demonstrate sound practices in increasing access to credit (Burrit, 2006).

Currently, international organisations realised that MFIs are effective channels to ensure programme implementation, particularly in poverty alleviation projects and first-hand knowledge of the needs and interests of the poor (Addea-Korankye, 2014; Khandker, Khalil, & Khan, 1995; Okunmandewa, 1998). Specifically, Chossudovsky (1998) stated that, the World Bank estimated that in 1996, there were more than 1,000 MFIs in over 100 countries, each having a minimum of 1,000 members. This therefore shows that MFIs were able to reach a lot of people hence achieving their role of alleviating poverty among the poor.

Provision of microfinance by MFIs has therefore been identified as one of the remarkable strategies in both developing and developed countries to reduce poverty (Coleman, 1988). The term poverty has an extensive meaning and a wide range of situations which can describe it. Coleman (1988) defines poverty as characterised by low income, lack of assets and also lack of other diverse situations such as hunger, malnutrition, illiteracy, social isolation and exploitation; and also lack of access to basic necessities such as safe water and health services. Such a wide definition makes it difficult to describe poverty.

While there is evidence that the poor are benefiting from microfinance. Khandker (1998) provides evidence that microfinance has a positive impact on income production improvement in social indicators and employment. Khandker and Chowdhury (1996) in their study found a lower rate of 58% in poverty of participants with continued access to microfinance than those who did not have access to credit. According to Pitt and Khandker (1996); Hulme and Mosley (1996); Coleman (1988); Chirwa et al. (1996), microfinance programs promote investment in human capital (schooling), raise awareness of reproductive issues, help in women empowerment in household decision making. With such overwhelming evidence, it is not surprising that the international community isolate microfinance as a strategy of poverty alleviation.

Although, there is strong evidence on the benefits of microfinance, some theorists present a different view on the role of microfinance in poverty reduction. Coleman (1988) finds little impact of access to credit on borrower's livelihood. Diagne and Zeller (2001) carried out a study in Malawi on the access to credit and found out that access to credit is no panacea for poverty alleviation. The full potential of credit access in increasing the welfare of the poor can only be realised if coupled with adequate investments in hard and soft infrastructure. Even though there is a mixed school of thought on poverty reduction, nonetheless, the international community has come to a common understanding of fighting against poverty through microfinance (Hulme & Mosley, 1996).

Despite the positive role of microfinance in alleviating poverty among the poor, sustainability of MFIs is highly threatened in most developing countries due to high loan default rate (Addea-Korankye, 2014; Sheila, 2011; Woolcock, 2001; Yaron, 1994). Addae-Korankye (2014) carried out a study of 25 MFIs in Ghana on loan repayment rate, he found out that 60% of the MFIs' default rate were above the internationally acceptable rate of 3%. Reasons for high default rate

are highly varied. For instance, Addea-Korankye (2014) found that the causes of loan default include; high interest rate, inadequate loan sizes, poor credit appraisal, lack of monitoring, and improper client selection, whereas, Amwayi et al. (2014); Olomola (2002) found that large group size of members have a negative effect on loan repayment; Warue (2012) found poor management procedures, and unwillingness to pay as major causes of low loan repayment. Sheila (2011) found illiteracy and low levels of education as determinants of poor loan repayment performance. (Simtowe et al., 2006) found that lack of peer monitoring among loan groups in Malawi is a factor affecting loan repayment. Late loan disbursement is another factor affecting loan repayment (Kalanda, 2014). However, amidst the stated challenges, Cassar, Crowley, and Wydick, (2005) found that social capital in group lending is able to yield high repayment rates in part through its ability to leverage local information in forming self-selected groups of more-or-less socially homogeneous borrowers.

2.3.1 Microfinance: Malawi's Perspective

Provision of microfinance through group lending with joint liability dates back to 1980s when GOM supported farmers in farmers' clubs with agricultural farm inputs (Chirwa et al., 1996; Chirwa, 2002). According to Diagne and Zeller (2001) agricultural credit systems in Malawi used to be a prime example within Africa for a successful supported credit programs. The system was enjoying a successful repayment of over 97 % from 1968 to 1991. The repayment rate was almost that of Grameen Bank. However, literature indicates that there was a turnout of events because by 1992 the credit system collapsed owing to drought and political rehabilitation. The repayment rate fell to as low as 57% (Buckley, 1996; Burrit, 2006).

In response to the above credit system failures coupled with lack of access to credit due to lack of collateral (Finscope Survey, 2014) the GOM promoted innovative credit delivery system. The delivery system is based on group based lending with joint liability which seeks to exploit the social capital and the advantage of local communities in screening and monitoring loan beneficiaries.

Malawi witnessed mushrooming of MFIs in the 1990s due to Structural Adjustment Program by the World Bank which led to privatisation of some parasitatals. The SAP focused on poverty alleviation as a developmental goal and this stimulated a boom in microfinance as a lot of institutions joined the industry and started extending microcredit to the poor for various IGAs (Malawi Chamber of Commerce, 2001). Since 1992, there has been a substantial growth in

MFIs in Malawi offering financial services to the poor following the nation's efforts to aggressively fight poverty and achieve sustainable development.

MEDF is one of the state owned MFIs established in 2014 with an objective of assisting Malawians especially women, youth and the disabled with loans to engage in IGAs. MEDF operates as a revolving fund. Khandker (1998) states the sustainability of a revolving fund depends on high levels of repayment to a greater extent to ensure achievement of its objectives. The MFI also relies on part of the 15% interest rate, disbursement fees, service fees for its operational expenses (MEDF, 2012). However, rising costs in operational expenses and high defaults amongst SMEs, the state owned MFI is failing to offer loans to its new loan applicants. MEDF adopted GLJL in providing loans to its applicants.

However, the success of GLJL reveals mixed repayment performance of MFIs in Malawi. While private MFIs, NGOs continue to register impressive performance, state owned MFIs have been registering unimpressive loan repayment performance. Statistics indicate that CUMO repayment performance averages (90%) ECLOF, FINCA averages 75% (Simtowe et al., 2006). Even though state owned MFIs have been struggling with loan repayment, other MFIs such as PRIDE, CUMO, and ECLOF are successful in their loan repayment performance whilst applying the same lending methodology.

The trend in repayment performance was not different for MRFC, SMEF credit facilities whose operators were DEMAT, SEDOM and MRFC. They all performed unsatisfactorily in the face of Grameen Bank model (Buckley, 1996). Further reports indicate that the current state owned MFIs are facing loan repayment challenges and yet the sustainability of MFIs operations largely depends on loan repayment (Addea-Karonkye, 2014; Simtowe & Zeller, 2008). The situation poses serious threats to GOM initiatives of reducing poverty levels. It is against this background that the study considers the analysis of challenges facing the state owned MFI.

2.4 Microfinance Lending Methodologies

Over the years, microlending institutions have tested several lending methodologies and new methodologies have been developed (Alam & Getubig, 2010). Dynamic changes such as political, economic, social, technological and legal have stimulated innovation in microlending environment. There are basically two lending methodologies that MFIs employ. Thus group lending and individual lending models. However, a specific lending methodology is chosen to best fit the needs of the target client group, mission of the MFI and the local environment.

Individual lending models are mostly associated with formal banks. These banks perform a thoroughly analysis of past business performance, business profitability and viability (Mosley & Hulme, 1996). To encourage repayment, borrowers are requested to provide collateral for every potentially funded business venture. However, the collateral requirement acts as a barrier of those living below the poverty line to access credit. However, group lending model purports to overcome this barrier without requesting for collateral. Instead of using physical collateral, MFIs use social capital to enhance repayment.

Literature (Alam & Getubig, 2010; Ghatak, 1999; Guinnane, 2000) has shown that group lending model is effective in enhancing repayment among group members. Group based methodologies are based on voluntary formation of groups who are jointly liable to repayment by using their social capital. Each group member puts pressure on the other group members to meet their monthly repayment obligation. Thus the group is important in enhancing repayment.

Despite the well- publicised benefits of this lending method, a number of scholars have cautioned against it. According to Hulme and Mosley, group members who successfully repay their loans are denied access to future loans. This is the case because under GLJL, once a member defaults payment all the group members are considered to have defaulted. Stiglitz (1990) found that some borrowers might deliberately choose risky business venture with a view that their fellow group members will assist them to repay in case of default. Coleman (1988) argues that relatively wealthy and powerful people easily access the loans than the intended beneficiaries.

However, despite the possible challenges discussed above, several empirical work have confirmed that GLJL leads to more effective repayment performance through selection, monitoring and enforcement (Ghatak & Guinnane, 1999; Stiglitz, 1990). Repayment performance as displayed by Grameen Bank (98%) is the undisputed evidence that the model yields high repayment rate despite the relative poverty of its loan beneficiaries.

A number of lending models have been developed and are implemented by MFIs to enhance repayment. These include, associations, community banking cooperatives, credit unions, solidarity groups, Grameen Bank, NGOs and village banking. These models are loosely related to each other. However, the study will discuss three models, thus Grameen Bank, Village bank and Rotating Savings and Credit Associations [ROSCAs] as they are most popular models.

2.4.1 Rotating Savings and Credit Associations Model

According to Ledgerwood (1999), ROSCAs are essentially a group of people who come together and make contributions to a common fund, which is then given a lump sum to one person in each cycle. Group members are mostly neighbours and friends. A member will then lend money to another member through his regular monthly contributions. The money is then paid back in regular monthly payment.

2.4.2 Village Banking Model

The model is widely adopted and implemented by FINCA. village banking is arguably the most widely-imitated microfinance methodology. A village bank is an informal self-help support group of 15-30 members predominantly women (Ledgerwood, 1999). These women meet once a week to avail themselves of working capital loans, a safe place to save, skill training, mentoring, and motivation. Loans are small however, the more a client saves the more she can borrow. The normal loan period is four months and is repaid in 16 weekly instalments.

As with many other microcredit methodologies, village banking eliminates collateral as a loan prerequisite. Instead, it relies on a system of cross-guarantees, where each member of a village bank ensures the loan of every other member. This system gives rise to an atmosphere of social pressure within the village bank, where the cost of social embarrassment motivates bank members to repay their loans in full. This method has proven very effective for FINCA, yielding a repayment rate of over 97% in its worldwide network. The model is closely related to group models.

2.4.3 Grameen Group Lending

One of the most famous examples of solidarity model is Grameen Bank model. As with many MFIs, such as FINCA, ROSCAs, Grameen Bank model disburses its loans to groups of 4-5 people members (Berenbech and Guzman (1994). The model is based on the voluntary formation of small groups of five people. Like FINCA model, Grameen Bank clientele is predominantly women. The group self-selects its members before accessing a loan. The group members are jointly liable for repayment usually made on a weekly basis Ledgerwood (1994). The model has proved to be a success because of its high repayment performance. The study based its discussion on Grameen Bank model because MEDF replicated its group lending.

2.5 Analytical Framework-Grameen Model

In any disbursed loan, there is an element of a risk involved. Because of this MFIs take precautionary measures which are written down in credit procedures. These loan procedures guide credit officers on how to process loan to minimize loan default. The assumption is that if they are not implemented properly, likelihood is high that repayment will be low. Screening of groups, credit appraisal, monitoring, disbursement of loans and loan repayment are some of the factors that are seriously looked into by MFIs. The success of Grameen Bank Model outstanding repayment rate is attributed to its GLJL with particular emphasis on the role of peer pressure existing among the group members in screening, monitoring and loan enforcement on their peers to enhance repayment. Amwayi et al. (2014) concur that loan recovery rate for groups based MFIs is more impressive and reasonably higher in the face of GLJL than those offering individual loans.

Furthermore, Grameen Bank places more attention on its loan administration process by its highly motivated staff in screening loan applicants, loan appraisal, disbursement of loans and monitoring (Uwusu et al., 2015). Grameen Bank loan amount depends on the borrower's ability to invest the loan amount. However, subsequent loans can be increased to up to a maximum of 50% at an interest rate of 20%. The repayment period is from 3 months to over one year repaid on a weekly basis. Literature indicates that frequent repayment enhances loan repayment (Ghatak, 1999).

2.5.1 Group Formation and Selection of Group Members

According to Zeller (2006), loan repayment performance in group based credit schemes is initially determined by the process of forming groups. This process of group formation influences the structure of the group, and therefore conditions its ultimate conduct and performance. Alam & Getubig (2010) state that members in Grameen Bank are encouraged to select without any interference from MFIs. They are also encouraged to select members of the same socio economic status, living within the same community and those that know each other well. Selection of such group members is therefore possible because members are closely connected through social networks. These social networks provide fertile ground of information upon which screening amongst the members can be carried out effectively. Grameen Bank lending model therefore creates social collateral and trust building between the bank and its clients which enhances repayment performance.

Literature indicates that self-selected groups leads to the emergency of a pool of safe borrowers which reduces the likelihood of unwillingness to repay tend to perform better than randomly formed groups. Abbink, Irlenbush, & Renner, 2002; Ghatak, 1999; Sengupta and Aubuchon, 2008. Snow and Bussi, 2001 demonstrate that self-selection process in group formation in most group lending schemes improves repayment through mitigating adverse selection. proves that peer selection improves group repayment performance. On the other hand, Snow and Bussi (2001) findings demonstrate that interference by MFIs in group formation process by MFIs attribute to low repayment performance to perform poorly than self - selected groups of friends among which the level of trust presumably exists. Wydick (1999) found that prior knowledge of each other before they enter a borrowing group are associated with better repayment. Contrary to these findings, a study carried by Ahlin and Townsend (2005) found a lower incidence of repayment performance. Replication of self-selection can be difficult in some societies due to differences in socio cultural practices but is attainable.

2.5.1.1 Group Rules

Every group has a code of conduct which guides it. Grameen Bank depends on the groups cooperation which leads to respect and adherence of group rules (Kilpatrick, 2001). According to Wenner (1995) a groups' repayment performance is enhanced when the group has clearly written rules stipulating how the group will be governed. Bhatt and Tang (2002) argued that the capacity to enforce rules in groups where members are homogeneously sociable is higher than in groups with members of heterogeneity. The repayment is possible because cooperation amongst homogeneous group members is high and this leads to adherence to group rules. The capacity to enforce loan contract where group members are homogeneous is higher than in heterogeneous groups.

Adherence to group rules to avoid ostracism in Grameen Bank is the norm amongst loan borrowers (Olomola, 2002). Ostracism is when members are regarded as outcasts in their society. Therefore, to avoid being ostracised in society, Grameen Bank borrowers voluntarily adhere to repayment measures.

2.5.1.2 Group Size

According to Hermis and Lensink, (2007) Grameen Bank encourages its clients to form groups of a minimum of 4 to a maximum of 8 members. The group size is considered important for effective internal control and also facilitation of monitoring. The size of the group is a crucial feature for effective performance of the group. Olomola (2002) states that small groups permit

closer ties, can facilitate loan monitoring and increase the ability to enforce accountability amongst the loan beneficiaries. On the other hand, large groups are prone to experiencing low levels of collection and free-riding on monitoring (Chen, Tzen, Ou & Chang, 2007; Obrien, Phillips & Patsiorkovky 2005).

2.5.1.3 Training of Prospective Borrowers

Well trained Grameen Bank staff conducts a rigorous 2-week training for its prospective loan beneficiaries. Even though training is a non-financial service offered to prospective loan beneficiaries, it is considered a screening mechanism for the loan applicants.

Godquin (2004) found that provision of training, and health services led to positive impact on repayment performance. Khansal and Mansoor (2009) Roslan et al. (2007) and Warue (2012) present similar evidence that loan beneficiaries who did not have any business training had a higher probability of defaulting than their counterparts. Alam and Getubig (2010) pointed out that Grameen Bank also organises training programs for its group leaders who are responsible for managing the affairs, dispute handling and acts as a link between their bank and their fellow group members. Provision of training by MFIs is costly because it is not the core business, however, introducing a small fee for prospective beneficiaries would cater for some of the expenses.

2.5.2 Loan Administration Process

Loan administration process involves a number of activities which include credit appraisal, loan disbursement and repayment of loans. The activities are carried out by well trained, qualified and experienced credit officers.

2.4.2.1 Loan Appraisal

While traditional banks use individual applicant’s financial statements, and collateral to determine their repayment capacity, GLJL use its loan officers to collect soft information provided by the group members to assess (i) the borrowers’ capacity to pay and (ii) their character. The microfinance Institution’s credit officers visit the potential group borrowers to ascertain their repayment capacity and willingness to repay (Addea-Karonkey, 2014; Warue, 2012;). According to Ritchie and Siwale (2014) the credit officers’ direct contact with potential borrowers develops a sense of trust which enhances loan repayment. Postelnicu, Hermis & Szafarz (2013) argue that the bond between the potential borrowers and the loan officers is stronger when trust has been developed and when norms and values are shared. MEDF,

considers honest and hardworking applicants to be of low credit risk (MEDF, 2012). Once the above procedure is finalised, credit officers visit the client's business and their house for future follow up and verification of business existence.

2.5.2.2 Loan Disbursement

After approval, loans are disbursed to the group as a collective sum within which each member has an allocation according to his initial application (MEDF, 2012; Kalanda, 2014). Repayment is over a maximum period of 12 months (with 3 months' grace period) and the standard repayment frequency is monthly (MEDF, 2012). The minimum loan amount that one can access is MK10, 000 and the maximum is MK100,000 with an interest rate of 15% (MEDF, 2012).

The loan disbursement activity involves a training of prospective borrowers, issuing of cheques and loan repayment schedule. The repayment schedule indicates the monthly repayment instalment, due date, loan amount among other figures.

2.5.2.3 Monitoring

After loans have been disbursed to successful applicants, credit officers visit borrowers to ensure that the loan has been used for their intended purpose, assess business performance and remind them of their obligation to repay (Ritchie and Siwale, 2012). Grameen Bank places much emphasis on monitoring so that borrowers exercise prudence in loan usage to enhance the likelihood of repayment.

Under GLJL group members are given the responsibility to monitor each other and this gives rise to peer pressure. The fact that peers are supposed to pay for loans of a defaulting group member is an incentive enough for members to monitor each other. Hermis et al. (2005) observed that peer monitoring is a key factor influencing the likelihood of unwillingness to repay. This is based on the premise that when loan beneficiaries know each other and live within the same area peer monitoring is easier.

Besides peer monitoring, Grameen Bank places special attention to monitoring by its highly motivated staff. According to Alam & Getubig (2010), the bank places a special value of loan utilisation for the first week to reduce the likelihood of loan diversion.

2.5.3 Grameen Bank Loan Repayment Enhancers

The success of Grameen Bank lending model is largely attributed to product simplicity to enhance loan beneficiaries' repayment discipline (Armendariz & Agion, 1999). The most widespread loan enhancers include regular meetings, frequent repayment and offer of repeat loans:

2.5.3.1 Regular Meetings

In terms of group functions and operations, attending of regular meetings is one of the obligations of groups members. Regular meetings induce peer pressure amongst group members which ensures compliance with loan terms (Olomola, 2002). Grameen Bank beneficiaries meet on a weekly basis during which repayments are made (Sengupta & Auchobod, 2008). An econometric evaluation of MFIs by Ghatak (1999) cited regular meetings as an important incentive in enhancing repayment. However, Sengupta and Auchobod (2008) disagree that regular meetings do necessarily lead to high repayment performance but that they just instil discipline and commitment among group members.

2.5.3.2 Frequent Repayment

Frequent loan repayment is equally another strategy that enhances repayment in Grameen Bank model. Loan beneficiaries are given a repayment schedule soon after loans have been disbursement. According to Morduch (1999) a repayment schedule guides the loan beneficiaries on when and how much to repay either weekly or monthly. Ghatak (1999) pointed a number of advantages of a regular repayment schedule namely:

(i) It gives an early warning sign to both the lender and fellow group members about potential future problems.
(ii) It acts as a screening device of undisciplined borrowers at an early stage.
(iii) It helps the MFIs to get hold of cash flow problems before they are consumed or diverted.

2.5.3.3 Repeat Loans

With regard to incentives to loan repayment, literature provides evidence that anticipation of increasingly larger amounts of loans enhances repayment (Ghatak, 1999; Hermis & Lensink, 2007; Hulme & Mosley 1996). Morduch (1999) states that repeat loans are a distinctive feature for Grameen Bank, Bancasol of Rakyat, and FINCA village banks. A survey study carried in Malawi (Buckley, 1996) revealed that, denying access of additional loans to those that successful finished repayment their loans attributed to low loan repayment in government credit

schemes. However, other theorists (Armendariz Agion & Morduch, 2005; Sengupta & Aubuchon, 2008) argue that this is true when the beneficiaries do not have other sources of income.

2.6 Theoretical Framework – Social Capital

This section discusses the concept of social capital. Several papers have investigated the importance of social capital in explaining the contribution of local networks, reciprocity, trust and shared norms in enhancing repayment performance of loan beneficiaries. which guides analysis of this study.

2.6.1 Social Capital Theory

Coupled with Grameen Bank Model, the study also draws on Social Capital Theory as its theoretical framework. Literature has provided different definitions on social capital as it is apparently understood across a number of disciplines such as historians, politicians, sociologist, and economists (Kilpatrick, 2001). Putnam (1995, p.67) defines social capital as "features of social organisation such as networks, norms and social trust that facilitate coordination and cooperation for mutual benefit". Putnam's definition includes family relationships, kinship networks, friendships, acquaintances, civic attachment and institutional ties.

On the other hand, Coleman (1988) defines social capital as people's ability to work together in groups and organisations for a common purpose. An asset embedded in relationships that facilitate instrumental action among people and the sharing of knowledge and resources from one person to another. Further Coleman (1988) state that social capital impact can be seen at individual, group as well as institutional level. While the definitions are based on collective action, Bourdieu (1986) also defines social capital as the aggregate of the actual and potential resources such as information, ideas which are linked to possession of a durable network of more or less institutionalised relationships of mutual acquaintances. The social capital resource is used for the benefit of those individuals who access it. The broad meaning of social capital based on the cited definitions is facilitating collective action for mutual benefit. Thus collective mutual benefit is based on relationships and facilitates coordination and cooperation amongst people which gives rise to something valuable (Putnam, 1995; Woolcook & Narayan, 2000).

Since social capital is relationship based, it is considered a glue that holds group members together and helps individual members secure benefits by being members of particular networks which they could not have accessed if they were not part of that network (Putnam, 1995; Zuka,

2013). Social capital also relates to how closely knit a community is as regards to people's unity, interdependence and their togetherness as a society.

2.6.2 Importance of Social Capital in Microfinance

The importance of social capital in microfinance cannot be overemphasised. Putnam (1995), Obrien et al, (2005) and Simtowe et al. (2006) state that social capital is vital in resolving collective action amongst group members. For instance, a group of poverty stricken members may work together to reverse their situation by engaging in a cooperative venture with an aim of accessing a valuable resource such as a loan. The commonality of their poverty is key to their collective action. Such desire to achieve a common goal enhances repayment in group lending.

Social capital is also vital in reducing transaction costs. Through the group members' social connectedness, the members have access to soft information (Postelnicu et al., 2013). Through group lending with joint liability, social capital reduces information asymmetries. Since group members act as a guarantor for each other's loan, this encourages them to collect soft information from their social networks to screen and monitor each other. The soft information is used in screening less risky members and businesses. Olomola (2002) findings reveal that social connectivity among loan beneficiaries and MFIs allows significant savings in screening, monitoring and enforcement of loan contracts. Thus access to soft information is easier for people belonging to the same network.

Equally important, social capital provide higher access to information which would enhance their ability to bring out desirable changes. When group members work together, the connections act as a conduit for information sharing. According to Anderson et al. (2007) through sharing of information group members within the network can access information on business markets, ideas, leads and business opportunities which can be beneficial to their business performance. Such business opportunities would enable them have a number of sales outlets and thereby improve their business performance. In the end, the increase in sales will enable them service their loan.

2.6.3 The Dark Side of Social Capital

Despite the well - publicised benefits of social capital a number of scholars have cautioned on the negative outcomes of the theory. Social capital can result into negative outcomes such as operations of gangs or other powerful subsects of the society that restricts anyone outside the group from accessing valuable resources (Fukuyama, 2001; Zuka, 2013). According to

Fukuyama (2001), the negative side effect of social capital is a realty, since sometimes groups attain internal unity at the expense of outsiders, who may be perceived with suspicion and hostility.

Another negative outcome is that the groups themselves might also work against the common interest of society at large and may hinder individual growth and mobility (Basargekar, 2005; Sobel, 2002). Findings by Zuka (2013) on two irrigation schemes in the southern region of Malawi found social stratification as a negative side effect of social capital. Social stratification led to inequitable distribution of land amongst the community members.

2.6.4 Measuring Social Capital

Social capital is complex to measure predominantly because of its abstract nature and the multiplicity of its definitions. Social capital and its elements (network, trust and norms) are hard to measure. The major setback in the application of the theory is the difficulty in creating a generally acceptable measure. Fukuyama (2001) states that one of the weaknesses of social capital is the absence of a consensus on how to measure it.

Therefore, there is no one way of measuring social capital, the measure depends on the aim of the study. The World Bank (1997) provides a list of five various indicators namely; associations, civil societies, social integration and legal and governance aspects. On the other hand, Postelnicu et al. (2013) present quantitative and qualitative tools of measuring such as networks, trust, collective action. communication and information. Cassar et al. (2005) measure social capital quantitatively by creating a trust game of loan beneficiaries in South Africa and Armenia. Coleman, 1988 adopted a qualitative approach in measuring social capital. elements in measuring social capital elements of networks, trust and shared norms (Anderson et al., 2007; Putnam, 1995; Zuka 2013) used quantitative measurements. This study adopts qualitative approach on the measurement of elements of social capital.

2.6.5 Elements of Social Capital

Social capital involves a number of social elements. The study involved exploration of the elements of social capital such as social networks, norms and shared values and trust.

2.6.5.1 Social Network

Social network as a social capital element is crucial for members in a group to access resources. These resources include information, ideas, business leads, markets emotional support, and good will (Grannovetter, 1985). Members in a group need to build their network through trust.

Without a well-managed network, these resources remain dormant and untapped. According to Anderson et al. (2007) social networks facilitates the flow of information between group members and also provides a platform for sharing information.

Social network is also associated with better group repayment performance depending on the nature of social ties between individuals. Wydick, Hermis & Kempf (2011) found that religious network provided access to credit in rural areas in Guatemala. Olomola (2002) suggests that married people tend to be successful in business which enhances repayment performance. Family relationship is considered to have strong bonding because of the frequent and long relationship that exist amongst the members.

In the context of this study, social networks may act as a conduit for exchange of information and resources that can enhance the access to loans, business markets that can enhance the success of SMEs.

2.6.5.2 Norms, Shared Values and Beliefs

Apart from social network, norms are another element of social capital. Norms determines the code of conduct of members in a community and are usually incorporated in families, religion and social networks (Olomola, 2002). These norms are usually unwritten, socially shared and enforced outside official sanction channels. Therefore, members affiliated to a certain group or network are expected to adhere to the groups norms. Usually the norms are either associated with punishments or incentives. Therefore, to deter members from violating the norms, punishment is attached to a violation and members are bound to suffer a loss such as being treated as an outcast. Studies indicate that the success of Grameen Model is partly attributed to its cultural orientation where people value social affiliation. If a group member fails to repay, he brings a sense of shame not just upon himself but upon the entire family (Alam & Getubig, 2010; Ghatak, 1999; Pitt & Khandker 1998). Thus loan beneficiaries ensure they meet their repayment obligations for fear of being ostracized in the community (Olomola, 2002). In such a culture people feel obliged to repay than face the sense of shame and embarrassment.

2.6.5.3 Trust among Group Members

Trust forms the basis of cooperation among group members. Trust does not only facilitate cooperation amongst borrowers but also facilitate interaction between members. Meaning that if members are cooperative it can lead to collective action in repayment and access to repeated loans. Thus trust is the most important factor for a functioning group. The more the members

trust each other the more access they have to additional resources. Trust building therefore requires time, strong relationships, investment in meaningful activities (Woolcock, 2001).

However, trust between people is something that is not built overnight but over a long time and is embedded in one's religion, culture, common neighbourhood, and commitment in attending meetings (Olomola, 2002). Religion, culture, common neighbourhood provide fertile ground for strengthening social cohesion and moral bonds required for effective enforcement of contractual loan agreements. According to Abbink et al. (2002) and Wenner, 1995, trust enhances group performance by counteracting individuals' incentive to ignore group operational rules and free-ride.

Trust is very critical if a group is to achieve a common goal. In group lending with joint liability, loans are given to borrowers with reliance on guaranteed repayment from the group members (Sengupta & Aubuchon, 2008). In principle, loans are given on trust that they will be repaid based on the premise that if a member defaults payment, all the other group members are treated as being in default (Olomola, 2002). Trust building is easily built through one's commitment in attending meetings regularly and in repayment.

Hermis et al. (2005) found that trust and quality of group leaders helps in screening, monitoring and enforcing loan contract resulting in lower incidences of repayment problems. Cassar et al. (2005) provide strong evidence from two artefactual experiments carried in South Africa and Armenia that personal trust between group members and peer homogeneity are more important to group lending than the general societal trust.

On the contrary, lack of trust can be detrimental to the functioning of the group. If group members do not trust each other, it would result into divisions which would have serious consequences in achieving the group's collective action.

2.6.6 Classification of Social Capital

The concept of social capital is classified in two ways namely: structural and cognitive social capital. According to Granovetter (1985) cognitive social capital includes the internal structures such as shared norms, values and beliefs which influences the group member's behaviour to achieve a collective action. In cognitive social capital, there is an assumption or expectation held by the group members concerning what kind of behavior is right or wrong, allowed or not

allowed, appropriate and not appropriate (Anderson et al., 2007). Cognitive social capital provides standards, orders and influences group behavior towards achieving a collective action.

While cognitive social capital is concerned with internal structures, structural social capital refers to the external structures such as rules and procedures (Postelnicu et al., 2013). Rules and procedures may be written down stipulating the code of conduct amongst group members. Like cognitive social capital, structural social capital is also vital in facilitating the level of collective action which enhance group repayment.

2.6.7 Bonding and Bridging Social Capital

Bonding and bridging are two forms of social capital. According to Bourdieu (1986) bonding social capital connects individuals to groups or networks. Networks provide a platform for sharing information and bonding trust among group members. Therefore, bonding capital is important in reducing costs of negotiations due to increased trust established within the society. Social capital can be used for bonding and uniting individuals in a group or network. Theoretically, the existence of social capital in terms of groups with strong bonding is supposed to result into cooperation, unity and mutual action amongst group members. The strength of the bonding is related to the diversity of knowledge. People with strong bonding tend to share information amongst their social networks which is vital in screening and monitoring in GLJL.

While bonding capital is based on networks, bridging social capital is based on social integration and linkages (Olomola, 2002; Postenicul et al., 2013). These are important in relationships because they constitute an important source of social capital amongst group members. Literature indicates that bonding is stronger in families, friends, business associates and amongst people that live close to each other. This can therefore enhance considerable influence on group loan repayment performance. Evidence indicates that social capital is stronger in communities where there are strong social ties. According to Granovetter (1985) social ties can either be weak or strong depending on the emotional attachment and closeness. Group members who have strong social ties and who know each other before they enter a group borrowing are associated with better repayment (Wydick et al., 2011). Olomola (2002) states that characteristics of group members such as religion, family, neighbours, similar age, culture can enhance trust building. Such group characteristics can strengthen social cohesion and moral bonds required for effective enforcement of contractual agreements.

2.7 Chapter Summary

This chapter provides the general direction of the study by looking at MFI's institution framework and the social capital concept. The discussion has pointed out the increasing importance of social capital concept in group lending with joint liability and its relationship to repayment performance. The combination of group lending institution framework and the social capital theory helps explain the repayment performance of MFIs. They both present an ideal way of identifying and analysing factors affecting loan repayment performance in MFIs. The next chapter presents and discusses the methodology employed in this study.

CHAPTER 3
RESEARCH METHODOLOGY

3.1 Chapter Overview

This chapter presents the methodology employed in this study by highlighting important unit of analysis and variables. The chapter starts with section 3.2 which discusses research approach followed by section 3.3 covers the population and sampling of the study. Section 3.4 presents data collection methods, section 3.5 presents document review while 3.6 discusses data analysis. Section 3.7 discusses the study's validity and reliability, section 3.8 outlines research ethics, section 3.9 discusses the study's limitations followed chapter summary in section 3.10

3.2 Research Approach

Research design constitutes the blueprint for the collection, measurement and analysis of data (Cooper & Schindler, 2014). The study employed both qualitative and quantitative approaches. Using both approaches in a single study helped overcome biases inherent in each approach. The study focused on analysing the factors affecting loan repayment in state owned MFIs in Malawi. Quantitative research explains phenomena by collecting numerical data that are analysed using mathematically based methods. A quantitative study, is an enquiry into a social or human problem, based on testing a theory composed of variables, measured with numbers, and analysed with statistical procedures in order to examine whether the productive generalisation of the theory holds true (Roberts, 2010).

The data for this study therefore, had to focus on numbers on loan beneficiaries' demographic characteristics in relation to their gender, age, literacy levels, educational background, marital status and religion. In addition, this study solicited the views of loan beneficiaries on how they used their social network, shared values, norms and trust to screen, monitor and enforce loan contract. On the other hand, the qualitative approach helped in getting the views of the loan fund administrators and the loan group leaders. The main focus on credit officers was understanding the institutional framework guiding MEDF, the criteria used by MEDF in screening loan beneficiaries, establish the existing levels of collection existing amongst loan beneficiaries. The focus on loan group leaders was on their roles in managing the functions and operations of the groups. In particular, their responsibilities in calling for their monthly meeting, collecting and depositing, keeping records and handling disputes (MEDF Operations Manual, 2012).

3.3 Population and Sampling

The study population can be described as a sum of cases that adapt to some selected specification (Kothari, 2004). There were a total of 119 participants who were sampled for the study. Thus, 80 loan group beneficiaries from10 groups, 30 were loan group leaders and 9 were MEDF credit officers. These were identified through MEDF regional office. However, 71 loan beneficiaries from 10 groups participated, 5 credit officers who were present participated to and also 18 group leaders. The study population therefore, comprised of 94 participants.

3.3.1 Study Area

Using purposive sampling, this study selected Blantyre city as its study area. Blantyre city, located in the southern region of Malawi was selected because it is the commercial hub of the country as it houses major commercial and industrial firms. The district consists of two major towns namely Blantyre and Limbe which are eight kilometers apart. According to National Statistical Office (2008), Blantyre has a total population of 1,068,681 representing 5.1% of the share of national population. This study was purposively carried out in Limbe. This area was preferred for two reasons firstly there are many SMEs in the area that benefited from the loan scheme under study; secondly, there is diversity of people who participated in the loan scheme.

3.3.2 Participating Organisation

The microfinance industry currently comprises of 26 microfinance service operators in Malawi as indicated in Table 3.1.

Table 3.1: List of Registered MFIs in Malawi

Type of Microfinance	List of Microfinance Institutions
Microcredit Agencies	Business Finance Limited, Saile Financial Service, Umunthu microfinance, Greenroot Finance, Moyowathu Financial Services, TEECs, DF Agencies, GetBuck Malawi, National Business Association of Malawi (NABW), FEDOMA Microfinance Project, Fountain Microfinance, Citizen Microfinance, EPIK Finance Ltd, ECOREF Finance Ltd, Green Gold Finance Ltd, Foundation for Irrigation and Sustainable Development (FISD).
Non-deposit taking finances	Blue Foundation Services, Select Financial Services, FINCA, Easy Loans, MEDF, Microloan Foundation, Pride Malawi, Greenwing Capital Financial Services, Microloan Foundation, and CUMO Microfinance, MEDF.

Source: RBM, 2014

Out of the 26 microfinance operators, 16 are microcredit agencies and 10 non-deposit taking institutions (RBM, 2015). The study, purposively selected MEDF for a case study as it was considered an appropriate institution to collect data.

3.2.3 Participants

The study comprised of MEDF credit officers, loan beneficiaries and loan group leaders.

(i) Credit Officers

The first group of participants in this study was MEDF credit officers. Saunders et al. (2009, p.598) defines purposive sampling as "a non-probability sampling procedure in which the judgement of the researcher is used to select the cases that make up the sample". The logic behind purposive sampling lies in the selection of rich participants for in-depth study (Newman, 1997). Purposive sampling was therefore used in selecting credit officers. This sampling method was used because credit officers provide an important link in group based lending process between the lending institution and its borrowers (Ritchie & Siwale, 2012). More importantly, they are well placed to execute the loan administration process. Their roles and responsibilities involve screening of new applicants, appraising of loan applications, disbursing loans, training, collecting repayment and monitoring loan beneficiaries. By virtue of the work, they are usually in direct contact with loan beneficiaries thereby establishing the necessary trust which can enhance repayment.

(ii) MEDF Loan Groups and Loan Beneficiaries

The second group of participants was the loan beneficiaries from various groups. The study identified loan groups using systematic sampling. Systematic sampling is essentially a simple random sample where every item in the population has an equal chance of being included in the sample (Saunders, Lewis, & Thornhill, 2009). Systematic sampling was relevant in this study because each loan group in the population was given an equal chance of being included in the study sample size. The advantage with this type of sampling is that it is easy to use and not costly (Neuman, 1997). The study therefore systematically selected 30% of the total number of loan groups, which is a representative enough for most heterogeneous groups (Saunders et al., 2009). The list of all Limbe loan groups obtained from MEDF formed a sampling frame. The researcher interviewed beneficiaries in each group which were generated by employing a statistical formula expounded by Israel (2009) as indicated below:

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{36}{1 + 36(0.05)^2}$$

n= 33

30% of 33=10

Where n = sample size, N= Population e= Level of precision

The computation of the sample size of the loan group beneficiaries was at 33. In determining the sample size for the loan groups, the study therefore considered the level of significance (e) is set at 0.05, which is within the recommended level for social research. Israel's formula for calculating sample size is relevant where targeted study population is known, as is the case in this study. Therefore, the study interviewed every k^{th} loan group giving all groups an equal chance of being included in the sample (Saunders et al., 2009).

After identifying the groups. the loan beneficiaries were identified through MEDF regional office. The supervisor through the regional manager office provided physical addresses and contact numbers of the loan beneficiaries for easy tracing.

Using the same purposive sampling in selecting MEDF credit officers, the study selected loan beneficiaries as the second group of participants. The criterion of their selection was based on the need to select participants with a specific purpose in mind to obtain relevant information to

answer the research questions on socio characteristics of the loan beneficiaries, social capital elements based on their trust and network and their loan repayment. According to Neuman (1997), purposive sampling best addresses the needs of a qualitative study where there is a need to select participants with specific characteristics.

(iii) Loan Group Leaders

The third group of participants comprised of loan group leaders who were purposively selected from the 10 groups of loan beneficiaries. The loan group leaders comprised of the chairman, secretary and the treasurer. Therefore, the total sample of loan group leaders was 30. The loan group leaders were chosen because their roles in managing the functions and operations of the groups. Their responsibilities consist of calling for their monthly meeting, collecting cash during the meetings and making sure that it is deposited, keeping records and dealing with disputes (MEDF Operations Manual, 2012). They are also in constant touch with the MEDF office.

3.4 Data Collection Methods

The study focused on critically analysing group lending factors affecting loan repayment in state owned MFIs and used both qualitative and quantitative approaches. As a result, the data collection methods discussed in this section focus on methods that are appropriate for collecting both qualitative and quantitative data. Therefore, the study employed multiple data collection instruments namely: a survey of loan beneficiaries, Focus group discussion [FGDs] and unstructured interviews.

The study's data collection was carried out in eight weeks. The major reason for such a long period was that the groups are no longer functioning since MEDF is currently not offering any more loans. Additionally, it was not easy to meet the loan beneficiaries who thought the researcher was a journalist attempting to get information from them whilst others who had not yet finished repaying their loans thought the researcher had come to collect payments. However, MEDF staff assured the group leaders through the phone that data collection was purely for academic purposes.

3.4.1 Qualitative Data Collection Instruments

Unstructured interviews and FGDs were the main instruments used in this study.

(i) Unstructured Interviews

In this study, the researcher used one on one interviews with open and closed questions to collect primary data. The interviews were conducted with MEDF staff and leaders of the selected loan groups. According to Neuman (1997), an interview is defined as a short social interaction between two people with the explicit purpose by one person to obtain determined information from the other. Saunders et al. (2009, p.601) define unstructured interviews as “a wide ranging category of interview in which the interviewer commences with a set of interview themes but is prepared to vary the order in which the questions are asked and to ask new questions in the context of the research situation”. Unstructured interviews are advantageous because of their “free flowing” nature and this gives room to the researcher to adjust questions according to how the participants are responding.

The unstructured interviews for the group leaders were necessary in this context because the primary aim was to explore in depth functions of the loan group leaders in line with social capital framework adopted in the study. The interviews focused on soliciting their views on the level of collective action, norms guiding the loan group members, the implementation of the loan administration process and the rate of loan repayment (who are repaying the loan and who are not) and finally determining the loan repayment challenges arising execution of their responsibilities.

The duration for the unstructured interviews for each group leader was 30-45 minutes for the group leaders. The interviews were conducted within the premises of Limbe City assembly offices. The questionnaire for the group leaders was in English but most of the participants involved in the study did not have sufficient English language skills. Therefore, the interviews were conducted in the vernacular Chichewa language. However, the researcher tried as much as possible to ask questions in a way that would bring out the same meaning in English. In view of this, participant’s responses in chapter 4 are presented in Chichewa but with an English interpretation. Codes were used for responses from the group leaders are represented by letter R and a figure. For instance, R 5 means response from participant number 5. Prior to the interviews, the group leaders were assured that the research was for academic purposes. The assurance gave them the confidence to respond to questions without any reservations.

Out of a sample of 30 group leaders, 18 participated (4 had moved to other areas, 2 refused to participate in the interviews, 2 were engaged in other activities 2 were sick and unfortunately, 2 had passed on). Out of the 8 groups, there were 2 group leaders and the remaining 2 groups

had 1 leader. This was beyond control as the other two leaders had just passed on and the others were sick. However, this had insignificant impact on the results as most of the important issues were already discussed in the FGDs.

Equally important, the interviews solicited views from 5 MEDF credit officers. The unstructured interviews were conducted on one-on-one at their Blantyre regional offices The relevance of the credit officers in this study was to solicit their views on:

- The criteria they use in screening the loan groups.
- The loan administration processes of credit appraisal, monitoring, and loan disbursement.
- The challenges they encounter in executing the loan administration process.

The interviews were conducted by the researcher and each interview for the credit officers lasted 30-45 minutes. The data was captured using a smart phone and prior permission was sought from the participants for the recording. They were informed that recording was done to help the researcher check whether their responses were recorded correctly. The environment was conducive for the interviews because it was free from interferences. MEDF credit officers were given open ended questionnaire a week in advance to give them a glimpse of what was expected of them.

The main challenges encountered during the interviews were minor. It was challenging to book appointments with the credit officers because of their field work. However, appointments were made through their supervisor who made arrangements with the credit officers. another challenge was that some credit officers were reluctant to release information as they felt it to be confidential. Although this was the case the researcher managed to interview all the five credit officers after informing them that the data will be used for academic purposes only.

(ii) Focus Group Discussions

Unlike the unstructured interviews, FGD involves a discussion with a group of people. The advantages of FGDs are that the instrument tells you more of the social structure of the community used and gives one a more understanding of the context and social fabric of the community (Saunders et.al., 2009). There were 10 groups and 9 groups comprised of seven participants and the remaining group 8 participants. The number of participants for the FGDs was in line with the standard number of participants (Saunders et al., 2009). The FGD took at

least 90 minutes for each group. The time frame was within the required time for FGDs (Cooper & Schindler, 2014). The participants were told in advance about the objective of the discussion and the time it would take to complete the discussions.

The FGDs mainly focused on elements of social capital which include network, existing norms guiding group members in repayment and trust. The FGDs were conducted near Blantyre city offices situated close to Limbe main market. It was necessary not to meet them at their place of operation to avoid drawing attention from other business operators who knew that their colleagues had benefited from MEDF loans. Like the unstructured interviews the data was captured using a smartphone and actual filing of a questionnaire. The discussions were facilitated and captured by the researcher, this was important to ensure that all the necessary data was captured.

There were no major challenges faced during the discussions. The only problem was the need to interpreted the questionnaire in Chichewa. The situation was similar to the unstructured interviews with the loan group leaders. Therefore, the discussions were conducted in Chichewa.

3.4.2 Quantitative Data Collection Instruments

A survey was another instrument used for collecting data in this study was a survey. According to Saunders et al. (2009) a survey research is ideally suited to collecting data for describing a population too large to observe directly. It is also an excellent means of assessing and measuring attitudes and orientations in a large population. The advantage with the survey is that it enables economical collection of a large amount of data from quite a sizeable population. The survey served three main purposes. Firstly, it was used to get views from the loan beneficiaries on the process of group formation, existence of shared values, adherence of group rules and trust among the group members. Secondly, it was used to obtain information on the delivery of loan administration processes by the credit officers. The study used semi-structured questionnaires to collect data for the survey of loan beneficiaries.

(i) Questionnaire

A questionnaire is considered the heart of a survey operation, hence it should be very carefully constructed (Kothari, 2004). The questionnaires used in this study were based on standard questions on social capital and institutional framework adapted from previous research studies (Creswell, 2003). However, some changes were made in order to suit the questions to the objectives of the study. The questions in the study were a mixture of open ended and closed

questions. Saunders et al. (2009) define open ended questions as those that participants can answer in an almost unlimited number of ways. In contrast to open ended questions, closed questions provide a list of suitable responses from which to choose from. A questionnaire with a mixture of open and closed questions was administered in this study for the FGDs was based on socio economic characteristic of loan beneficiaries, level of trust, social network and norms guiding the loan groups as presented in chapter 2. The aim was to establish the existing natural levels of social capacity and its implication on loan repayment. On the other hand, a questionnaire with open questions was administered for the unstructured interviews with loan group leaders and MEDF staff. The questionnaires were administered to the loan beneficiaries due to their level of education.

The questionnaire was hand delivered to the credit officers at their regional offices in Blantyre and the loan group leaders were contacted in advance on what was expected. This permitted sufficient time for them to know the subject matter and prepare appropriate and relevant responses before scheduling the actual interview.

The Pilot Testing of Questionnaire

Before adopting the questionnaire, a pilot test was conducted to detect faults inherent in design and instrumentation and to provide substitute data and to provide feedback about wording of the questions. Furthermore, the exercise helped to ascertain the questionnaire's suitability in collecting data from the loan beneficiaries and also to detect any flows in the design. According to Merriam (2005), piloting increases the validity and reliability of the questionnaire. In this study, piloting was done three weeks before administering the actual questionnaire to allow changes to be made. The pilot group consisted of two randomly selected groups consisting of 6 members for each group. Blumberg et al. (2008) recommends that the size of the pilot sample may range from five to one hundred respondents. The pilot study population was within the recommended number. Saunders et al. (2009) argues that questionnaire piloting be employed no matter how pressed one is in terms of time. After collecting information from the pretested questionnaire, a revision of the questionnaire was made well before administering it to participants.

3.5 Document Review

Apart from the quantitative and qualitative data as primary data sources, the study also used secondary data in an effort to enrich the primary data. Mullins (1994) refers to secondary data as that information that can be derived from primary data collected by someone for other

purposes. The main instrument used in secondary data collection was document analysis through literature review. The advantage of using document analysis is that, documents do not change even with the passing of time unlike with primary data collection technique such as interviews where participants may influence or twist facts due to memory failure, resistance or failure to cooperate. Further, secondary data is cheap and readily available and provides historical and comprehensive information about the topic under study (Saunders et al., 2009). This provided a basis for the researcher to compare and validate the primary data.

In addition to the above, document analysis involved documenting of MEDF operational procedures and journals. These were necessary as they had provided information for literature review. However due to high employee turnover, transfers, poor state of record and filing system, locating of relevant documents was a challenge. The effect was that document analysis took longer than anticipated. However, data was complemented from other sources such as the internet. Therefore, this was not considered a major setback.

3.6 Data Analysis

The units of analysis of this study was guided by the institutional framework of Grameen group lending model and social capital concept. The Grameen Bank Model is basically based on loan processing procedures of screening of loan applicants, credit appraisal, loan disbursement, training and loan monitoring. On the other hand, social capital is defined as the structure of community relations and interactions based on social networks, norms, trust and collective action that facilitates cooperation, communication for the groups mutual benefit (Woolcock, 2001). The study therefore, involves exploration of social capital elements such as norms, trust, and social networks; and MEDF’s institutional framework in guiding loan administration process.

Thus the primary data was grouped according to emerging common themes and patterns. Data in the study was analysed both quantitatively and qualitatively. The blending of the two approaches in a single study was adopted as each approach compliments each other and provides results with a greater breadth and depth (Robert, 2010). Qualitative data from unstructured interviews was analysed through content analysis. The method allowed identification of emerging themes. The emerging themes were explained in line with the social capital theory variables (networks, norms and trust) and loan administration process (screening, credit appraisal, loan disbursement, training and monitoring) as explained earlier in Chapter 2. According to Saunders et al. (2009), content analysis involves creation of categories and

attaching them to meaningful units of data to identify main themes and ideas arising from the data. Thus using content analysis, the emerging themes were identified and analysed accordingly to better understand and explain emerging themes. On the other hand, quantitative data from the loan beneficiary's survey was analysed using descriptive analysis enabling generation of statistics such as tables, graphs beneficiary's percentage of loan repayment. This involved codifying responses from the loan beneficiaries and analysing using Statistical Package for Social Scientists [SPSS] and Microsoft Excel computer programs. The primary analysis method employed was distribution of frequencies including percentages, tables and graphs to illustrate results of the study; these are presented in Chapter 4.

The transcription of the data from the unstructured interviews was done by the researcher. Since there was too much data collected from the interviews, only sections that are important to the research were transcribed. For this to be achieved, the researcher had to carefully listen to the interview recording for over three times prior to developing themes based on the research questions. Saunders et al., (2009) sees transcription as conversion of the audio recordings into written words, thus the written words are a mirror of the audio recordings.

3.7 Validity and Reliability

Validity and reliability in research is mainly concerned with the consistency of the research issues while reliability is the extent to which the research instruments yield similar or/the same results on repeated trials (Creswell, 2003). The collected data from the unstructured interviews provided vital information for triangulating with information collected from the loan beneficiary's survey. Saunders et al. (2009) defined triangulation as the usage of multiple independent methods in an attempt to yield similar results. In this research the data collected from the FGDs and semi-structured interviews (guided by a questionnaire) and analysis of MEDF documents provided vital information for triangulating with information from loan beneficiaries survey regarding the challenges of loan repayment.

Reliability, according to Saunders et al. (2009), refers to the precision of a measurement and the extent to which a test or procedure is capable of producing similar results under constant conditions on all occasions. For this study, piloting of the questionnaire was employed; this was done three weeks before administering the actual questionnaire. To ensure credibility and consistency, the researcher used a smartphone to capture discussions conducted with the participants in the FGDs. The researcher listened carefully to the discussions at least three times before transcribing to ensure accuracy and precision of the data.

3.8 Research Limitations

All studies have some limitations of some kind and identifying of such is a very critical aspect in research. Roberts (2010) points out sample size, methodology constraints, length of study, and response rate as some of the limitations to research.

The first limitation was that it took unnecessarily longer time for MEDF to provide access to data collection due to the regional manager's transfer. When the new regional manager came into office, he had to be furnished with another letter since he could not find the original letter. Secondly, it also took a long time for MEDF interviews to take place due to employee turnover and the nature of their field work. This was due to their work schedules they had to attend to. Therefore, interviews with the credit officers had to be re-scheduled for another appropriate time.

The second limitation was the issue of translation. Most of the loan beneficiaries were not able to communicate in English due their low levels in education. The questionnaire was developed in English but was administered and recorded in Chichewa. However, their responses were then translated in English. To avoid translation inconsistency, the researcher listened to the responses several times to make sure that meaning is not distorted and that the results are not affected.

The major limitation of the study may be difficult to generalise because the research data was limited to the state owned MFI. In addition, the data was collected from loan beneficiaries operating businesses from Blantyre district only out of the 26 districts in Malawi. However, the sample area comprised of a diversity of people suggesting that the results could be generalised to an extent. Furthermore, since loans were given out sometime back, some loan beneficiaries were either dead or had relocated. However, collection of data was still possible because the groups were larger.

3.9 Research Ethics

Research ethics form an important part of research especially where the study involves human beings either as subjects or informants to ensure that participant's rights are respected and not infringed upon in any way. According to Robert, (2010) the concept of ethics is understood as referring to the body of principles and standards of individuals and/ or groups.

To ensure anonymity, participants from MEDF and the loan beneficiaries were informed beforehand the objectives of the study and that their participation in the research was voluntary. Further, the participants were assured that the information they will provide will solely be used for academic purposes. To ensure confidentiality, participant's data were linked with codes. This helped much because the participants especially from MEDF opened up and responded to questions without any reservations.

3.10 Chapter Summary

This chapter has presented discussions made on research approach employed, the research strategy, the study area, sampling techniques used and the criteria for the various choices. In addition, limitations of the research have also been highlighted. The next chapter presents and discusses the research findings.

CHAPTER 4
RESEARCH FINDINGS

4.1 Chapter Overview

This chapter presents research findings on the research analyzing factors affecting loan repayment in state owned microfinance institutions. Section 4.2 presents findings on demographic profile of MEDF loan beneficiaries, Section 4.3 presents findings on outcomes of social capital among MEDF loan beneficiaries. Section 4.4 presents findings on MEDF's institutional framework. Section 4.5 presents findings on MEDF loan benefits and finally section 4.6 presents chapter summary.

4.2 Demographic Characteristics of the Loan Beneficiaries

The study analysed the factors affecting loan repayment in state owned MFIs. This section discusses the demographic details of participants involved in this study such as response rate, gender, age, literacy, education, marital status, and religion.

4.2.1 Response Rate

The research study involved 10 groups of loan beneficiaries, the number of loan beneficiaries ranged from 5 to 20 in each group comprising of women, men and the youth. In total there were 80 participants who were sampled. Out of 80 participants, 71 participated representing a response rate of 89%. This response rate was high because of the pre-arranged meetings with the group leaders prior to the day of discussions. The leaders were asked to encourage their members to participate in the discussions. In addition, the maximum number of loan beneficiaries per group was 20 which means that it was not very difficult to have at least 8 participants per group hence the high response rate.

4.2.2 Gender

The significance of gender merits a discussion in this study. Provision of microfinance has been thought as an intervention tool to address gender biases in income inequalities (Coleman, 1988). It was therefore important to analyze the participants' gender to see if equality was considered. Figure 4.1 shows the distribution of participants according to their gender.

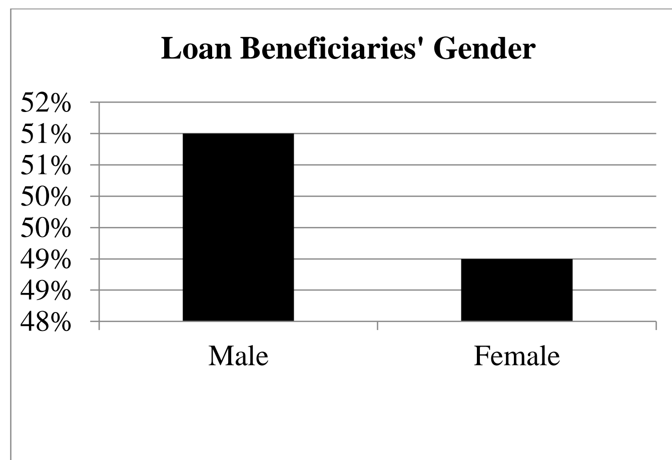

Figure 4.1: Loan Beneficiaries' Gender

Figure 4.1 shows that there were more male participants (51%) than the female participants (49%). These percentages indicate that there was equality in loan accessibility though there is a small difference of 2%.

4.2.3 Age

It is important that the participants be analyzed according to age. According to MEDF loans, are only given to those above the age of 18 and it is its credit policy that group members share similar age. People of similar age group tend to have similar interests and have stronger social ties which is very crucial to the groups repayment performance (Alam & Getubig, 2010; Granovetter, 1985; Olomola, 2002; Woolcock, 2001). Table 4.1 presents the distribution of participants according to their age.

Table 4.1: Age of Loan Beneficiaries

Age Group	Number of Beneficiaries	Percentage %
25-29	16	23
30-34	16	23
35-39	11	14
40-44	6	9
45-49	7	10
50+	15	21
Total	**71**	**100**

Table 4.1 shows that there were no participants aged between 18-24 years who accessed loans. One of the possible reasons could be those between 18 and 24 years are considered young and therefore access to credit is a challenge. Constitutionally, those under the age of 18 are considered minors in Malawi. Therefore, they could not access loans.

The majority of the participants (46%) were between 25-34 years old. This is a prime age range where most people consider becoming established in business. The demographic profile of the survey reveals that these people are failing to break through into the job market. These unqualified are the general target of microfinance (Bhole & Ogden, 2009). This age group could have possibly built the required social capital through business associations and networks to access the loans.

4.2.4 Literacy Levels

The study further investigated the participants' literacy levels. Figure 4.2 shows the loan beneficiaries literacy.

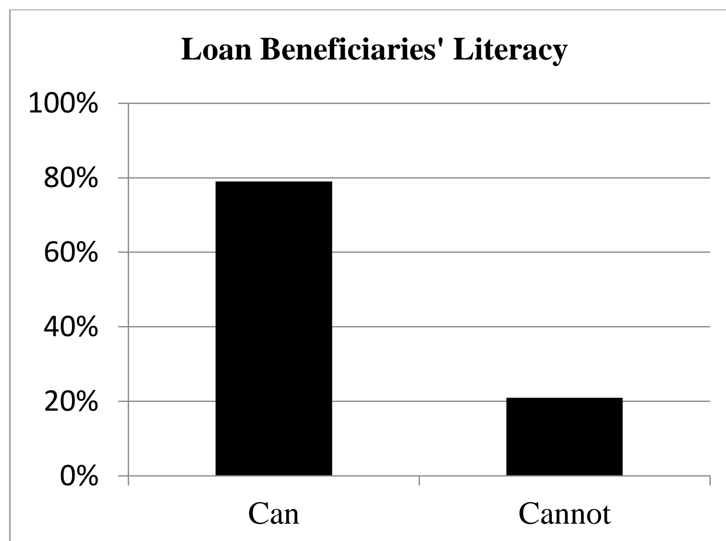

Figure 4.2: Loan Beneficiaries' Literacy

Figure 4.2 reveals that the majority of MEDF loan beneficiaries (79%) could read and write while 21% could not. Knowing how to read and write is important in two ways. First, when running a business, one is required to keep records (Sheila, 2011). Second, all prospective loan beneficiaries go through training and therefore, the requirement of reading and writing cannot be overemphasized. However, these findings reveal that being able to read and write is not primarily considered for some loan beneficiaries.

4.2.5 Educational Background

In addition to assessing literacy levels, the study also sought the participants' education background. It was important for the study to find out loan beneficiaries' education background because this factor can affect trust building and strengthen the social cohesion and moral bonds required for effective enforcement of the loan contractual agreement (Olomola, 2002; Woolcock, 2001). Table 4.2 presents the loan beneficiaries education levels.

Table 4.2: Loan Beneficiaries' Education

Certificate Attained	Number of Participants	Percentage %
None	32	46
PSCL	27	39
JCE	5	7
MSCE	6	7
Diploma	1	1
Total	**71**	**100**

The results reveal that the majority of the participants (46%) did not have any certificate, 39 % attained Primary School Leaving Certificate, 7% attained the Junior Certificate Education, 7% attained the Malawi School Certificate of Education and only 1% attained a Diploma.

Despite the introduction of free primary school education, the majority of Malawians have less than the primary education. This is true in the findings which reveal that the majority of the participants (46%) did not even attain the Primary School Leaving Certificate. The low levels of education among MEDF loan beneficiaries present a potential challenge on their ability to understand MEDF's contractual terms as they are written in English. Lack of necessary qualifications of the participants is the major obstacle to finding employment. Therefore, most of the participants resort to conducting business as an alternative source of employment.

4.2.6 Marital Status

The study further looked at the distribution of the participants according to their marital status. Literature suggests that those who run a business as a family tend to be successful than those operating as individuals because of the strong bonding capital arising from their frequent interaction (Obrien et al., 2005 Olomola, 2002). Therefore, successful businesses are able to

repay and plough back their profits into the business. In view of this it is important for the study to find out the marital status of the loan beneficiaries.

Table 4.3: Loan Beneficiaries'' Marital Status

Marital Status	Number of Beneficiaries	Percentage %
Married	46	66
Widowed	13	18
Divorced	8	10
Single	2	3
Separated	2	3
Total	**71**	**100**

Table 4.3 shows the study's demographic profile on marital status. Findings indicate that the majority (66%) of the participants are married and 34% are not. One of the reasons of having many married participants is the huge responsibility that most married people have of looking after their own families and the extended families. Hence the more need for additional capital to boost their businesses to support their families.

4.2.7 Religion

The study further looked at the participants' religion. Code of conduct (norms) among group members is usually embedded in religion. Literature indicates that religion is a factor that builds bonding capital of people within the same network. Strong bonding enhances trust building and adherence to group norms among group members (Olomola, 2002). Figure 4.3 shows the distribution of MEDF's loan beneficiaries religion.

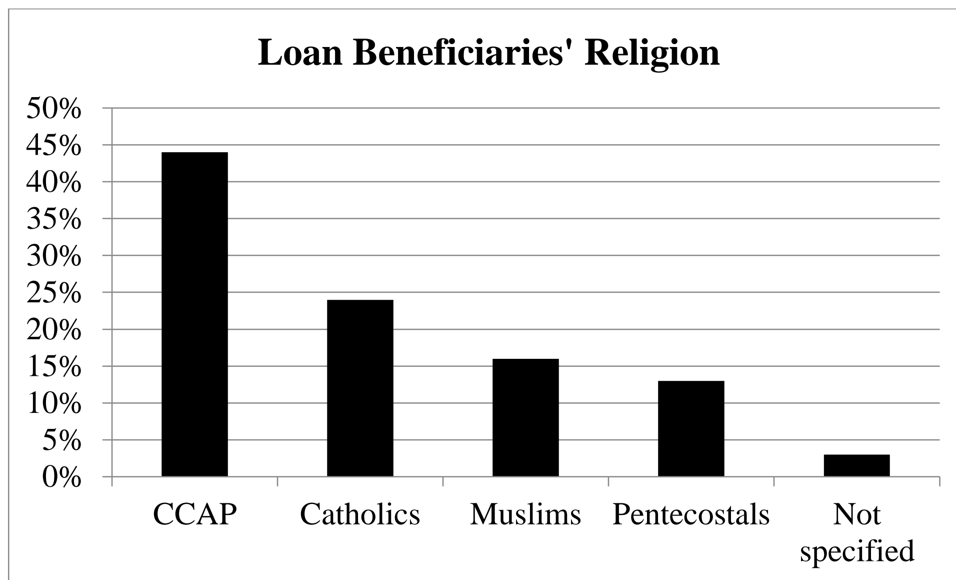

Figure 4. 3: Loan Beneficiaries' Religion

As regard to religion, findings from the study revealed that 16% of the loan beneficiaries were Muslims, 24% Catholics, 44% CCAP members, 13% Pentecostals and the remaining 3% did not specify their faith. From this composition, it can be conjured that the majority, over 80% were Christians with only 16% non-Christians. The religious networks seem to have contributed to the applicant's access to loans. The norm or values of Christians is that they are supposed to be honest and therefore be good at repaying bank loans.

4.3 Outcomes of Social Capital among Participants

This section presents the extent to which MEDF groups use their social capital to screen, monitor and enforce repayment measures among themselves. Group lending with joint liability (GLJL) disburses its loans to groups based on the understanding that social capital amongst the loan beneficiaries enforce screening, monitoring and enforcement of loan contracts (Cassar et al., 2005; Postelnicu et al., 2013). Three elements of social capital namely: social networks, norms and trust were used in this study to analyse the outcomes of social capital which are cooperation, information sharing and collective action.

4.3.1 Participants' Social Network

Social network as an element of social capital can be built through different people's interaction in activities that require group participation such as religion, friends, family, business and politics (Olomola, 2002). These social networks are key to facilitating communication and information sharing between people within the same network ties (Anderson et al., 2007;

Putnam, 1995). The study therefore, investigated the kinds of associations that the loan beneficiaries were involved in prior to group formation as shown in Table 4.4.

Table 4.4: Types of Aassociations among Loan Beneficiaries

Types of Associations	**Number of Beneficiaries**	**Percentage %**
Traditional Forum	5	6
Political meetings	23	32
Religious Meetings	27	39
Cultural Meetings	5	7
Men/Women/Youth	11	16
Total	**71**	**100**

Table 4.4 indicates that 39% of loan beneficiaries interacted together in religious meetings followed by political associations under the Democratic Progressive Party [DPP) (32%), men/women/youth associations (16%), cultural association (7%) and finally traditional forum (6%).

In this case, religion presents the highest percentage of association. Thus the 39 % of religion is in line with assertion that religion in Africa and Malawi in particular matters so much and is a key driver or source of social capital. In addition to religious association, DPP political association also provided a forum of information sharing and interaction amongst the loan beneficiaries. It should, however, be pointed out that political activities are highly divisive and therefore have the potential to unite a group of people in the same political party, it can completely cut off the people from the other political parties (Fukuyama, 2001; Zuka, 2013).

4.3.2 Awareness Channels of Communication on MEDF Loans

Social networks provide a channel of communication of sharing information amongst members of the same network (Anderson et al., 2007). According to MEDF operational manual (2012), loan beneficiaries are supposed to access MEDF loan information from the media (television and the radio), traditional leaders and MEDF credit officers. The study investigated how the loan beneficiaries accessed information about MEDF loans as presented in Figure 4.4.

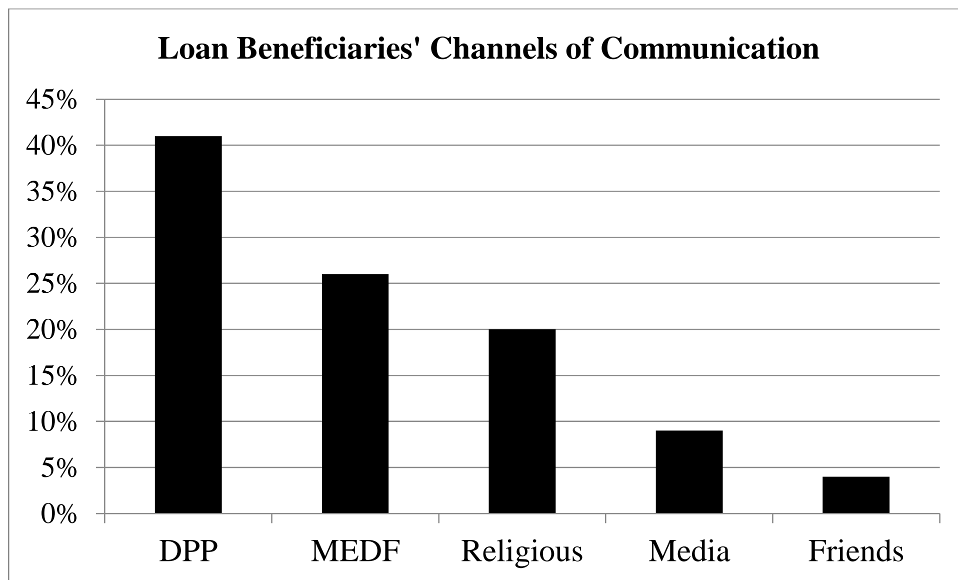

Figure.4.4: MEDF Awareness Channels

Figure 4.4 reveals that participants came to know about MEDF loans mainly through the DPP as represented by 41%. The other awareness channels include, MEDF staff 26%, religious groups 20% media 9% and through friends 4%.

4.3.3 Shared Norms and Values among Participants

Shared norms as an element of social capital are referred to as a guide for the code of conduct or action which members generally complied with within a network Postelnicu et al. (2013). These norms generate secondary features such as cooperation and collective action among group members (Kilpatrick, 2001). Shared norms convince individuals to respect group values knowing that other group members will also respect group values.

4.3.4 Existence of Social Capital

Existence of social capital amongst group members is reflected in cooperation and solving collective problems based on trust. The element of trust matters most in loan repayment. Trust among the group members is seen in their collective action, commitment in attending meetings, adherence to group rules through observance of group norms (Hermis, et al., 2005). In this study, the participants were asked if they have trust in their fellow group members. This was important for the study because loans under group lending are provided without physical collateral but with reliance on guaranteed repayment approval from group members (Olomola, 2002). By providing loans to groups, MEDF trusted that the group loan beneficiaries will enforce each other to repay the loan.

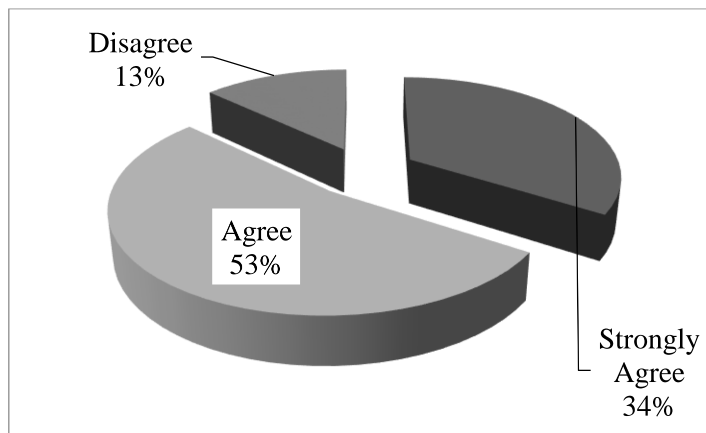

Figure 4.5: Participants opinion of trusting other group members

Figure 4.5 above indicates that 87% agree (35% strongly agree and 53% agree) of the participants strongly agree to have trust in other members in their group while 13% disagreed. The 87% of those trusting other members is something that literature say promote cooperation and unity amongst the participants on loan repayment. Apart from promoting cooperation, trust brought adherence to group rules among the participants. Further, analysis on why MEDF participants (13%) do not trust other members in their group, members revealed the following:

(i) Inconsistency in enforcing default measures

In order to enforce repayment for a group member who defaults, the other group members seize some property of the defaulter. They either hold it so that the owner redeems it or they sell to recover the money that the members repaid for the defaulter. However, interviews indicated that there are certain rules that apply to specific individuals. For instance, seizure of property as one way of enforcing repayment as indicated in extract 4.1.

Extract 4.1

R12: *"Kulephera kupereka chilango kwa mamembala mofanana mamembala a gulu akalephera kubweza ngongole. Ena amalandidwa katundu pamene ena amangochenjezedwa."* [Inconsistency in executing group rules when one defaults. Some defaulting members have their property seized while others are just warned].

(ii) Borrowing on behalf of others

In addition, other members have borrowed money from MEDF on behalf of other people outside the group. This situation has posed serious problems when the illegitimate borrower fails to repay.

Extract 4.2

RC: Some group members borrowed money on behalf of other people outside the group without the knowledge of their fellow group members. This caused problems especially when the illegible borrower fails to repay to the legal borrower.

(iii) Intra group loans

Extract 4.3

RB: Intragroup loans take place outside the MEDF groups. Some group members who were lending each other money before accessing MEDF loans continued to do so. This affects the group when such members fail to repay.

(iv) *Failure to attend meetings without proper reasons*

Commitment to attending group meetings is one of the factors that enhances trust building, social cohesion and strengthen bonding among group members (Olomola, 2002). Attendance of group meeting remains a critical element in group lending as it instils discipline in group members and facilitates collection of repayment (Armendariz & Agion, 1999). The participants indicated that some were habitually absent during group meetings.

Extract 4.4

R12: "*Palibe chifukwa chokumanirananso pano, atsogoleri akayitanitsa msonkhano anthu sabweranso*". [Group members no longer attend meetings when the leadership calls for meetings].

Thus the findings reveal that the majority (87%) trust their fellow group members and only 13% do not. The participants pointed out inconsistency in enforcing default measures, borrowing on behalf of others, intra group loans and failure to attend meetings without proper reasons, as the three major reasons for not trusting other group members.

4.3.4.1 Adherence to Group Rules

Cooperation amongst group members is reflected in their adherence to group rules. The study also investigated further on adherence to the group rules as a constitution that the participants themselves had put in place. It was important for the study to investigate on adherence to group rules as a constitution that the participants themselves had put in place. Adherence to rules in

group lending is enhanced due to peer pressure existing among group members (Lensink & Hermes, 2007; Wenner, 1995;). In other words, reliance on rules governing the group ensures against the risk of non - repayment to the lending institution (Olomola, 2002).

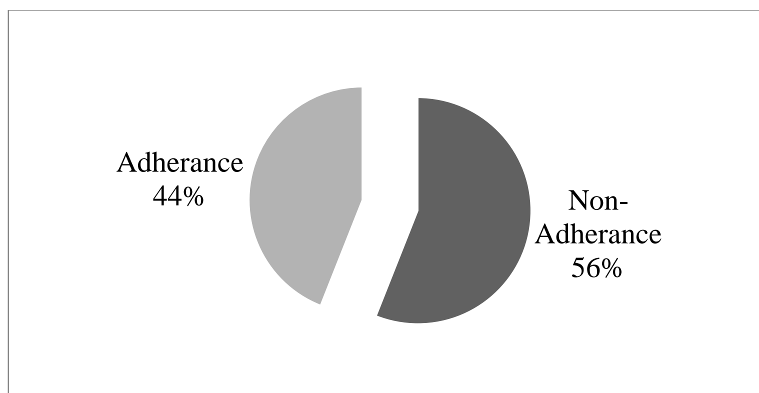

Figure 4.6: Participants Adherence to Group Rules

Statistical findings from FGDs with the loan beneficiaries show that only 56% of the participants adhere to group rules while the 44% do not. The 44% non-adherence poses a huge threat to loan repayment as it potentially encourages a free riding to group disunity (Cassar et al., 2005).

4.3.4.2 Reasons to Non-Adherence to Group Rules

It was important to further investigate the reasons for non - adherence to group rules by the 44 % of the participants. The capacity to enforce group rules where group members are homogeneous socially is higher than in heterogeneous groups (Olomola, 2002). The more homogeneous groups are in terms of religion, age, living within the same community the higher is the groups in terms of endowment of social capital. (Woolcock, 2001; Olomola, 2002). Interviews with the group leaders revealed different views on why group members do not adhere to group repayment rules. The interviews indicated that there are certain rules that apply to specific individuals and not to others. However, findings revealed different views on loan repayment as presented in extract 4 4and 4.5 repeat payments as indicated.

(i) ***No repeat loans***

When there is cooperation among the members, loan beneficiaries are committed to repaying their group loans successfully so that they qualify for a repeat loan. Therefore, repeat loans act as an incentive for borrowers to repay according to their repayment schedule (Hermis & Lensink, 2007; Hulme & Mosley, 1996). According to MEDF operational manual (MEDF, 2012) repeat loans are provided to groups which successfully repay according to their

repayment schedule. However, findings revealed different views on loan repayment in connection with repeat payments as indicated in extract 4.5.

Extract 4.5

R3*:* *"Palibe chotifulumizitsa kubweza ngongole moyenerera chifukwa a MEDF sapelekanso ngongole zina kwa amene amaliza kubweza ngongole yonse, ndiye ndibwezerenji ngongole?"*. [Why should I repay my loan? There is nothing that drives me to repay the loan since MEDF is no longer giving repeat loans for those who have successfully repaid their loan].

(ii) *Government Grants*

Unstructured interviews with MEDF credit officers and findings from the FGDs show that there is a lot of misinterpretation about MEDF loans. In particular, some argue that MEDF loans are meant to be paid back while others argue that there is no need to give back government loans.

Extract 4.6

R1: *"Ngongole yaboma sitibweza popeza inali yotithandizira pa bizinezi yathu kwaomwe sitingathe kupeza mwai wa ngongole ku bank. Ngongoleyi inali yaulere"*. [We do not give back government loans. These loans were not meant to be repaid rather to help small and medium enterprises who cannot get bank loans. It was given to us free].

The findings reveal that only 56% adhere to group rules. Participants gave different views on why they do not adhere to group rules. Some pointed out MEDF's failure in giving repeat loans, some perceive MEDF loans as government grants and others attributed their non adherence to MEDF's failure to provide repeat loans.

4.4 Institutional Framework

The study further investigated the institutional framework guiding MEDF loan. It was important to document MEDF group lending methodology and get the views of the key informants and compare what is in the operations manual against what is on the ground. In addition, get the views of the loan beneficiaries on the execution of the loan administration process.

Credit officers in MFIs have a responsibility of screening, appraising, disbursing and monitoring loans. The assumption is that if these credit officers systematically follow the right procedures, loan beneficiaries would repay. If loan beneficiaries do not pay, then it is considered a failure by the MFIs. MEDF's loan administration process guiding MEDF institutional framework encompasses screening of loan applicants, appraising loan applications, disbursing loans and monitoring.

4.4.1 Screening Process

For group lending, screening of loans begin from the time people are told to form groups. This is where self-selection and peer pressure is stressed by MEDF officers (MEDF, 2012). MEDF loan conditions prerequisites are: that groups be formed from self-selected groups, that the group members carefully select group leaders and lastly develop their constitution.

4.4.1.1 Group Formation

According to MEDF loan administration manual (2012), there is a clear process of organizing individuals into groups based on existing principles of group lending. Prior to group formation, interested loan applicants are advised by credit officers during the awareness campaign to form self-selected groups (Ghatak, 1999; Ghatak & Guinanne, 1999). Thus groups formed without interference from politicians, MEDF, and government officials. MEDF places significant importance on group formation as it sets what type of people the groups have to include in their groups. In general, the following are the procedures for a group to be considered for a loan:

- A group should comprise of 5-10 self-selected and like-minded people including women, men and the youth whose age is above 18 years.
- Group members should know each other well, live within the same community and share the same socio economic and educational background.
- Group members must be of good reputation, hardworking and creditworthy.

MEDF's aim of the above criteria is that people should have homogeneous groups by utilizing the social ties embedded in their communities. The more homogeneous the group members are in terms of religion, age, membership of the same community, the more the trust and the higher the group endowment of social capital (Alam & Getubig 2010; Woolcock, 2001). Personal trust in selecting group members plays an important role in group formation because member groups select people that are trustworthy (Cassar et al., 2005).

The study investigated how the groups were formed. It was important because how and where the groups are formed has a bearing on loan beneficiaries' view of loan repayment.

Table 4.5: Participants Group Formation

Facilitators	**Number of Participants**	**Percentage %**
MEDF Staff	4	40
Politicians	6	60
Traditional Leaders	0	0
Total	**10**	**100**

Table 4.5 shows that out of the 10 groups that participated in this study, only 40% were formed in line with MEDF operational procedures while 60% were not. There was no group which was formed with facilitation from the traditional leader. The 60% of groups with pressure and influence of politicians pose a problem in loan repayment as due diligence is not adequately conducted by credit officers.

Further interviews revealed that there was interference by the DPP ruling as cited in extract 4.7.

(i) Political Interference

Extract 4.7

> **RB**: Members of Parliament were involved in collecting application forms from MEDF and distributing them to their party members and also submitting completed forms to our office.

The study findings revealed that some groups are not formed in line with MEDF procedure as political affiliation controlled group membership. Contrary to the rules, some members got loans on behalf of others outside the existing group. Furthermore, the study revealed that political figures were actively involved in organisation and choice of individuals to access the loans.

4.4.1.2 Selection of Group Leaders

Interviews conducted with MEDF credit officers reveal that during their visit to the groups, their main focus is to assess group solidarity and readiness to repay the loan. This activity is

not possible if the group is already made as there is little or no chance of the groups being re-organised.

Upon successful group formation, the members of the group are advised to select leaders into office namely; chairman, secretary and treasurer. Each of these positions have roles and responsibilities to play. These leaders play an important role in managing the group, in terms of commitment to attending meetings, ability to deal with conflicts, record keeping and sense of ownership.

Findings from FGDs reveal that group leaders were democratically elected by the group members.

4.4.1.3 Developing a Group Constitution

After establishing MEDF loan groups and selecting leaders, the groups then develop a constitution which clearly stipulates how the group intends to operate. It is important that all the group members are involved in developing the constitution because in that way, members would own the constitution. Further, it enhances adherence to the rules (MEDF, 2012). Since development of a constitution is a must for opening an account with the banks, all the 10 groups met this criterion by involving all the members in developing the constitution.

4.4.1.4 Screening of Applicants' Creditworthiness

Screening of loan applicants is a rigorous and expensive exercise. MEDF credit officers screen loan applicants' creditworthiness based on two other elements namely, character and capacity to repay.

1. Character Assessment

MEDF considers character as the most important factor in making a loan decision. Further, MEDF considers applicants who have a reputation of being honest and hardworking to be of lower credit and fraud risk. According to MEDF operational manual (MEDF, 2012), it is important to assess an applicant's character because it indicates the applicant's commitment and willingness to repay.

This study revealed that Credit officers assessed the applicant's character by:

(i) Screening Flawed with Shortcuts

Character assessment involves obtaining a range of character from fellow group members, those within the community, visiting the applicants home and business premises to make an informed decision. However, findings revealed that assessment is characterised with shortcuts.

Extract 4.8

> **RA:** The exercise is rigorous and costly, we have limited financial resources and therefore we use shortcuts by eliminating some steps in the lending procedure. For instance, not visiting the applicant's business place.

2. Capacity

Credit officers need to have adequate knowledge of the applicants' business to assess its capacity to repay. This is done by visiting the applicants' business premises to assess the applicant's capital, the business in relation to the amount of loan being requested, sales turnover, daily sales, past business records. After a proper credit analysis, MEDF credit officers set the loan amount based on the assessment. MEDF does not approve a loan that exceeds the business working capital. Interviews with MEDF's credit officers revealed that the screening process is carried out differently as it is marred by a number of factors as presented in extract 4.9.

Interviews with MEDF's credit officers revealed that determining the business capacity to repay is carried out differently as it is marred by lack of information as presented in the following extract.

(i) Lack of vital business information

Extract 4.9

> **RB:** Most of the applicants do not keep their business records. Therefore, we only depend on what they tell us and also use our gut feeling to determine the business capacity to repay.

The study findings revealed that screening of applicants is vital in making a loan decision. However, the process is rigorous and costly. As a result, MEDF credit officers use short cuts by eliminating some lending steps due to inadequate financial resources. On determining business capacity to repay, credit officers face a challenge of lack of vital business information.

4.4.2 Loan Appraisal Process

Apart from screening loan applicants, MEDF also conducts loan appraisal which involves assessing the creditworthy of a loan applicant by the MFIs before the loan is granted (Simtowe & Zeller, 2008; Warue, 2012). Credit appraisal primarily ensures that the loans are granted to the right applicants and that the lenders capital and interest is relatively secured. MEDF's loan appraisal is carried out in two phases thus desk and field appraisal.

(a) **Desk Appraisal:** Involves analysing information as presented in the application form. The focus of information is mainly on loan amount, loan purpose, and place of operation. business viability, marketability and profitability.

(b) **Field Appraisal:** Involves physical verification of what has been presented in the application form. Apart from personal information, MEDF application form captures information on loan amount, purpose of the loan, business location, expected daily sales. The credit officers analyse this information to assess the business profitability/viability in repaying the loan. However, on the ground the appraisal is done differently as explained in extract 4.10.

(i) *Inadequate Appraisal*

Extract 4.10

RD: The appraisal process is characterised "with short cuts." The shortcuts included failure by the credit officers to comply with MEDF's lending policy due to lack of training when joining the organisation and lack of motivation.

Another MEDF credit officer also said that:

(ii) Failure to Involve Community Development Assistants

According to MEDF operational manual, Community Development Assistants [CDAs] are involved from the onset in carrying out the field appraisals. They are involved because they live within the same community.

Extract 4.11

RD: CDAs are not involved in the appraising process. We fail to involve them due to some of the short cuts that we follow.

When the appraisal is complete, the credit officers write recommendations to their supervisor of viable businesses. If the supervisor is satisfied, he forwards the same to the regional manager who submits the application forms to the credit committee for further review and approval.

Findings from the interviews reveal that the appraisal exercise is inadequately carried out due to failures by the credit officers to comply with MEDF's lending policy due to lack of training. Further, findings revealed that MEDF loan scheme is not directly connected with community structures for implementing development such as CDAs.

4.4.3 Loan Approval Process

Upon completion of the loan appraisal process, credit officers submit reports of recommendation on successful applications to their supervisor. The supervisor does an independent assessment before submitting to the district manager who then forward the same to the regional manager. It is the regional manager who forwards all the reports to the credit committee. Thereafter, the credit committee approves the loans. However, the operations manager from head office finally certifies the approved list before the list of successful applicants is released. Interviews with the credit officers on loan processing reveal that MEDF loan processing is unnecessarily long as cited by the credit officers:

(i) Long approval process

Extract 4.12

> **RE:** The loan approval process is unnecessarily long, frustrating and time consuming since it goes through tiers.

From the approval process, it is evident that all loans are approved by the head office irrespective of the loan amount. The regional managers do not have the mandate to approve even small loans at the regional level. MEDF bureaucracy leads to delays in loan disbursement.

4.4.4 Disbursement Process

After the loans have been approved by head office, the names of approved loans are sent to the respective regions for disbursement. The loan disbursement process involves a number of activities such as training of prospective loan beneficiaries and issuing of cheques and repayment schedules before the loan is finally given to the borrower. FGDs reveal that the MEDFs loan process takes more time than other lending institutions as lamented by some loan beneficiaries:

(i) Late disbursement of cheques

Extract 4.13

R12: "*Ngongoleza MEDF zimatenga nthawi kuperekedwa, nthawi zina mpaka kutha miyezi mwina itatu usanalandire ngongole yako*?" [MEDF loans takes a long time to be disbursed. Sometimes it takes up to three months before accessing the loan].

4.4.4.1 Training

As stated earlier training is part of the disbursement process. Loans are only disbursed upon successful completion of a mandatory training. The objective of the training is to equip the loan beneficiaries with the necessary skills in group dynamics, and business management. According to MEDF operational manual (2012), credit officers are supposed to facilitate the training for one week. However, findings revealed that the training is conducted in a day. Further interviews with the loan group leaders reveal that they never attended any training when elected into office. Their responses are cited in extract 4.14.

(i) *Training for loan beneficiaries is done hastily*

Extract 4.14

R6: *"Maphuziro a MEDF ndi opindulitsa pakayendetsedwe ka buzinezi koma tinaphunzitsidwa zinthu zambiri tsiku limodzi".* [MEDF's training is of benefit to business management. However, we were taught so many things in a day].

The group leaders further cited:

(ii) *No leadership training*

Extract: 4.15

R8: *"Mtsogoleri kuti agwire ntchito yabwino amayenera kuphunzitsidwa. Komatu ife chisankhidwireni sitinaphunzitsidweko ndi a MEDF".* [For a leader to do a good job, he is supposed to be trained. But for us, since being elected, we have not been trained by MEDF].

The findings revealed that the training is done in haste because it is conducted in one day instead of one week due to insufficient resources. Group leaders are not equipped with leadership skills and dispute handling. This is not surprising as portrayed in their inconsistencies in handling

sanctions when a member defaults payment. Credit officers for the state owned MFIs also revealed that though they are involved in facilitating training, MEDF did not provide them with relevant training.

4.4.4.2 Loan Repayment Schedule

After the mandatory training, loan beneficiaries are given repayment schedules. Morduch (1999) states that a repayment schedule guides loan beneficiaries on their repayment. MEDF provides the groups with a repayment schedule during cheque disbursement. Apart from loan collection by its credit officers, MEDF also provides a number of repayment options such as Malawi Savings Bank [MSB] branches, postal agencies and Opportunity International Bank of Malawi [OIBM] are the pay point that loan beneficiaries use. However, findings revealed that payment of loans through MSB had challenges in that MEDF failed to provide accurate loan balances to its clients.

(i) ***Failure to Provide Accurate Loan Balances***

MEDF provides updated loan balances to its clients either on request or during their monitoring visits. However, some of the balances do not reflect the actual loan balances as claimed by the loan beneficiaries. Loan beneficiaries question the credit officer's credibility when they fail to provide accurate loan balances.

Extract 4.16

> **R15***:* *"Ngati obwenza ngongole timataya chikhulupiriro kuti ndalama zathu mwina sizifika ku maofesi ya MEDF chifukwa ma loan balance athu safanana ndimomwe ife eni tapelekera"*. [As loan beneficiaries we fail to trust MEDF that may be our loan repayment do not reach MEDF offices because our loan balances do not tarry with what we have repaid].

The loan beneficiaries also revealed that differences in the amount of loan has contributed to their group loan repayment performance as indicated in this response in extract 4.17:

(ii) ***Some members getting bigger loans than other***

Extract 4.17

> **RA:** Others got bigger loans than their fellow members. This brought challenges in repayment especially when those with bigger loans failed

to repay. The members who got small loans failed to repay for those with bigger loans and this affected the group repayment.

The findings revealed that provision of bigger loans to other group members and MEDF's failure to provide accurate loan balances are contributing to the groups' poor repayment performance. Loan beneficiaries have lost trust in the system and the credit officers who sometimes collect repayment. Further to this, MEDF charges interest rate of 15% for a period of 12 months to repay inclusive of one-month grace period for production oriented businesses such as vegetable growing, and bee keeping. The reason for the grace period is that return on investment for production oriented businesses take time and loan beneficiaries can only repay once they start making sales.

4.4.4.3 Types of Businesses run by MEDF Loan Beneficiaries

The study conducted an investigation into the business activity to find out if MEDF complies with its credit policy in regard to the types of businesses approved by MEDF.

Table 4.6: Participant's Business Activity

Business Activity	Number of Participants	Percentage %
Food Sales	44	63
Wholesale/Retail	22	31
Service	5	6
Total	**71**	**100**

Table 4.6 shows that 63% of the participants' income comes from selling food items, 31% from wholesale/retail and only 6% from rendering services. The findings indicated that over 90% of the participants are operating non-production related businesses. Further to this, MEDF charges interest rate of 15% for a period of 12 months to repay inclusive of one-month grace period for production oriented businesses such as vegetable growing, and bee keeping. The reason for the grace period is that return on investment for production oriented businesses take time and loan beneficiaries can only repay once they start making sales. However, FGDs revealed that all loan beneficiaries were given 3-months grace period irrespective of the type of business they are running. This is contrary to MEDF's credit policy that grace period be given to those running production oriented businesses. The results also reveal that all the loan beneficiaries were already in business and had been operating for more than five years.

4.4.5 Loan Monitoring

According to MEDF, the credit officers are supposed to monitor the groups to ensure that loan beneficiaries exercise prudence in the use of the loans that the likelihood of repayment is enhanced (Simtowe & Zeller, 2008; Warue, 2012). Apart from ensuring loan utilisation, credit officers visit the loan beneficiaries at least once or twice a month. The primary reasons for their visit is to:

(a) Assess business progress and assess the challenges they are facing which might negatively affect their repayment pattern.

(b) Identify early warning signs relating to their business operations that are likely to affect loan repayment.

The nature of the credit officers' job requires that they be in constant interaction with the loan groups. It is through these constant interactions that relationships and trust are built. When trust is built through loan monitoring it enhances loan repayment (Ritchie & Siwale, 2012). Even though monitoring is one of the critical factors of MFIs, MEDF credit officers fail to visit their loan beneficiaries monthly. Some of the credit officers said:

(i) High employee turnover

Extract 4.18

> **RE:** Imagine out of 9 credit officers, we are just 5 remaining. Honestly, the groups are many and monitoring all groups under one's jurisdiction is quite challenging. With these poor salaries, no motivation, unattainable monthly targets based on clients you were not involved with during group formation, it is frustrating.

(ii) Relocation of loan beneficiaries

Extract 4.19

> **RC:** A number of loan beneficiaries relocated to other areas without informing their fellow group members or MEDF. Most of them changed their contact numbers which makes it impossible to follow them.

Once the loans have been given out to prospective loan beneficiaries. Loan officers are supposed to start monitoring to verify on loan usage and to also collect repayment.

The study further investigated the loan beneficiaries' perception of MEDF loan monitoring and peer monitoring. It was important to know their perceptions because this gave a better understanding on why repayment is a challenge as cited in extract 4.20:

(i) No monitoring on loan utilization

Extract 4.20

R6: "*Ayi palibe wa MEDF kapena wa gulu yemwe anatiyenderapo kuti awone magwiritisidwe ntchito a ngongole".* [Nobody from MEDF or group members has every visited us to check us on how we used the loan.

(ii) Excessive use of the police

Extract 4.21

R2: *"Ogwira ntchito ku MEDF adayenjeza mpaka kugwiritsa a Police amfuti podzatolera ndalama ngati ife ndife mbava. Izitu zinali zochititsa manyazi kwaife".* [MEDF staff went over board to the extent of using armed policemen in loan collection as if we are robbers. This was embarrassing to us].

The findings revealed that monitoring of loans by MEDF credit officers rarely takes place due to inadequate resources and high employee turnover. Findings also revealed that there is no peer pressure taking place amongst the group members. Further findings revealed that MEDF used police officers to enforce repayment. These police officers together with MEDF credit officers stormed the loan beneficiaries' business premises demanding repayment.

4.4.5.1 Loan Repayment Rate

According to MEDF repayment schedule, the loan beneficiaries repay on a monthly basis. Frequent repayment is advantageous because it instils credit discipline that helps facilitation of repayment (Sengupta & Auchobod, 2008). The study investigated the repayment rate of MEDF loans. It was important to find out if MEDF loan beneficiaries have been paying according to their repayment schedules. Figure 4.7 presents the loan repayment by MEDF loan beneficiaries.

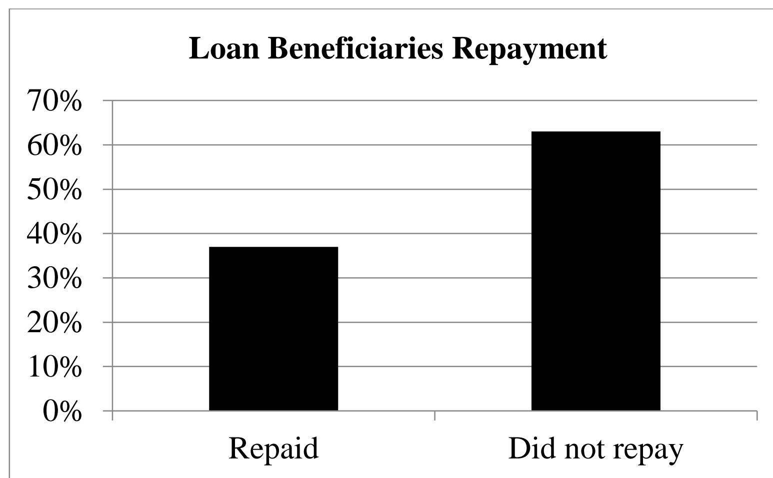

Figure 4.7: Number of Participant's loan repayment rate

Findings from the study revealed that 4 years after the loans were disbursed only 37% of the loan beneficiaries had repaid their loans while 63% had not. Such a low repayment rate threatens sustainability of MEDF (Kihoro, 2012). As a revolving fund, MEDF depends on its loan collection to disburse fresh loans to successful applicants. The 63% non-repayment rate is more than the internationally acceptable rate of 3%. (Addae-Karonkey, 2014).

4.5 Benefits of MEDF Loans

Microfinance has been identified as a tool for poverty alleviation especially to the poor people (Chirwa, 2002; Ghatak, 1999; Morduch & Haley, 2001). The main objective of MEDF is to provide microfinance to those engaging in IGAs as an alternative source of employment (Chirwa, 2002; Whitby, 2012). Therefore, the study carried an investigation to find out if MEDF loans have benefited the loan beneficiaries or not. During the FGDs, loan beneficiaries particularly women were quick to cite:

(i) Improvement in living standards

Extract 4.22

R11: "N*dikutha kulipira fees ya ana anga, ndidagula njinja, ndamanganso khola lina la nkhuku komanso ndimatha kusamalira banja langa ndi chakudya cha magulu onse".* [I am able to pay my children's school fees, I bought a bicycle, I erected an additional chicken kraal and am able to take care of my family provide them with nutritious food].

Another loan beneficiary said cited:

(ii) Built infrastructure

Extract 4.23

R14: *"Ndinatha kugula malata ofolera nyumba yanga".* [I managed to buy iron sheets for roofing my house].

Apart from improvement in living standards, some participants reported that their businesses have grown as stated in extract 4.24.

(iii) Business growth and employment creation

Further to building of infrastructure, MEDF loans created employment, and lead to business growth for some loan beneficiaries (Chirwa, 2002; Whitby, 2012). One of the participants said that:

Extract 4.24

R9: "*Ndimagulitsa zinthu zanga pa bench koma pano ndidagula container ya 20 foot yomwe ndimagulitsiramo katundu wanga wina. Pachifukwa ichi ndidalemba munthu ntchito oti adzindithandiza".* [I was selling my merchandise on a mere bench but now I bought a 20-foot container. Because of this I employed a person to assist me].

(iv) Business training

Another participant pointed out how training had been of benefit to him.

Extract 4.25

R8: "*Panotu ndimatha kuwerengera phindu lomwe ndikupanga pa bizinezi yanga kudzera m'maphunziro omwe tidapatsidwa tisanalandire ngongole".* [As of now I am able to know the profit I make in my business through the training I received before accessing the loan].

MEDF loans have benefited some MEDF loan beneficiaries. Their living standards have improved, others have seen a tremendous growth in their businesses, there is employment creation. Through training, loan beneficiaries are able to assess their business performance using the business management skills acquired from the training.

4.6 Chapter Summary

The results reveal that while MEDF has a robust institutional framework, it is mired in some challenges emanating from loan beneficiaries as well as implementation of the loan management process.

Religious and political associations presented the highest percentage of association amongst the loan beneficiaries. Both provided a forum of information sharing, interaction and social cohesion amongst loan beneficiaries. Furthermore, the majority of the loan beneficiaries came to know MEDF loans mainly through the informal channels other than MEDF and the media. This is evidenced by the 41% DPP channel of communication.

Group formation demands high social capital in terms of trust, social networks and shared norms. This is so as it is greatly dependent on the cooperation of the members to enhance cooperation. The majority of the loan beneficiaries trust each other while a few do not. Inconsistency in enforcing default measures and failure to attend meetings without proper reasons are the major reasons for not trusting other group members as is reflected in the loan beneficiaries' failure to adherence to group rules.

Contrary to its operational rules, MEDF provided grace period to non-production businesses and this has affected its capital as most loan beneficiaries have defaulted repayment. As a result, MEDF suspended providing loans to its new customers.

A study on MEDF's institutional framework revealed that some groups were not formed in line with MEDF procedures as political affiliation controlled group membership since members of parliament and traditional leaders were involved in the operations of the fund. Poor repayment performance has rocked MEDF as 4 years after the loans were disbursed only 37% of the loan beneficiaries have repaid.

The study also revealed that MEDF has been facing a number of challenges such as high employee turnover, inadequate financial resources, inadequate appraisal and loan monitoring, delays in loan processing, lack of monitoring, failure to provide accurate loan balance, failure to provide repeat loans and relocation of loan beneficiaries to run away from the scheme. Furthermore, MEDF is not directly connected with CDAs for carrying out credit appraisal and loan monitoring.

Loan beneficiaries have not been spared from the challenges. The loan beneficiaries highlighted a number of challenges including non-adherence to group rules, by group members, some members got loans on behalf of others outside the existing group, others getting bigger amounts of loans than others, and late loan disbursement.

Apart from the above challenges, training of prospective loan beneficiaries was done in a haste as it was conducted in just a day instead of one week due to inadequate financial resources. In addition, loan group leaders did not receive training to effectively execute the operations of the groups in terms of loan collection and handling disputes. Inconsistency in executing sanctions by the group leaders and failure to influence members to repay are the areas that reflect the training gap.

However, despite the many challenges MEDF is facing as an institution, the loans it has been providing have been of benefit to some loan beneficiaries. Some of the benefits include improvement in the living standards, business growth, employment creation and acquiring of business management skills through training. The next chapter presents a discussion and interpretation of the findings.

CHAPTER 5
DISCUSSION OF THE FINDINGS

5.1 Chapter Overview

Chapter five presents a discussion and recommendations drawn from the study carried out to analyse factors affecting loan repayment in state owned in Microfinance Institutions in Malawi. Section 5.2 presents discussion on the study's institutional framework, section 5.3 discusses the characteristics of the loan beneficiaries, section 5.4 discusses the challenges associated loan administration process in guiding loan repayment of MEDF loan beneficiaries Section 5.5 discusses the impact of the MEDF and finally section 5.6 provides the conclusion.

5.2 Institutional Framework

Section 5.2 discusses the capacity of MEDF in terms of staffing and resources in administering its loans. The first section discusses findings on MEDFs staffing and availability of other resources. The second section 5.2.2 covers the institutional procedures, the third section 5.2.3 discusses the impact of the institutional procedures on MEDF loans. The fourth section 5.3 discusses the characteristics of MEDF loan beneficiaries. The fifth section covers the challenges MEDF and its loan beneficiaries are facing. The last section covers the conclusion of the discussions.

5.2.1. Capacity

This subsection discusses the capacity of MEDF in terms of availability of resources and staffing. Subsection 5.2.1.1 discusses resources while subsection 5.2.1.2 discusses findings on staffing.

5.2.1.1 Availability of Resources

Credit officers are primarily responsible for carrying out loan administration processes thus screening, loan appraisal, disbursing the loans and monitoring. These processes are critical to the success of loan beneficiaries' repayment performance. However, findings of the study as presented in Chapter 4 section 4.5.5 revealed that the credit officers are facing challenges such as high employee turnover and inadequate resources in executing the loan administration processes.

As a state owned microfinance institution, MEDF's gets funding from the GOM to achieve its mandate of providing credit to SMEs. However, some loan beneficiaries are of the view that

loans are not supposed to be repaid because they are free resulting into high default rate. Such perceptions and sentiments are chocking the objectives of MEDF and government efforts in poverty alleviation.

Furthermore, MEDF's inadequate financial resources to run its activities. For instance, interviews with MEDF credit officers revealed that training provided to loan beneficiaries is inadequate due to cutting down of training days. The training is usually provided for a day or half a day, which is inadequate if the educational levels of the loan beneficiaries are considered. The study revealed that 21% of the participants do not even know how to read and write and 46% have not completed their primary school education. The low educational levels of loan beneficiaries' demands that there should be adequate training to enable individuals master MEDF rules and principles (Godquin 2004; Roslan et al 2007). These findings, therefore, demonstrate that though MEDF institutional structure is adequate to run the loan scheme however, inadequate financial resources making it difficult for the staff to manage the loan scheme.

5.2.1.2 Staffing

The study revealed that though MEDF has a standard policy of training its loan officers soon after joining the organization. However, research findings as presented in chapter 4 subsection 4.4.4.1 revealed that this does not take place due to inadequate resources. All the 5 loans officers interviewed cited lack of training due to financial resources as one of the factors effecting the delivery of the loan administration processes. They revealed that they have not been trained since they joined MEDF due financial constraints. Thus one wonders how these loans officers are facilitating the loan beneficiaries' training. Staff training is important at any given time particularly so with the increasing pace of technology and social change. Therefore, there is need for MEDF to pay attention to the needs of its credit officers.

Again the findings revealed that high employee turnover is affecting the delivery of the loan administration process due to inadequacy of credit officers. MEDF regional office has only five instead of nine credit officers. Fear of threats from politicians, lack of motivation, low salaries, inadequate financial resources were some of the reasons cited by the credit officers. Thus the inadequacy of the credit officers is affecting the loan administration process.

5.2.2 Institutional Procedures

This section discusses findings on MEDF's institutional procedures in delivering its loan administration processes.

5.2.2.1 Screening

The main focus of MEDF credit officers during their visit to loan applicants is to assess group solidarity and readiness to repay and also enforce peer pressure among group members (Ghatak, 1999; Sengupta & Auchobod, 2008). However, the study findings as presented in Chapter 4 subsection 4.4.1.1 revealed that some groups are not formed in line with MEDF procedure as political affiliation controlled group membership. One respondent argued that, "… *Most of the people that accessed MEDF loans were connected to the ruling party"*.

In line with the findings, this study revealed that political figures were actively involved in organisation and choice of individuals to access the loan. The political actors strategically positioned themselves to influence group formations. Furthermore, the findings revealed that the politicians were even involved in the distribution of application forms and then submitting them to MEDF offices. Central to the success of MEDF loan scheme is the narrative that the loan was meant to support individuals loyal to the ruling party. This is contrary to the requirement of group formation in group lending with joint liability. The results are in line with findings by Abbink et al. (2002) and Sengupta and Auchobod(2008) that interference in group formation affects the group's repayment performance.

Contrary to the rules of running a loan group, the findings as presented in chapter 4 subsection 4.3.4 revealed that some group members got bigger amounts of loans than others. This posed a challenge when the member who got the bigger loan fails to repay. Those with smaller loans found it very difficult to repay for the defaulting member. This demonstrate that MEDFs' loan approval with such variations in amounts makes group peer pressure to enforce repayment difficult. These findings revealed that it is difficult to depend on social capital where people are divided as is the case with MEDF loan beneficiaries. This shows that there is no cooperation amongst group members which is vital for collective action.

5.2.2.2 Loan Appraisal

Proper and adequate appraisal is key to minimizing and controlling low repayment rate in MFIs (Addea-Karonkey, 2014; Simtowe & Zeller; 2008; Warue 2012). However, findings from MEDF credit officers as presented in Chapter 4 subsection 4.4.2 revealed that the loan appraisal

exercise is inadequately carried out by credit officers. Some credit officers deliberately used shortcuts and failed to comply with MEDF's lending policy due to heavy workload arising from employee turnover and this affects loan portfolio quality. Poor loan portfolio affects repayment rate as loan beneficiaries who access the loans fail to repay.

The research findings also revealed that MEDF loan scheme is not directly connected with CDAs. Instead, the loan is largely implemented through the members of parliament and traditional authorities, who are very political in the way they conduct their business. This situation defeats the whole purpose of appraising loan applicants according to MEDFs loan administration process.

5.2.2.3 Loan Approval Process

While loan approval process is critical in selecting the right groups qualifying for loans, the findings revealed that the loan processing (from screening to loan approval) goes through three tiers, as such, it takes a long time (over a month) for the loans to be disbursed. MEDF staff involved in all the stages perform similar tasks which delay the entire loan approval process. In addition, loans are approved by head office irrespective of the loan amount. The regional managers do not have the mandate to approve even small loans at the regional level. This implies that MEDF's bureaucracy is leading to delays in loan disbursement. In some circumstances, such delays lead to loss of business opportunities. This finding is in line with Kalanda (2014) findings that late loan disbursement in MFIs affects business performance of SMEs which in turn affects their repayment challenges. This is so because the loan beneficiaries tend to divert loans and fail to realise enough profits to enable them repay.

5.2.2.4 Loan Monitoring

Monitoring of loan beneficiaries is considered the "backbone" in microfinance. There is need therefore for MEDF to carry it out properly and consistently to enhance loan repayment (Warue, 2012). However, the findings revealed that though loan monitoring is critical to exercise prudence in loan usage, credit officers failed to consistently monitor their loan beneficiaries monthly. The credit officers' failure contributed to non repayment which has threatened the sustainability of the state owned MFI (Addae-Karonkye, 2014).

Further findings revealed that MEDF is failing to retain its credit officers due to a poor remuneration, lack of motivation and huge backlog of loan groups. MEDF's failure to retain its credit officers has negatively affected monitoring. Literature reveals that long relationships

existing between credit officers and loan beneficiaries build trust and creates a social capital bonding (Bourdieu, 1986; Ritchie & Siwale, 2012;). The trust that is built over a long time is vital in that it enhances repayment. However, the trust and bonding is short lived in that by the time loan beneficiaries start build the trust, the credit officers resign. The situation is even worse because MEDF is failing to attract new staff (credit officers). This implies that, there is even a huge backlog for the few credit officers to monitor loan beneficiaries. Even after recruiting the credit officers, it still takes time for a newly recruited credit officer to trace and build trust with the loan beneficiaries.

While monitoring by MFIs is important in enhancing loan repayment, peer monitoring in GLJL is equally important where the group members have the responsibility to monitor each other. Findings as presented in Chapter 4 subsection 4.4.5 revealed that peer monitoring is not taking place among the loan beneficiaries. These findings are in line with what Simtowe and Zeller (2008) found that peer monitoring rarely takes place in Malawi. The problem is compounded further as there are no incentives such as repeat loans to encourage peer monitoring (Hermis & Lensink, 2007). The fact that peers are jointly liable of repayment and that they are offered explicit incentives such as repeat loans, it is easy to enforce repayment through peer pressure (Hermis & Lensink, 2007; Hulme & Mosley, 1996). Low repayment rate is compounded in MEDF due to its failure to provide repeat loans.

5.2.3 Impact of MEDF's Institutional Procedures

Implementation of MEDF's operational procedures is not working effectively as political influence, lack of resources, employee turnover is affecting the loan administration process. This is reflected in inadequate screening, improper appraisal and lack of monitoring of loan beneficiaries. Failure to follow the operational procedures is affecting the quality of loan portfolio which is consequently affecting the loan repayment.

Equally important, MEDF is negatively affected by informal political influence over its operations. In particular, a complex interaction between MEDF staff and ruling party elite has turned MEDF a political wing of credit scheme.

5.3 Characteristics of MEDF Loan Beneficiaries

Group lending is based on the group member's capability to enforce adherence to group rules including loan repayment (Bhatt & Tang, 2002; Wenner, 1995). Theoretically, the existence of social capital in terms of groups with strong bonding is supposed to result into group unity and

effective group loan repayment (Postelnicu et al., 2013; Putnam, 1995; Wenner, 1995). Measured by the social network (interactions) amongst loan beneficiaries prior to group formation and the level of shared norms and values as presented in subsection 4.3.1 and 4.3.2, findings revealed that there is strong bonding social capital among MEDF loan groups. Existence of strong bonding should ordinarily lead to high cooperation and collective action among group members and increase loan repayment (Coleman, 1988; Kilpatrick, 2001). However, findings from this study as presented in subsection 4.4.5.1 revealed that 4 years after getting the loans only 37% of the loan beneficiaries finished repaying their loans. This situation is against the rules of MEDF that a loan be repaid within a period of 12 months. The findings from this study, therefore, has demonstrated that existing social capital within the loan groups is not contributing much to loan repayment by the group members.

Findings of the study have also revealed that the operations of social capital are not neutral. The social capital literature covered in chapter 2 section 2.6 has argued that the existence of elements of social capital elements thus norms, values and social networks contribute to increasing the number of mutually beneficial trades, resolves collective action problems, improves the flow of information and reduces monitoring and transactions costs (Hermis et al., 2005). The findings from this study, however, demonstrated that mere existence of social capital does not translate to usage. In the case of this study, collective action, and cooperation in repayment is distracted by conflicting statements over loan repayment as presented in chapter 4 subsection 4.3.4.2.

Furthermore, the study revealed that politicians presented conflicting statements over MEDF loans which has resulted into loan beneficiaries holding different views over loan repayment. While the official version is that MEDF loans should be paid back, there is a strong an unofficial version that MEDF loans are not supposed to be paid. During FGDs, a number of people reported that:

> *"MEDF loans were not supposed to be paid. It was supposed to help small businesses who cannot get loans from the bank, it was given to us for free*".

FGDs also revealed that most of the loan beneficiaries who mentioned a political forum as the dominant mode of interaction belonged to the ruling party. This situation enforces the view that there are conflicting messages over MEDF loans.

Again, the findings of this study revealed that while bonding social capital was predominantly used to access MEDF loans, it is not being used in the repayment of loans. These findings, therefore, re-enforce the view that bonding capital is incompatible with the operation of formal economic activities (Obrien et al., 2005). This finding, therefore, put into question the extent to which state supported loan scheme can be effectively implemented within the group lending framework.

Results of the study have also shown that the influence of politics in the working of social capital is evident when intra-group lending is considered. According to the interviews conducted, all the loan beneficiaries were already in a business network before the establishment of MEDF loan scheme. The group members argued that *"most of us were already lending money amongst ourselves and we did not have problems"*. Despite this historical background, the group members are experiencing problems with intra-group lending involving MEDF loans as presented in chapter 4 subsection 4.3.4.1. For instance, some group members reported that most of the people whom they helped to get money through their name have not paid back the money. These sentiments were also echoed by MEDF staff who reported that some of the people who got the loans through their friends have not paid back the money. The credit officers argued that they have regularised these loans by formally including these people in the groups so that they can be followed up.

Thus, MEDF loan beneficiaries in Limbe had some degree of social capital before getting the loan. However, the existing social capital has contributed to enforcing voluntary loan repayment. Though bound together by mutual trust, values and norms, political and economic factors surrounding MEDF did not support loan repayment. The study findings revealed that while political and religious associations provided a forum for interaction, the same forum did not present the norms guiding group lending. Literature indicates that religion provide fertile ground for social cohesion and moral bonds required for effective contractual agreements which enhances repayment among group members (Olomola, 2002). This implies that the moral bonds and social cohesion existing amongst the group members is working against MEDF. While social capital is thought to have positive outcomes it is not always the case (Bhatt & Tang, 2002; Kilpatrick, 2001; Postelnicu et al., 2013; Wenner 1995).

The challenges of loan repayment in Limbe have heavily been affected by unclear reciprocal networks established between the state owned MFI management team and the political leaders. This situation has produced factionalism within the MEDF groups and the operation of social

capital. Likewise, the inclusion of informal rules into the formal rules such as getting loans on behalf of people outside the groups has made it difficult to maintain group cohesion. Inclusion of informal institutions that are not clear generate skepticism and distrust among group members and motivate group members not to respect group rules Fukuyama (2001). This scenario is exactly what MEDF is caught up in.

Furthermore, the study revealed that 87% of the loan beneficiaries trust each other and only 56% adhere to group rules. Even though over half of the loan beneficiaries do not adhere to group rules in repaying, this did affect the level of trust amongst them. This shows that the very trust that MEDF used in providing loans to its loan beneficiaries is working against the loan fund. The social capital existing amongst the groups, the strong bond that has been in existence even before the members accessed MEDF loans is negatively affecting the loan repayment. This is in line with what is presented in chapter 2 subsection 2.6.3 that social capital can result in negative outcomes (Fukuyama, 2001; Sobel, 2002; Zuka, 2013). This shows that the loan beneficiaries' bond is so strong that it could not even be broken by the excessive force of armed policemen. The group members pointed out that they only repaid when the police stormed their business places but reverted to their old ways when the police stopped accompanying MEDF staff. Despite the shame, ridicule and embarrassment they encountered in the face of the armed police, the non-adherence to group rules is not strong enough to break the trust existing among the group members.

In addition, the findings as presented in chapter 4 subsection 4.3.2 revealed that the media which is supposed to be the main channel through which people have to access information registered only 9%. The majority accessed information from the ruling party. This information reveals that the political forum was critical in accessing MEDF loan information. However, the fact that the information was accessed through a ruling political party is a cause for concern as this situation potentially means those that were not in the network of the ruling party were effectively cut off from the information. The political forum has the potential to exclude other from accessing the loans. According to Fukuyama (2001) sometimes social capital gives an opportunity to others to attain resources such as information at the expense of other group members. These results indicate that MEDF channels of communication have not been effective as most of the loan beneficiaries knew about from other means rather than the media. Anderson et al. (2007) indicate that social networks provide a channel of communication amongst group members.

5.4 Challenges Facing MEDF

This section presents challenges that MEDF is facing in administering its loans and the challenges the loan beneficiaries are encountering and how the challenges can be mitigated to enhance loan repayment. The challenges faced by loan beneficiaries are discussed in Subsections 5.4.1 and 5.4.2.

5.4.1 Challenges Facing MEDF Institution

In chapter 2, section 2.2, literature indicates the MFIs are facing repayment challenges particularly loan default (Addea - Karonkye 2014; Yaron, 1994). MEDF is not an exception as the state owned MFI is facing a number of challenges such as political interference, relocation of beneficiaries, failure to provide accurate loan balances, high employee turnover and inadequate financial resources.

5.4.1.1 Political Interference

Politics is interfering with some social capital elements, thereby rendering them unusable for instance, the trust that MEDF had on loan beneficiaries is working against non-repayment. This is because political influence is contradicting the norm and value system that social capital appeals to. In addition, politics has made MEDF's institutional framework for managing MEDF loans not appealing to the existing bonding social capital because it divides the very individuals who are supposed to work together.

5.4.1.2 Relocation of Loan Beneficiaries

The findings from unstructured interviews with MEDF credit officers as presented in 4.4.9 revealed that poor tracking system on monitoring beneficiaries has been a challenge. When a beneficiary changes residences let alone moving to another district/city it is not possible to follow them because many change their phone numbers. The situation is worse in Malawi with the fact that Malawians do not have national identities.

5.4.1.3 Failure to provide Accurate Loan Balances

The findings presented in chapter 4 in subsection 4.4.5 revealed that MEDF information system has been failing to capture repayments made through MSB. This has been frustrating to those who have paid. For most groups, their records do not tally with what MEDF's system reflects. Others have taken advantage of this anomaly and claim to have paid whilst they have not.

5.4.2 Challenges Facing Loan Beneficiaries

Apart from challenges facing MEDF institution, loan beneficiaries have not been spared, they too face a number of challenges. Therefore, this section presents challenges that are specifically affecting loan beneficiaries. MEDF loan beneficiaries face a number of challenges in servicing their loans. These challenges are late loan disbursement, lack of leadership training for group leaders, inadequate training for loan beneficiaries, intra loan groups, inconsistency in enforcement of measures such as sanctions and embarrassment faced due to use of armed policemen.

5.4.2.1 Late Disbursement of Loans

Late disbursement of loans affected some of the businesses especially seasonal businesses. Findings from interviews with loan group leaders as presented in 4.4.4 revealed that MEDF is not efficient in processing its loans due to the institutions bureaucracy. Some MEDF clients had their profits affected because they bought goods off season and this affected their profits.

5.4.2.2 Excessive Use of Enforcement Measures

The findings presented in chapter 4 subsection 4.4.5 revealed that MEDF used armed Malawi Police officers to enforce repayment among loan beneficiaries. Loan beneficiaries bemoaned the use of the police force that it was an embarrassment to them since they were treated as "criminals" whilst they were just defaulters. Even though, MEDF used such extreme force, it only had a temporary effect because the defaulters reverted to their old ways of not repaying. The embarrassment faced by the defaulters did not yield results as in Bangladesh culture. In Bangladesh culture, people repay in fear of being embarrassed by their communities (Ghatak, 1999; Alam & Getubig, 2010).

5.4.2.3 Lack of Leadership Training

Findings revealed that lack of training for the group leaders is affecting the running of the group by the group leaders. There are inconsistencies in executing sanctions by the group leaders when defaults occur. In addition, unstructured interviews with the group leaders revealed that these leaders were never trained in leadership skills and dispute handling as presented in chapter 4 subsection 4.4.4.1. Hermis et al. (2005) list trust and leadership quality as some of the factors enhancing effectiveness of GLJL in loan repayment. Apart from training prospective loan beneficiaries, Grameen Bank is strict in training its group leaders since they are a link between the loan group members and the lending institution. Alam & Getubig (2010) pointed out that

Grameen Bank's training empowers active leadership and supports the efficient proper functions of the credit program.

5.5 Benefits of MEDF Loans

The main objective of MEDF is to provide microfinance to those engaging in IGAs generating activities or provide start-up capital for those desiring to change their living and economic status (Chirwa, 2002; MEDF, 2012; Whitby, 2012). This section presents a discussion on the impact the loan has on its loan beneficiaries. The loan beneficiaries pointed out a number of benefits that they have accessed from MEDF loans. Literature in chapter 2 section 2.2 provides the positive benefits arising from access to microfinance (Chirwa 2002; Khandker, 1998; Morduch, 1999). The benefits are improvement in living standards, infrastructure development, business expansion; employment creation and ability to apply good business management principles attained from training.

5.6 Chapter Summary

As a state owned MFI, MEDF is facing a number of challenges that are negatively affecting its repayment performance. Attitude and perceptions of MEDF beneficiaries that the loans are not supposed to be repaid as evidenced by their non - adherence to the rules (44%) negatively affected repayment. Inadequate screening, inadequate appraisal, late loan disbursement and poor monitoring mechanisms due to inadequate financial resources and high employee turnover (Warue, 2012) accelerated non-repayment. The study revealed that only 37% of the participants managed to complete repaying. The loan beneficiaries are taking advantage that even if one defaults there is no serious action taken by MEDF. MEDF's zero tolerance policy it has is just on paper and not in action. Many have and continue to default due to lack of serious action taken against them. The next chapter presents the conclusion and the areas for further study.

CHAPTER 6
CONCLUSION AND RECOMMENDATIONS

6.1 Chapter Overview

This chapter presents conclusions and recommendations drawn from the study carried out to analyse the factors affecting loan repayment in state owned MFIs. The summary of the study framework is covered in section 6.2, Section 6.3, presents the summary of the study findings. Section 6.4 covers recommendations of the study and Section 6.5 discusses areas for further research followed by conclusion in section 6.6

6.2 Summary of Study Framework

The study focused on analysing factors affecting loan repayment in state owned MFI, thus the research sought to investigate execution of the loan administration process and the role of social capital in microfinance. The study draws from Grameen Bank group lending with joint liability as application of its lending model contradicts the earlier perception that microfinance lending is risky. Grameen Bank Model has been successfully tested and replicated in more than 30 countries and over 100 credit programs in the last two decades (Alam & Getubig, 2010). The lending system allows provision of collateral free loans to groups. These groups are formed without interference from the bank, and undergo a rigorous two weeks training before accessing loans. While loans are made available to individuals, all are held responsible for repayment. Therefore, if one member defaults all members are denied subsequent loans. Grameen Bank provide collateral free loans but relies on peer pressure and social ties to select, monitor and enforce loan contract (Ghatak, 1999; Simtowe & Zeller, 2008). The loan repayment period is 12 months repayable on a weekly basis to enhance and maintain high repayment rate. The group members provide each other with a strong support network and exchange of ideas. As for the institution, the group is important in reducing transaction costs and minimize loan risks. In addition, field staff in Grameen Bank are considered the most important resource. Therefore, the bank recruits highly motivated and committed staff particularly the credit officers who are directly involved with clients from group formation, credit appraisal, loan disbursement, and loan monitoring.

The success of Grameen Bank lending model is partly attributed to Bangladesh social-cultural orientation where people value social affiliation and the need to be respected in society (Lensink & Hermis, 2007; Olomola, 2002). Thus the issue of societal and cultural orientation of a particular community, region and country affects loan repayment. However, even though

MEDF adopted the Grameen Bank lending model, it has been tailor made due to differences in culture, socio-economic conditions of the two countries, Malawi and Bangladesh.

Further to Grameen Bank lending model, the study also drew its theoretical framework from social capital. Theoretically, group lending relies on social capital to screen, monitor and enforce loan contacts. The importance of social capital cannot be overemphasised. Social capital facilitates mutually beneficial collective action through social networks, shared norms, values and beliefs (Kilpatrick, 2001; Obrien et al., 2005; Postelnicu et al., 2013). Through social networks, social capital improves the flow of information, reduces monitoring and transaction costs as a result of social and economic interactions amongst group members. To individual group members, social networks provide a platform for communication and information sharing which could not have ordinarily taken place.

The study used Grameen Bank lending model based on its wide application in microfinance studies and how they operate in MFIs. On the other hand, the study draws on social capital theory because of its role in effectiveness in group lending.

6.2.1 Institutional Framework in Serving MEDF Loans

This study found that although MEDF has a robust institutional framework for managing loans, the process is flawed by severe political interference that undermined the ability of MEDF staff to professionally transact their business. The success of group lending depends on the existence of clear institutional framework that provides guidance to the different groups. The institutional framework of MEDF is not working as it was supposed to as informal political influence has taken precedence over professional decisions. There is no observance of loan repayment rules as loan beneficiaries' perception is that the state owned loans are a grant and therefore not supposed to be repaid. This is mainly so because only 37% fully repaid. Findings also revealed that the operation of MEDF is riddled with a number of governance challenges.

Firstly, MEDF has no clear community implementation structures. For instance, MEDF awareness channels are not working as most of the loan beneficiaries came to know about loans from other sources other than MEDF and the media. The study revealed that the loan scheme was firstly announced at a rally organised by the ruling party and from then on awareness has been *ad hoc* and at times decided upon by political leaders.

Secondly, at times political interference determines the groups and area to offer the loan against the credit officers' professional loan screening and appraisal process. In this case, individuals belonging to the ruling party have an advantage over others, for instance, at times MEDF loan application forms are accessed through the member of parliament for their area. The situation is worsened by the fact that MEDF is highly under the control of the ruling party as it was born out of ruling Democratic People's Party manifesto. This situation resulted into failure of such groups to repay the loans. The statistical evidence from this study presented in chapter 4 section 4.3.1 revealed that social network in terms of association (which was highly used in group formation) is not associated with loan repayment.

Thirdly, the loan scheme is not directly connected with community structures such as Community Development Committees. Instead, the loan is largely implemented through the members of parliament who are very political in the way they conduct their business. This situation defeats the whole purpose of screening.

Lastly, loan beneficiaries are operating non-production businesses and yet MEDF is giving them 3 months-grace period contrary to its credit policies. The situation is affecting MEDF cash flow in that its capital is held in loans since MEDF operates as a revolving fund. This means that loan recoveries are not ploughed back into the fund and therefore not disbursed as new loans. By giving three months' grace period to loan beneficiaries who are already in business means reducing opportunities of other loan applicants from accessing more loans.

6.3 Summary of the Main Findings

The findings revealed that there is inadequacy of credit officers due to high employee turnover and failure by MEDF to retain the existing staff members. Threats from politicians, lack of motivation, low salaries, inadequacy of financial resources for operations were some of the reasons attributed to high employee turnover.

6.3.1 Main Findings on MEDF Loan Administration Process

The main objective of the study was to analyse factors affecting loan repayment in state owned microfinance institutions in Malawi. It further explored on MEDF institutional framework and the existence of social capital amongst the loan beneficiaries in enhancing repayment. The following are the main findings and conclusions of the study.

a) *Channels of communication.* The study revealed that loan beneficiaries mainly come to know about MEDF loans through political forum, which is an informal channel. Very few loan beneficiaries came to know MEDF loans through formal channels such as radio and television. This indicates that MEDF's channels of communication are not working. The failure of the channel is resulting in attracting wrong clientele who prove to be problematic in repaying their loans.

b) *Late loan disbursement.* Processing of MEDF loans is taking unnecessarily long. That is from the time an applicant submits a loan application to the time the loan is disbursed. The long processing period is affecting repayment since some applicants receive loans long past the time that they really needed the loan. The delay increases the chances of loan diversion leading to high chances of non-repayment.

c) *Lack of training for credit officers.* Training of credit officers is not considered as much important. MEDF is not taking time in training them not even orienting them when they first joined the organisation. Failure to train staff in critical areas such as outreach, follow up, loan collection techniques, and loan portfolio management affects the way credit officers conduct their daily business. For effective delivery and implementation of loan administration processes, training for credit officers is of paramount importance.

d) *Inadequate and improper monitoring.* MEDFs monitoring contravenes with what is in its operational manual. Findings reveal that loan monitoring rarely occurs and sometimes does not takes place at all. It is imperative that MEDF endeavour to visit its loan beneficiaries at least one a month to enhance repayment. Constant interaction between the loan beneficiaries and the credit officers creates an atmosphere of trust which is vital to loan repayment.

e) *Inadequate financial resources.* Lack of inadequate resources is affecting the entire loan administration process. Unfortunately, MEDF depends on government funding, administration fees and part of the loan interest for most of its operational expenses. However, this is not enough considering the high operational costs.

f) *Relocation of loan borrowers.* Relocation of loan borrowers who have not finished repaying is affecting loan repayment. MEDF does not currently have a mechanism in place of tracing such clients. The situation in Malawi is aggravated due to lack of national identity cards which could easily help in tracing such clients.

g) *Loan beneficiaries benefited from MEDF loans*. MEDF's main objective is that the poor have equal access to credit so that they engage in IGAs. Findings revealed that some beneficiaries have benefited from the loans. The benefits are in terms of improvement in living standards, employment creation, business growth and ability to build infrastructure. Such achievements are a fulfilment of the government policy in achieving Sustainable Development Goal number one which is poverty eradication.

h) *Political interference.* The success of group lending depends on the existence of a clear institutional framework that provides guidance to managing loans. However, political interference is chocking smooth implementation of the state owned MFI operational procedures. Thereby making the state owned fund fail to carry out its operations effectively.

i) *Accessing bigger loans than others in a group*. Contrary to rules of running a group, others got bigger amounts of loans. Such malpractice made peer pressure in enforcing loan repayment difficult. Provision of bigger loans to others revealed that such discrepancies had gone through the entire system undetected. This raises one's eyebrows as to how such was the case. In addition, these discrepancies brought disagreements in the groups as those with smaller loans fail to repay for the one with bigger loans when they default. The finding revealed that it is difficult to depend on social capital where people are divided in a group. Cooperation in social capital is an ingredient that enhances collective action that is vital in group repayment performance.

j) *There is no observance of loan repayment rules.* Group members have a code of conduct which they adhere to. However, the state owned clientele does not observe such repayment rules. Loan beneficiaries feel MEDF loans are not supposed to be paid back. The social capital element of trust is working negatively for MEDF as its loan beneficiaries feel they need not pay back the loans. Unfortunately for MEDF, its credit officers are not aggressively monitoring the loan beneficiaries and this is reinforcing a culture in which non-payment is acceptable.

k) *Access to MEDF loan scheme has been greatly influenced by social connectedness to the ruling party and religious connections*. Social capital provides social spaces for individual interaction, consensus and unity which does enhance collective action. This means that social capital can potentially improve loan repayment for group loans. However, political influence

made reliance on the existing social capital impossible as there is a conflict in norm between the ideas of social capital and political pressure.

6.4 Recommendations

Following the findings, the study's main recommendations are as follows:

a) As one way of mobilising resources, MEDF needs to lobby government for increased interest rate. The current interest rate is at 15% which is even less than half of the current bank lending. MEDF also depends on part of the 15% interest rate, and loan processing fees for part of its operations. However, this is far from meeting MEDF's operational needs. Therefore, government needs to give the mandate to MEDF to adjust the interest accordingly.

b) With regard to group formation emphasis should be on screening because the composition of the group is paramount to the group's repayment performance. Therefore, MEDF credit officers staff need to be fully involved in facilitating group formation to ensure that groups are formed through self-selection. Although replicating the principle of self-selection can be difficult under certain circumstances, it is important for MEDF to ensure that groups are self-formed through a process that will ensure low risk members with homogeneous quality thereby reducing the likelihood of non adherence members to group norms especially on repayment.

c) On late disbursement of loans, the regional managers should also be given the mandate to approve the minimum loan amount of MK10,000 at regional level to speed up the approval process. Giving the mandate and authority to regional managers will not only reduce the work log handled by the credit committee but it will also reduce the number of days it takes to approve the loans.

d) MEDF must create a zero tolerance of non-repayment to enhance repayment through aggressive loan monitoring and involve CDAs during loan monitoring to enhance repayment.

e) To reduce the employee turnover, MEDF needs to rework on a number of areas including its hiring policy, conducting relevant training, offering competitive remuneration and providing adequate financial resources for its operational activities.

6.5 Areas for Further Study

Group lending has registered a lot of success in meeting loan repayment objectives in loans offered by the private and NGOs society sector. This study highlighted that this is not working with loans provided by the state owned microfinance institution. The main argument in this paper is that the challenges of loan repayment are originating from the political influence that is negatively affecting the operation of social capital in enforcing compliance. However, this study only focused on Limbe which might be the strong hold of one political party. There is currently need for comparative studies that should focus on areas with different political characteristics. This will give important insights to consider about the influence of politics over the running of state offered credit schemes.

Another potential area for further study is to conduct research on a large scale that will also include SMEs in rural areas. It would be interesting to conduct a national wide research as it might be possible that the repayment challenges might differ between urban and rural areas. The advantage of the state owned MFI is that it has offices nationwide.

6.6 Conclusion

This study found that although the state owned MFIs has a robust governance framework for managing loans, the process is flawed by severe political interference that undermined the ability of MEDF staff to professionally transact their business. The success of group lending depends on the existence of clear institutional framework that provides guidance to Microfinance Institutions (MFIs) and the different groups. The importance of having and implementing the institutional framework to yield better repayment results is well known to MEDF. Despite, adopting the group lending methodology, the state owned MFI is still experiencing repayment challenges that are threatening its sustainability. The focus of the study therefore was to analyse factors affecting loan repayment in state owned microfinance institutions in Malawi.

While MEDF has a robust institutional framework, the results have revealed that MEDF credit officers who are fully involved in executing the operations of loan administration processes are facing a number of challenges. These credit officers are not well trained, lack of adequate resources to carry out their duties effectively and political interfere with their operations. The inadequacy of resources and the other challenges have negatively affected both operations of the state owned MFI and its credit officers. MEDF has failed to retain and attract credit officers.

this has contributed to low repayment because loan administration processes are not fully carried out.

Apart from having a robust institutional framework, group lending model depends on the loan beneficiaries' social capital to enforce repayment. While social capital has the potential to enforce repayment the findings from this study demonstrate that social capital and its benefits does not work the same under different political environments. In particular, political influence is deactivating existing social capital. Empirical evidence from this study particularly demonstrate that under conflicting norms existing social capital does not promote loan repayment. In the case of this study, norm surrounding MEDF loan scheme is not in line with the spirit of social capital and group cooperation. This is so as the common understanding among loan beneficiaries is that MEDF's loans are not supposed to repaid.

Furthermore, while MEDF has an operational manual guiding the implementation of the group lending methodology, inadequacy of resources and political interference is affecting the execution of loan administration process in MEDF. For instance, findings revealed that monitoring and field credit appraisal rarely occur in MEDF due to lack of resources. Failure to carry out field appraisal is affecting the quality of loan beneficiaries which is also contributing to low repayment rate. Even though MEDF has operational manuals, it is failing to train its credit officers which is affecting the delivery of the group lending methodology.

While MEDF loan scheme is supposed to work with CDAs. The scheme is currently not directly connected with community structures for implementing the group lending practices. Instead, the loan is largely implemented through the members of parliament who are very political in the way they conduct their business. This situation defeats the whole purpose of carrying out screening, and appraising loan beneficiaries.

Theoretically, the belief that social capital is a solution to group lending needs to be qualified. This study demonstrated that this is possible for loan schemes offered by the private sector or NGOs organisation but not those offered by the state. This is mainly so as values and norms under state offered loan scheme conflict with values and norms surrounding social capital.

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APPENDICES

Appendix 1: Questionnaire for the MEDF Loan Beneficiaries

A. Socio-Economic Characteristics of MEDF Loan Beneficiaries

1. Sex:

   Male = 1 Female = 2

2. Age:

   15-24 = 1 20-24 = 2 25-29 = 3 30-34 = 4

   35-39 = 5 40-44 = 6 45-49 = 7 50+ = 8

3. Religion:

   Moslem = 1 Catholic = 2 CCAP = 3 Pentecostals = 4

   Other Specify: _________________

4. Marital status:

   Married = 1 Widowed = 2 Divorced = 3

   Single = 4 Polygamist = 5 Separated = 6

5. Ability to read and write:

   Can read and write = 1 Cannot read and write = 2

6. Loan beneficiary's highest education qualification

   PSCL not completed = 1 PSLC completed = 2

   JC completed = 3 MSCE completed = 4

   Diploma/Degree = 5

   Other State____ = 6

7. Main income generating activity that you are engaged in

   Production = 1 Retail/wholesale Business = 2

   Saloon = 3 Food items = 4

B. ***Network and Trust among Loan Beneficiaries***

8. How long have you lived in Blantyre?

   less than 5 years = 1 More than 5 years = 2

9. How long have you been in business?

   less than 5 years = 1 More than 5 years = 2

10. How many are you in your loan group?

0-10 = 1

11-15 = 2

16-20 = 3

11. How many of your group members did you know before taking MEDF loan?

None = 1

All = 2

Half of the members = 3

12. Apart from the loan group, how many of the group members do you associate with in other social meetings?

None = 1

All = 2

Half of the members = 3

13. What kind of the social meeting, do you associate with some of the people in the loan group?

Traditional forum = 1 Political forums = 2

Religious meetings = 3 Cultural forums = 4

Men/ women/youth associations = 5

Development meetings = 6

Other specify ____ = 7

14. Do you trust most members of your loan groups on matters of business?

Strongly Agree = 1 Strongly Disagree = 3

Agree = 2 Disagree = 4

15. If no, explain why you do not trust most members of your groups on matters of business?

____

____

____

____

____

C. ***Management and Repayment of Loan***

16. How did you know about MEDF loans?

Through the radio/TV = 1 Political Forum = 2

MEDF staff = 3 Religious meetings = 4

Business friends = 5

17. What are the challenges that you and the group faces in the repayment of MEDF loans (please explain)?

____

____

____

____

____

18. Have you ever taken credit for business purpose before?

Yes = 1 No = 2

19. If yes, what was the source:

Family/Friends = 1 Rotating Savings Club = 4

Village Banks = 2 NGOs/Private MFIs = 5

Money lenders = 3 MFIs (OIBM/FINCA) = 6

20. If no, why not?

High interest rates = 1 Didn't meet the collateral criteria = 2

Have sufficient money = 3 Don't know where to get = 4

Others, specify ____ = 5

21. In your opinion, is the loan group leadership helping you with management and repayment of loan?

Strongly Agree = 1 Strongly Disagree = 3

Agree = 2 Disagree = 4

22. If not, why?

____

____

____

____

____

23. Do you have rules governing your group?

Yes = 1 No = 2

24. If yes who came up with the rules?

Loan Group Executive Committee = 1 All members = 2

MEDF = 3 I don't know = 4

25. Are the rules followed?

Yes = 1 No = 2

26. If yes, what makes you follow the rules?

Rules benefit me = 1 We are forced to follow the rules = 2

Social obligation = 3 It is our way of life = 4

27. What is your loan amount?

Less than K20,000 = 1 K21,000 t0 K40,000 = 3

K50,000 – K100,000 = 3 More than K100,00 = 4

28. What is your loan balance?

More than 50 % = 1 20% - 49% = 2

10% - 19% = 3 less than 10 % = 4

Appendix 2: Key Informants Interview - MEDF Credit Officers

INTERVIEW GUIDE QUESTIONS

1. What criteria was/is followed in the identification of loan beneficiaries?
2. Who was involved in the identification of loan beneficiaries?
3. Describe the screening process that was involved in identifying MEDF loan beneficiaries
4. What is the management structure for managing MEDF loans i.e. who is responsible for loan disbursement, repayment, monitoring and enforcement of loan contract?
5. From your experience, do you think the loan administration process guiding loan repayment are working?
6. Did MEDF process your loan timely?
7. If not, what are the crucial questions affecting implementation of the group lending methodology?

Appendix 3: Key Informants Interview - Loan Group Leaders

INTERVIEW GUIDE QUESTIONS

1. How are loan group leaders chosen, how long are they supposed to be in office?
2. Do you have rules or constitution guiding loan groups and who formulated the rules?
3. In your opinion are the rules guiding loan groups followed?
4. Has your committee been trained ever since you came into office? If yes in which area?
5. What is the level of collective action among loan beneficiaries?
6. Are there situations when loan beneficiaries refuse to work together and what actions are taken during such times?
7. In your opinion, how is the credit appraisal carried out.