

## Abstract

Microfinance is an effective development tool to reduce poverty, empower economically and socially vulnerable segments of the society, especially women. Policy makers and financial regulators pay increasing attention to Micro Finance Institutions to assist them to become important players in the industry. However, repayment problems become the main obstacle for the microfinance institutions to continue providing microcredit services. Therefore, this paper reviews the determinants of loan repayment performances in microcredit programs which can be divided into two factors; namely customer characteristics and loan and lender characteristics.

Deductive approach was adopted in the study. The survey method was used to identify the factors affecting loan repayment default among microfinance borrowers of the selected sample. Sample comprised 197 default customers and 184 non-default customers. Sample was selected based on random sampling techniques to carry out the survey. It was selected Age, Number of dependents, Education level, Income level, Profit generates in the business, Number of loans, Loan amount, Installment amount, Interest rates and loan recovery advices were considered as independent variables and loan default as the dependent variable. A structured questionnaire was used to gather primary data from the selected sample. Semi structured interviews were conducted with key appointment holders and in-depth interviews were conducted with industry experts to find out qualitative data which were relevant for the analysis.

Data analysis was conducted by using SPSS 16.0 Both descriptive and inferential analysis techniques were used in the study. Scientific analysis techniques such as spearman correlation, binary regression and Mann-Whitney U test were used in analyzing non-parametric data. Findings of the study were evaluated through reactions of respondents of default and non-default borrowers. According to the results, Age, Income level, Loan amount and profit generated from the business do not have significant impact with loan default and other variables. Finally, it was found that the number of dependents and interest rates gives negative impact on loan default while number of loans gives positive impact on loan default. It is also found that although level of education gives positive impact on loan default, the impact is deteriorating in higher education levels. Since it is difficult to conclude solely from statistical methods qualitative analysis results shows that the interest rates and sustainability issues in Microfinance Institutions contributed to micro loan repayment default.

**Key Words: Microfinance, Microfinance Institution, Customer characteristics, Loan and lender characteristics.**