

FACTORS INFLUENCING THE REPAYMENT OF GROUP LOANS IN MICROFINANCE INSTITUTIONS IN GHANA.

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Abstract

The purpose of the study was to investigate the factors that contribute to the repayment of group loans. The study was carried out from the Ghanaian context. Specifically, the study investigated the principle of joint liability, social ties of group members, prior loan repayment experience by group members, and the size of groups and how they contributed to the repayment of group loans. Furthermore, the study investigated the moderating role of commitment and how it influences the relationship between the predictor variables and group loan repayment.

The study adopted a mixed method approach, by employing the sequential explanatory research design. Thus, the qualitative part of the study preceded the quantitative aspect of the study. The quantitative part of the study was conducted to validate the conceptualized relationship by the researcher while the qualitative part of the study was employed to provide an in-depth understanding of the results obtained at the quantitative stage. Data for the study was obtained from a sample of 380 respondents.

Based on the analysis conducted, it was found that the principle of joint liability, social ties of group members, and group size had a significant positive effect on group loan repayment. The relationship between prior loan experience and group loan repayment was not significant. Thus, out of four direct hypotheses, three was supported and one was not supported. In terms of the moderating hypotheses, commitment significantly moderated the relationship between loan experience and group loan repayment as well as group size and group loan repayment. Moreover, there was no significant moderation effect of commitment on the relationship between joint liability and group loan repayment as well as social ties and group loan repayment. A major implication of the findings of the study is the fact that loan experience in itself is not sufficient or significant for group loan repayment, however, moderation effects of commitment negates such insufficiency.

Keywords: Loan repayment, group lending, microfinance, joint liability, social ties, loan experience, group size, commitment.