

**Determinants of Microcredit Loan  
Repayment of Microfinance Institutions in  
Trincomalee District**

by

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Trincomalee District

by

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**Declaration by the candidate**

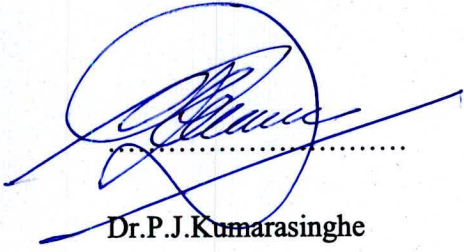
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“I certify that the above statement made by the candidate is true and that this thesis is suitable for submission to the University for the purpose of evaluation”.



Dr.P.J.Kumarasinghe

05.06.2016

Date

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## **Abbreviations**

MFIs:	Microfinance Institutions
PLC:	People Leasing Company
Pvt:	Private limited
HNB:	Hatton National Bank
LOLC	Lanka Orix Leasing Company
LOMC	Lanka Orix Leasing Company Microfinance Company
CBSL	Central Bank of Sri Lanka
CGAP	Consultative Group to Assist the Poor
TCCS	Thrift and Credit Co-operative Societies
MPCS	Multi- Purpose Co-operative Societies
RRDB	Regional Rural Development Banks
RDB	Regional Development Banks
NGO	Non-Government Organizations
CBSL	Central Bank of Sri Lanka
SBS	Samurdhi Bank Societies



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## **ABSTRACT**

The microcredit loans are able to improve the economic and social status of the poor since it provides a working opportunity. Apart from the challenges to reaching out to the poor in offering microcredit loans, the microfinance institutions especially subsidized microfinance institutions also have a challenge with loan repayment. The high default rate has affected the sustainability of the micro-credit initiatives. This study investigates the determinants of loan repayment problems among microfinance borrowers. The main objective of the research was to find out the causes of microcredit loan repayment within Microfinance institutions in Trincomalee District. The research framework of this study is built by three independent variables namely borrowers' characteristics, business characteristics and loan characteristics and repayment both paid on time and not paid as dependent variables. The target population comprised a total of 9200 loan borrowers out of which a sample of 100 was picked using stratified simple random sampling, which enabled every member of the population to have an equal and independent chance of being selected as respondents and also the simplest, most convenient and bias free selection method. The data was collected by use of self developed questionnaire issued to the microcredit borrowers, in depth interviews had with microcredit group leaders and MFIs' Manager and staff. The data was analyzed by using statistical software (SPSS 21) and tabulated by use of tables and figures. The findings revealed that most borrowers did not spend the loan amount on the intended and agreed purpose. The study found out that loan repayment default was a result of inadequate returns to repay the loan and the findings further, indicate unfavourable loan product's characteristics designed by the microfinance institutions also as a reason for loan repayment default.

## CHAPTER ONE INTRODUCTION

### 1.1 Background of the study

Microfinance has been recognized as an essential socio-economic and financial mechanism for poverty alleviation, promoting entrepreneurial development and increasing the profile of disadvantaged people in numerous countries throughout the world (Hossain et al. 2012). Microfinance serves to promote rural livelihoods and urban poor by the creation of entrepreneurship opportunities that encourage the elimination of unemployment by creating potential business based on their interest and skill. Microfinance targets to poor people because these people usually have lack of collateral, no steady employment and verifiable credit history, which therefore, cannot even meet the most minimal qualifications to gain access to normal banking. Besides, it can avoid poor people dealing with illegal banking such as moneylenders or loan sharks who charge an unreasonable interest rate.

Poverty is a major economic problem in Sri Lanka and hence various poverty alleviation programmes have been implemented by successive governments in the past. However, eradication of poverty is not possible either by providing food subsidy or by creating job opportunities. According to Yunus (1999), the poor can be saved by providing them an opportunity to realize their potentials. He has pointed out that poor are poor not because they are lazy, untrained or illiterate but because they cannot earn genuine returns on their labour. Therefore, creating opportunities and empowerment of the poor could be considered as the way to end poverty (Bhatt 1998, Yunus,1999).