

# A Study on Factors Affecting to Loan Defaults of Micro Credit (Special Reference to People's Bank Branches in Anuradhapura Region, Sri Lanka)

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**Abstract-** This research investigates the factors affecting to loan defaults of micro credit (special reference to people's bank branches in Anuradhapura region, Sri Lanka). The study addresses the critical need to understand the factors contributing to loan defaults, arrears, and loan restructuring, providing valuable insights for microfinance institutions to enhance their risk management strategies. The primary objectives of this study are to identify, analyse, and comprehend the factors influencing loan repayment behaviour among microfinance clients at People's Bank branches in the Anuradhapura region. The research aims to contribute to the existing body of knowledge in microfinance and provide practical recommendations for enhancing the loan repayment process. A quantitative research approach was employed, utilizing Likert scale questionnaires to gather data on socioeconomic factors, loan characteristics, institutional practices, and borrower financial behaviours. The survey was distributed to a representative sample of microfinance clients in the Anuradhapura region. Data analysis was conducted using SPSS and Microsoft Excel, employing statistical methods to draw meaningful insights. The research revealed significant correlations between certain socioeconomic factors and loan repayment behaviour. Income levels, educational background, and employment status demonstrated notable associations with loan default rates. Additionally, institutional factors, such as the loan approval process and collection procedures, played a crucial role in shaping repayment behaviour. This research contributes valuable insights into the multifaceted aspects of loan repayment behaviour in microfinance. By understanding the key determinants, microfinance institutions can tailor their practices to mitigate risks and foster a more sustainable and inclusive financial environment. While efforts were made to ensure the reliability and validity of the research, certain limitations, such as sample size constraints and potential biases, should be acknowledged. Future research endeavours could delve deeper into the cultural and social dimensions influencing loan repayment behaviour. Longitudinal studies may also provide a dynamic perspective on the evolving nature of microfinance clients' financial behaviours.

**Index Terms-** loan repayment behaviour, micro finance

## I. INTRODUCTION

### 1. Background and Motivation

Microcredit has become an important tool in the fight against poverty and for greater financial inclusion, especially in less developed nations. It helps people with low incomes and small businesses get access to credit and other financial services, such as small loans, even if they don't have collateral or a credit history (CBSL, 2022). People's Bank is a well-known micro lending organization in Sri Lanka, with branches in many cities, including Anuradhapura.

The sustainability and efficiency of microcredit programs are threatened by loan defaults (Anton, 2020). When borrowers

don't pay back their loans, it hurts the financial health of microcredit institutions and makes it harder for them to give loans to people who really need them. In order to develop effective interventions and risk management measures, knowledge of the causes of loan defaults is essential.

The causes of loan failures in microcredit programs have been the subject of a great deal of research. Banerjee et al. (2015), Ghatak and Guinnane (1999), and Karlan and Zinman (2008) all cite a wide range of personal, societal, and institutional variables as causes of loan defaults. Research into the distinctive elements driving loan defaults in People's Bank branches is necessary, however, given the peculiar circumstances of the Anuradhapura district in Sri Lanka.

Anuradhapura is a rural district in Sri Lanka; hence, its economy, culture, and farming practices are all quite unique. Microcredit borrowers in the area may be significantly influenced by these contextual factors, both in their repayment behavior and their default rates. A study of the Anuradhapura area will shed light on the specific factors influencing loan defaults and allow for the development of tailored solutions to reduce them.

This study intends to minimize this knowledge gap by investigating what causes microcredit borrowers to default on their loans at People's Bank locations in the Anuradhapura district. Microcredit institutions can reduce loan defaults and improve the sustainability of their operations by recognizing and analysing these characteristics, then developing suitable risk assessment processes, implementing targeted interventions, and providing financial education to borrowers.

## 2. Research Questions of the Study

Microfinance clients (individual clients) at People's Bank branches in the Anuradhapura region are the focus of this research, which seeks to identify the characteristics that predict microcredit defaults. Following three research questions are set to answer.

- The first research question is "What causes microfinance customers to default on their microcredit?"
- Second research question is What is the correlation between the elements that influence repayment behavior and microcredit loans?
- "What are the proposed suggestions and recommendations to lower people's bank loan defaults?"

## 3. Research/Project Aims and Objectives

Primary Aim: To understand what influences microfinance customers in the Anuradhapura area to repay loans from People's Bank branches.

The purpose of this study is to investigate the factors that motivate microfinance customers to repay their loans to People's Bank branches in the Anuradhapura area. Borrowers' habits and inclinations toward repaying loans according to the terms and timetable set forth in the loan agreement are what are meant by "loan repayment behaviour."

The research will focus on five essential factors in order to accomplish this goal:

The study will investigate data collected from People's Bank branches in the Anuradhapura area about customer loan repayments. The total loan repayment behaviour of microfinance clients in the area will be analysed by looking at repayment patterns, default rates, delinquency rates, and other relevant variables.

The study's goal is to identify the features of individual borrowers that are associated with loan repayment habits. Age, gender, marital status, educational level, and family size are all examples of demographic parameters that could fall under this category. The objective is to see if there are connections between these variables and responsible loan repayment.

Evaluating socioeconomic considerations have an enormous impact on people's propensity to repay loans. The purpose of this research is to identify the influence of factors such income level, employment status, occupation, and household income stability on loan repayment behaviour. To what extent do borrowers with higher earnings or more stable employment histories have better repayment behaviour? This study will investigate.

Factors Associated with Loans the study will analyse loan-related factors that may have an impact on repayment patterns. Loan amounts, interest rates, repayment schedules, and collateral needs are all examples of such variables. The purpose of this research is to identify any connections between loan conditions and borrowers' repayment patterns.

In this study, microfinance clients' financial behaviour, including their saving habits, budgeting prowess, and financial literacy levels, will be evaluated. It will test the hypothesis that clients with better financial habits are also more likely to repay loans in a responsible manner.

The study will investigate the impact of institutional procedures on borrowers' propensity to repay their loans. People's Bank's loan approval, borrower screening, collection, and branch support and guidance methods could all be under scrutiny. The objective is to figure out how these tactics affect the ways in which borrowers make their payments.

The study's overarching goal is to shed light on why microfinance customers of People's Bank branches in the Anuradhapura area behave the way they do when it comes to repaying their loans. In order to increase the efficiency and longevity of microfinance programs in the region, the findings of this study can be used to shape new strategies, policies, and interventions.

## Subsequent Aims

- To quantify the extent to which economic, demographic, loan, moral hazard, and geographical factors all influence the likelihood that borrowers will repay their microcredit loans.
- To learn how People's Bank is affected by loan defaults.
- To provide advice and suggestions to people's banks in an effort to decrease loan defaults.

## II. LITERATURE REVIEW

### 1 Introduction

#### Overview of Microcredit and its Objectives

Microcredit, often known as microfinance, has been widely recognized as an effective strategy for expanding access to credit and alleviating poverty in both developed and developing countries (Adjasi, 2016). Microcredit is a relatively new form of financing with the ambitious goal of opening the doors of the banking system to low-income people and small businesses. Microcredit is a form of financial aid that tries to improve the lives of low-income people by providing them with access to small loans and other financial services (Armendáriz, 2010). It is possible that the use of microfinance might enhance the capability of individuals with low incomes to engage in commercially worthwhile endeavours, which can, in turn, contribute to the reduction of poverty and the improvement of society as a whole (Sunil Sangwan, 2020).

#### Importance of Financial Inclusion and Poverty Reduction

Micro finance has become a platform to reduce the poverty and the Promotion of Financial Inclusion in the country. According to (Sunil Sangwan, 2020), The employing of microfinance may enhance the ability of those with low incomes to engage in lucrative economic endeavours, thereby leading to a reduction in unemployment, poverty and an enhancement in quality of life. Financial inclusion covers all members of society, including the most financially vulnerable and excluded groups, have access to and are able to make use of suitable financial services.



Figure 1: the target client category for microfinance institutions (MFIs) in Sri Lanka

The program's goal is to expand people's access to mainstream financial resources such as checking and savings accounts, credit, insurance, and electronic payment methods (Attanasio, 2020). As to Carpena's research in 2011, the allocation of a nation's finances impacts the growth of the neighbouring areas. Ensuring the equitable allocation of credit in a way that can be maintained over time, the objective of achieving "financial inclusion" has rapidly emerged as the foremost

priority for governments and policy makers around the globe. Financial inclusion has been conceptualised by several academic institutions and organisations. The Centre for Financial Inclusion (2008) defines broad availability as the ability for individuals to get a wide range of financial services from several trustworthy and long-lasting institutions, at a reasonable price.

With the analysis of financial inclusion, There are around 2.6 million properties that make up a large component of the target market. These residences include Rather of falling into the lowest (or worst) group depending on income, a significant proportion of families in Sri Lanka fall into the lower- and middle-income categories. This ensures that the country stands out in comparison to other South Asian countries in terms of their distribution of people based on income. According to (Anon, 2020) the target customer category for microfinance organisations (MFIs) in Sri Lanka consists of these 2.6 million families that have low incomes. They are also referred to as the ambitious people, as seen in the graphic that is attached to this paragraph.

#### Impact of Microcredit on Income and Livelihoods

According to Bateman, (2009), Microcredit, which is an essential component of microfinance, has acquired popularity as a powerful weapon that may facilitate the production of income and the empowerment of small enterprises and individuals with low incomes. The goal of this work is to conduct a review and analysis of empirical research that has been conducted on the impact that microcredit has on the growth of income. The purpose of this literature review is to shed light on the strengths and shortcomings of microcredit programmes by integrating the findings of a range of sources that have been conducted on the subject (Bateman, 2009).

### 3. Evaluating the Sustainability of Microcredit Programs Long-Term Impact Assessment of Microcredit

Microcredit is a subset of microfinance that focuses on lending small amounts of money to people with low incomes or to small businesses. Microcredit programs have grown in popularity over the years, with the hopes of helping economically disadvantaged people and strengthening communities around the world (Robinson, 2001). Microcredit's long-term effects appear to be conditional on a number of variables, such as the specifics of the program, the nature of the borrowers, the kind of additional services provided, and the larger economic and social climate. The transformative potential of microcredit programs has been shown to increase when they include financial education, training, and social assistance in addition to credit distribution (Bateman, 2009).

#### Grameen Bank Model for Micro Finance Delivery

Bangladesh created the Grameen bank model, the most popular micro lending platform. Efforts of Mohammad Yunus

in Bangladesh conceived the idea. The factions reconcile and organise behind the shared credit guarantee. MFI personnel have no responsibility in choosing group members, thus their selections have no impact. To refund late payers, newly formed groups must have at least five members. If just one member breaks her agreement, the others have to cover the difference. Dynamic incentives are used in the Grameen Model, however borrowers who default on their monthly payments have trouble getting new loans. They can only get a bigger loan if they pay it back on time and follow the loan terms. Other group members will not be allowed to request future loans if they cannot pay off the loan's defaulter's debt. The organisation refuses to pay off the loan. His peers and neighbours who know each other are urged to join. This policy seeks to liberate women and empower marginalised groups including women, landless people, and others who would not qualify for credit via traditional banks.

According to the Grameen Solidarity organisation's business strategy, the organisation and its participants equally assure loan and installment payments. This method has grown in popularity and may work, according to Armendariz (1999). local Banking is a proven microfinance strategy based on local community organisations. A model called Village Banking Approach. The village paradigm has been widely used since the mid-1980s. This framework organises 25 to 50 people in society or on the team to submit applications for and get funding or credit to improve their life, means of sustenance, and self-employment. They want to boost their self-employment opportunities. The selected team members made judgements on officials, legislation, loans, and financial facilities. High morale and trust amongst team members gave the collateral its basis. This method is a proven winner in Sri Lanka and is anticipated to remain.

#### **Challenges to the Sustainability of Microcredit Institutions**

When it comes to providing access to capital for low-income individuals and small businesses, microcredit organizations are invaluable. These organizations have been crucial in furthering the goals of reducing poverty and expanding access to financial services (Sunil Sangwan, 2020). There are a number of threats to their continued existence, though. This literature review looks at the difficulties encountered by microcredit organizations and how they affect the sustainability and efficiency of microcredit initiatives (Dichter, 2007).

#### **4. Factors Affecting Loan Defaults in Microcredit Programs**

##### **Definition of Loan Defaults in Microcredit**

The failure of a borrower to repay a microcredit loan in accordance with the conditions and schedule established at the outset is known as a loan default (Adjasi, 2016). Loan defaults can have serious consequences for both borrowers and microcredit institutions, despite the fact that microcredit

programs are designed to help low-income individuals and small businesses gain access to financial services. This literature review looks at the different ways in which microcredit loan defaults can be defined, the causes of default rates, and the effects of defaults on both borrowers and lenders (Copestake, 2007).

##### **Significance of Studying Loan Defaults**

Loan defaults are highly important and which influences on business intentions such as profitability and revenues. According to (M. Igbaria, 1994), financial risk of the investment has been influenced by loan defaults and its impact. Several factors highlight the significance of investigating loan failures in the context of microcredit and microfinance initiatives. Specially, Sustainability of micro finance institutions for Long-Term Sustainability is effected by the level of micro finance loan defaults (Karlan, 2011).

#### **5. Socioeconomic Factors Influencing Loan Defaults**

##### **Income Levels and Loan Default Behavior**

Microcredit borrowers' propensity to default on their loans is significantly affected by their income levels. The inability to save and the unpredictability of income might make it difficult for low-income borrowers to repay their loans on time (Khandker, 2005). There are various factors affecting the correlation between income and loan default rates including irregular or seasonal revenue, The debt-to-income ratio, The reliability and consistency of the borrower's source(s) of income and the influence of economic shocks or unanticipated costs on the ability of borrowers to make their loan payments (Khandker, 2005).

##### **Educational Background and Loan Repayment Performance**

The education background of Borrowers of micro finance customers has a impact of loan repayment behaviour (Sangwan, 2020). Microcredit borrowers' ability to repay loans may also be affected by their level of education. Higher-educated borrowers may better manage their finances and make timely loan payments because they have a better grasp of financial concepts. They may be better able to make ends meet if they have more options for earning (Sharma, 1997). Those with less formal education may have trouble comprehending loan agreements and organizing their finances. Misunderstandings of loan terms and obligations may result from a lack of financial literacy, which could increase the likelihood of default.

##### **Employment Status and Loan Default Rates**

According to (M. Igbaria, 1994), Loan default rates are also affected by other socioeconomic factors, such as employment status. Those who have a regular source of income are more likely to be reliable loan payers than those who are more financially risky. They are less likely to default on loan payments because they have a reliable income stream.

Borrowers who are either unemployed or underemployed may have a more difficult time making loan payments. Higher default rates are possible when people do not have a stable source of income, such as when the economy is in a downturn or when unemployment is high.

## 6. Loan Characteristics and their impact on Loan Defaults Loan Size and Default Risk

Extensive research and discourse have been conducted about the relationship between the amount of microloans and the likelihood of default. The variability of default rates and borrowers' capacity to repay has been extensively examined (Kaboski, 2011). Studies indicate that borrowers may have more difficulties in repaying bigger loans, even while these loans may provide them with substantial financial resources to invest in activities that generate revenue. Greater loan amounts might impose a greater burden on a borrower's capacity to generate sufficient income to meet monthly payments. Hence, the likelihood of a borrower defaulting on a loan rises if the borrower's revenue-generating activities fail to materialise as intended. In their study, Karlan and Zinman (2011) performed a randomised credit scoring experiment and found that greater loan amounts were correlated with an increased likelihood of default for new borrowers without any previous credit history. These findings indicate the need of assessing the creditworthiness of borrowers and adjusting loan amounts according to their ability to repay, in order to minimise the chance of default.

## Interest Rates and Loan Repayment Behavior

The studies on microcredit should include the impact of interest rates on borrowers' likelihood of repaying loans. Interest rates have a significant influence on the cost of borrowing, hence affecting the financial burden and motivation for borrowers to repay (Sangwan, 2020). Empirical evidence has shown that lower interest rates effectively incentivize borrowers to adopt improved loan repayment behaviours. Reduced interest rates incentivize borrowers to allocate a larger portion of their disposable income towards the repayment of both the original amount and the interest charges. As borrowers' capacity to make loan payments improves, the likelihood of default will diminish.

High interest rates exacerbate the probability of default for borrowers who already struggle to satisfy their financial obligations without relying on debt. Interest rate spikes may potentially lead to adverse selection, when borrowers with greater risk are attracted to loans that have higher interest rates. Karlan and Zinman (2009) performed a field experiment and found that reducing interest rates led to an increase in loan repayment and a reduction in the chance of default. This underscores the importance of determining interest rates in order to encourage responsible borrowing and reduce the occurrence of defaults.

## Repayment Terms and Default Probability

The probability of default in microcredit programmes is also influenced by repayment conditions, including the frequency and duration of loan instalments (Sunil Sangwan, 2020). If the tenure of a loan is shortened, borrowers may have challenges in effectively managing their cash flow and making more frequent repayments. Conversely, borrowers may grow more indifferent and less diligent about completing their payments if granted an extended repayment period for their debts. The design of repayment terms should be informed by the cash flow patterns of borrowers and the nature of their income-generating activities. In order to enhance the likelihood of borrowers successfully repaying their loans, it is advisable to schedule loan instalments in accordance with periods of increased income. In a field experiment done by Giné and Karlan (2014) in the Philippines, it was shown that offering borrowers the choice to make weekly or monthly instalments, known as flexible repayment terms, resulted in improved loan repayment behaviour and reduced chance of default (Anton, 2020). This exemplifies the need of implementing adaptable loan repayment terms that are tailored to the specific requirements of borrowers.

## 7. Borrower's Financial Behaviour and Loan Defaults Savings Habits and Loan Repayment Performance

Research studies on the relationship between borrowers' savings behaviour and loan repayment performance generally indicate that individuals with well-established savings habits are more inclined to exhibit responsible loan repayment behaviour (Sangwan, 2020). Individuals who constantly save money are more likely to possess the financial self-control necessary to meet their loan obligations promptly. Individuals who possess financial reserves are more capable of enduring sudden decreases in income or unexpected expenses without defaulting on their debts. If borrowers have challenges in completing their loan payments, they might use their savings to cover the shortfall. Research conducted by Dupas and Robinson (2013) has shown that promoting the establishment of savings accounts among microcredit customers has a positive impact on the rates of loan payback. Hence, it is crucial for microcredit programmes to include savings initiatives in order to mitigate the occurrence of loan defaults.

## Budgeting Skills and Loan Default Rates

To ensure timely loan repayments and responsible financial decision-making, consumers must possess proficient budgeting skills. Budgeting experts are more capable of making prudent choices regarding their financial resources, including debt repayment, savings, and prospective expenditures. Research indicates that individuals who adhere to a budget are at a reduced probability of defaulting on their loans (Robinson, 2001). By monitoring their income and expenses, borrowers can gain a more comprehensive understanding of their financial circumstances by implementing a budget. It has been demonstrated that

financial education programmes with a concentration on budgeting and money management can decrease loan default rates. By educating debtors on the steps to creating and adhering to a budget, microcredit organisations can promote fiscal responsibility and reduce default risk. The correlation between the financial literacy of borrowers and their propensity for default. The extent to which microcredit initiatives rely on the financial literacy of borrowers has a substantial effect on default rates. A greater level of financial literacy is associated with a more comprehensive understanding of loan agreements, interest rates, and the consequences that may arise from defaulting on loan payments. Individuals are inclined to exercise greater financial prudence and effectively manage their debt (Banerjee, 2015).

#### **Financial Literacy and Borrower Default Behavior**

The consumer knowledge on finance is a key factor in managing finance by the consumers. Financially savvy borrowers are more inclined to turn to microcredit providers for help when they have challenges in repaying their loans. The study conducted by Drexler et al. (2014) in Peru revealed that providing financial literacy training significantly reduced default rates among microcredit users. The data presented indicates that the inclusion of financial education inside microcredit programmes enhances the repayment performance of loans and motivates borrowers to make punctual payments.

### **8. Institutional Factors and Their Role in Loan Defaults**

#### **Loan Approval Process and Default Rates**

Studies on the correlation between institutional features and defaults have shown that the approval process for loans might impact default rates in microcredit programmes (Sunil Sangwan, 2020). The evaluation of creditworthiness and acceptance of loan applications by microcredit organisations may impact the borrowers' capacity to repay and the overall default risk. Severe loan approval procedures have been associated with reduced default rates. Microfinance institutions may enhance their capacity to identify clients with a higher likelihood of repaying loans on time by undertaking comprehensive assessments of their borrowers' financial stability, income-generating capabilities, and credit histories. This enhances the quality of the loan portfolio and decreases the chance of default (Ahlin, 2007). On the other hand, higher default rates might occur when a loan approval procedure is too lenient or lacks sufficient inflexibility. Approving loans without doing a thorough assessment of the borrower's repayment capacity exposes the lender to the risk of dealing with unreliable borrowers. Research undertaken by Banerjee et al. (2015) indicates that default rates in an Indian microcredit programme significantly decreased with the implementation of a data-driven and automated loan approval procedure. This highlights the need for enhanced default risk management procedures throughout the loan approval process (Armendariz, 2011).

#### **Borrower Screening Mechanisms and Default Risk**

Key institutional factors that influence the likelihood of default in microcredit programmes include borrower screening mechanisms (Sunil Sangwana, 2020). These algorithms aid in identifying consumers with a better probability of loan repayment while excluding those with a greater likelihood of default. Research has shown that implementing efficient borrower screening methods may significantly decrease default rates. Microcredit organisations may enhance their ability to evaluate creditworthiness and repayment capacity by using a mix of credit ratings, collateral evaluations, and psychometric examinations. This helps to reduce the likelihood of default for the whole portfolio by enabling the lender to concentrate on borrowers who are more inclined to repay their loans. Insufficient or inaccurate screening techniques might lead to higher default rates. Failure to accurately identify high-risk borrowers by microfinance institutions might result in inadvertent provision of loans to those unable of repayment (Ledgerwood, 1999).

#### **Collection Procedures and Loan Default Behavior**

The collecting practises used by microcredit organisations have a substantial impact on the default rates of their borrowers (Sangwan, 2020). The default rates may be influenced by the methods of loan collection, the frequency of payment collection, and the approach used towards delinquent borrowers. Studies indicate that the use of adaptable, customer-focused collecting strategies may enhance loan repayment behaviour and reduce default rates. Microcredit organisations that provide diverse repayment choices, give grace periods during financial difficulties, and maintain effective contact with borrowers tend to have higher payback rates (Morduch, 1998).

Nevertheless, further defaults may arise as a consequence of severe or inflexible collecting procedures. If debt collectors employ harsh techniques, borrowers may become resentful and deliberately postpone loan repayment. Borrowers may cease making payments due to a sense of insecurity when it comes to addressing the lending institution. In their study, Karlan et al. (2016) discovered that by tailoring collection strategies to the preferences and circumstances of borrowers, it was possible to enhance repayment rates and reduce the likelihood of default in a microcredit programme in the Philippines. The need of using collecting strategies that promote borrower cooperation and responsiveness is emphasised (Adjasi, 2016).

### **9. Cultural and Social Factors Affecting Loan Defaults**

#### **Cultural Norms and Their Influence on Repayment Behavior**

Research on the impact of cultural and social elements on loan defaults reveals that borrowers' repayment behaviors in microcredit programs are significantly influenced by cultural norms (Sangwan, 2020). The borrowers' inclination and

dedication to repay loans may be significantly impacted by cultural norms, including attitudes towards debt, financial obligations, and the significance of upholding one's reputation (Pitt, 1998). In places where there is a cultural emphasis on the importance of loan repayments and maintaining a solid credit history, borrowers are more inclined to prioritise these obligations and make a conscious effort to protect their credit record. Conversely, cultures that have a different perception of debt or where the negative consequences of failing on a loan are reduced may have a greater likelihood of defaulting on loans. The borrowers' likelihood of fulfilling their loan obligations is significantly impacted by cultural norms on debt and the severity of societal repercussions for failure to repay. In order to effectively adapt communication and collection strategies and promote responsible repayment habits, microcredit institutions must first possess a comprehension of the prevailing cultural norms (Kabeer, 2005).

### Social Support Systems and Loan Default Rates

The probability of microcredit borrowers defaulting on their loans can be significantly decreased when they have the opportunity to use social support systems, such as familial and communal networks. During times of economic difficulty, individuals who have robust social networks are less prone to fail on their financial obligations since they have the option to seek assistance from their relatives and acquaintances. Nevertheless, those who owe money and do not possess robust social networks may have more difficulties in enduring financial downturns. An increased probability of loan default resulting from insufficient assistance amid challenging situations. Angelucci et al. (2015) found that microcredit borrowers with large social networks had a lower probability of loan default compared to those with limited connections to the broader society. This exemplifies the significance of social networks in reducing the probability of default.

### Trust and Social Capital in Loan Repayment

Microcredit programme clients are more inclined to repay their loans when they possess substantial levels of social capital and community trust (M. Igbaria, 1994). Customers who have a positive perception of the microcredit institution's intentions are more inclined to prioritise making loan payments on time and maintain their loyalty (Robinson, 2001). The repayment behaviour of borrowers may also be influenced by their social capital, including elements such as their degree of engagement and participation in communal endeavours. Individuals with significant social capital may have a heightened need to promptly return their debts in order to safeguard the esteem of their social circle. The default behaviour of borrowers may be impacted by a mix of cultural norms and social capital. In locations with high social capital, cultural norms about loan repayment may be deeply rooted, as individuals feel compelled to maintain good credit behaviour owing to community expectations.

## 10. Conceptual Framework

The conceptual model is developed based on literature evidences and it is depicted below figure. Socio economic factors, loan characteristics, institutional factors are considered as independent variables. Loan default behaviour is considered as dependent variable.

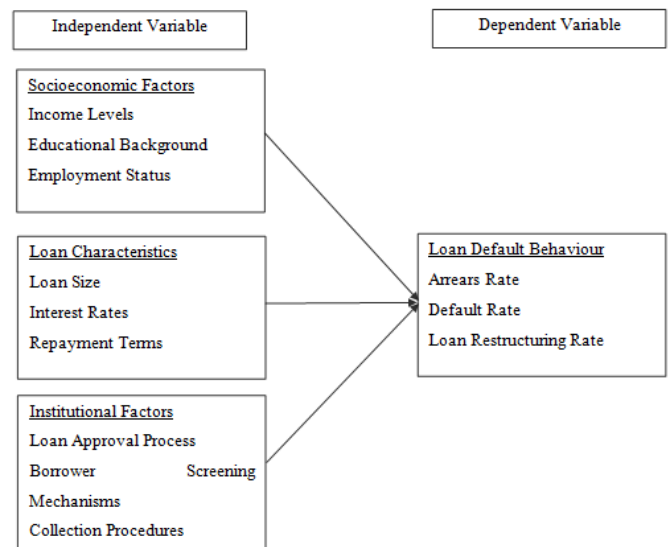


Figure 2: Conceptual model of the study

## 11. Chapter Summary

This section presents the results of the researcher's investigation into the causes of loan defaults in microcredit programs, with particular attention paid to the branches of the People's Bank located in the Anuradhapura area. Microcredit loan defaults have serious consequences for both borrowers and lenders, threatening the long-term viability of microfinance programs and undermining efforts to expand access to credit. Researchers looked into various major aspects that lead to default rates in order to have a better understanding of the problem and develop effective solutions.

## III. METHODOLOGY

### 1. Introduction

The methodology chapter is the backbone of the study since it lays out a detailed plan for how the researchers will go about looking at the causes of loan defaults in microcredit programs, with a particular emphasis on the People's Bank branches in the Anuradhapura area. According to (Mark Saunders, 2015), research methodology is a key phase in the total research project. This section provides an overview of the study's theoretical framework, data gathering strategies, statistical analyses, and ethical considerations. This chapter ensures the rigor, trustworthiness, and reliability of the findings by outlining the methodical strategy that researchers apply.

Subsequent sections will go into the theoretical framework and research paradigm that underpin the investigation of loan default behaviour. The researcher will also describe the devices used to collect data from microcredit borrowers, as well as the sampling strategy and justification for that strategy's selection. The chapter will also shed light on the data analysis tools used by researchers, outlining the steps that will be taken with quantitative data and why they are important.

**2. Theoretical Perspective and Research Paradigm**

**Theoretical Perspective**

The social constructivist theoretical orientation is central to this investigation (Mark Saunders, 2015). This worldview recognizes that reality is both socially produced and shaped by the ways in which people interact with one another. This viewpoint provides an opportunity to investigate the influence of borrowers' expectations, cultural norms, and social dynamics on their repayment behaviour in the context of loan defaults. Researchers can gain a deeper and more complex understanding of loan defaults by looking into the role that social and cultural elements play in the phenomenon.

**Research Paradigm**

The interpretivist research paradigm is consistent with the findings of this study. Understanding the significance that people ascribe to their own experiences is central to the interpretivist perspective.

Researchers hope to learn more about the impact of environmental factors on the repayment habits of microcredit borrowers by delving into the borrowers' own perspectives. Researchers are using an interpretivist tack in order to hear borrowers' whole stories and get to the bottom of what causes loan defaults.

**Research Approach**

According to (Mark Saunders, 2015), research approach is highly important to conduct the study. This research project takes deductive research approach which aims to use quantitative data collection techniques, structured and formal approach to conduct the study. To collect data, formal questionnaire is used by using Likert scale.

**Research Design**

The methodology used in this study is known as quantitative research, and it is characterized by its reliance on numerical data and statistical analysis for inference and conclusion-drawing. Objective and consistent measurement of variables are hallmarks of quantitative research.

Likert-scale structured questionnaires are used to collect data in this study, with numerical values assigned to each response option. This permits the quantitative analysis of variables associated with borrowers' propensity to repay loans.

**Time Horizon of the Study**

According to (Warnakulasuriya, 2015), the time horizon of the study defines the time scale of conducting the study. This study takes cross sectional study where the research project is conducted in short time period or single data collection process with micro finance customers in the bank.

**3. Data Collection and Analysis**

**Data Collection**

**Questionnaire Design**

The purpose of the survey is to identify the causes of loan defaults and to better understand the borrowers' perspectives on loan repayment. In order to collect data, formal and structured questionnaire is used. Participants can give nuanced feedback on a scale from "strongly agree" to "strongly disagree" using the Likert scale. The questionnaire will be pretested to ensure the accuracy, reliability and validity.

**Sampling Approach**

According to (Mark Saunders, 2015), the researcher needs to select the representative sample to collect data for the study. Then, researcher has use simple random sampling techniques under probability sampling. The rational for selecting simple random sampling is that it has the equal chance for every elements in the population to be selected. The sampling profile is shown below Table.

Table 1: Sample Profile of the study

Data collection strategy	population	Sampling framework	Sampling method	Final sample size
Survey	243 of MF customers in Anuradhapura	The bank data base	Simple Random sampling	150

**Calculator**



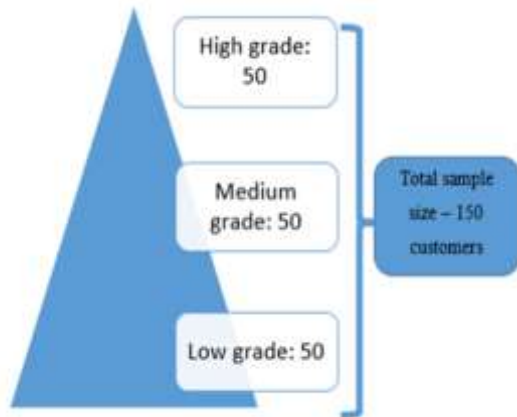


Figure 3: Sample size calculator

The total population of the study is 243 of MF customers in Anuradhapura area and it was identified through bank customer data base. The final sample size was decided based on online calculator (<https://select-statistics.co.uk>) and it is 150 of the customers (It was proven through Morgan table also). High-grade, middle-grade, and low-grade subsets of the population was selected to cover the sample.

In order to use confidential data (respondents personal profile such as contact no, address )from the bank and its data base, The verbal and written request was given to the bank through bank manager and prior consent was gained from the customers for data collection.

During data collection, 187 of sample respondents were targeted to collect data.80 % of respondent rate was recorded during data collection.20% of non-response rate was recorded due to various reasons. Thus, it had a chance to collect data from 150 respondents as per sampling criteria.

**Data Collection Procedure**

Participants will be recruited among People's Bank loan customers in the Anuradhapura area. Participants can pick up the structured questionnaire at any of the participating banks physical locations or receive it via email. The questionnaire will come with detailed instructions and recommendations to guarantee reliable responses.

**Data Analysis**

**Quantitative Analysis**

We'll use SPSS and Excel to dig into the Likert-scale results we gathered. The purpose of the quantitative analysis is to assign numerical values to the responses of the participants and extract meaningful information from the data.

**Descriptive Analysis**

A summary of the replies to each question will be provided by descriptive statistics like mean, median, mode, and standard

deviation. This will provide an in-depth analysis of how they feel about loan repayment and the underlying issues.

**Inferential Analysis**

The strength and direction of links between variables will be determined using inferential statistical methods like correlation and regression analysis. Researchers can use correlation analysis to discover connections between borrower traits and repayment patterns and regression analysis to predict how many independent variables affect default probability.

**4. Validity and Reliability**

It is essential to the legitimacy and trustworthiness of the research conclusions that the data collected and processed be valid and reliable. The steps taken to ensure the validity and trustworthiness of the study on microcredit loan defaults are discussed below.

**Validity**

**Content Validity:** Thorough literature research and consultations with subject-matter experts informed the development of the structured questionnaire used to establish content validity. The questions make sense in light of the research goals and theoretical framework, and they cover all the bases in terms of what could lead to loan defaults. The questionnaire was refined through pilot testing to better capture respondents' thoughts and feelings.

The study's construct validity was ensured by the researcher's use of established measurement scales and Likert-type items that have been tested and found to be reliable in prior studies. This guarantees that the questions effectively assess the targeted constructs. Reseracher also used factor analysis to verify the hypothesized constructs and evaluate the reliability of the resulting measures.

**Reliability**

Cronbach's alpha was used by the researcher to determine the questionnaire's internal consistency across different scales. This metric indicates how highly correlated the scale's items are with one another. When Cronbach's alpha is high, it suggests that the items on each scale reliably measure the same construct.

Table 2: Reliability test

Reliability Statistics	
Cronbach's Alpha	N of Items
.707	4

This result, known as Cronbach's alpha, is crucial. The internal consistency of a set of items is quantified by calculating their Cronbach's alpha. A high alpha does not necessarily indicate a one-dimensional measure.

0.707 is the value of Alpha. In the same vein as the correlation coefficient, this value should be positive and, as a general rule, greater than 0.7. Over 0.7, this one definitely is. Since all of the following variables have alpha values higher than 0.7, we may safely assume that the data set is consistent within itself and suitable for future study.

Methods for Collecting Reliable Data Participants were given detailed instructions to ensure they fully grasped the objectives of the study and gave consistent answers. Participants were prompted to give deliberate, honest responses, which reduced response bias and increased the data's reliability.

In order to determine the dependability of the collected data, the researcher conducted statistical analyses in SPSS, including exploratory factor analysis. The factor structure was confirmed by using confirmatory factor analysis, which checked that the empirical data agreed with the theoretical frameworks.

### 5. Ethical Considerations

Ethical concerns in the research is highly important to ensure the ethical behaviour of the study (Mark Saunders, 2015). It takes a serious dedication to ethics to study controversial phenomena like loan defaults in microcredit schemes. Researchers here detail the ethical principles they've followed and the safeguards they've put in place to protect the safety, privacy, and self-respect of study participants.

All participants will be provided with an explanation of the study's aims, methods, risks, and benefits so that they may make an educated decision about whether or not to participate. Participants will be provided with informed consent forms and given the opportunity to ask questions and have their concerns addressed before signing the forms.

Participants are under no obligation to continue with the study and may withdraw at any time with no negative consequences. The researchers stress that their connection with People's Bank or any other financial institution will not be harmed in any way by their decision to join or not.

Participants' information will be kept private and anonymous, as per the researcher's stated commitment. Participants' identities will be concealed at all times while data is being collected and stored. Personal information will be removed from the data before it is coded and used in the study.

**Confidentiality:** Individuals' right to confidentiality during data gathering will be upheld. No private or financial information will be requested from participants or requested in the questionnaires.

**Reducing Potential Harm:** This research is about loan defaults, which is a touchy subject. The researcher will do

their best to ensure the participants' safety and comfort. The approach to discussing loan defaults in interviews and surveys will be polite and unobtrusive.

Researchers acknowledge the potential for indirect effects, even though knowledge contribution is the major purpose of the study. By elucidating the causes of loan defaults, we hope to educate microcredit institutions on methods to better assist borrowers and cut down on defaults, leading to more efficient and ethical lending practices.

**Bias on the Part of the Researchers:** We pledged to conduct a fair and impartial study. Avoiding leading questions, employing consistent methods of data collection, and analyzing the results thoroughly are all necessary for fairly representing the opinions of study participants.

### 6. Hypothesis

#### Hypothesis A

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches were affected more by their socioeconomic status than borrowers in other parts of the country (Ha1).

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches report no discernible effect of socioeconomic status on their propensity to repay those loans.

#### Hypothesis B

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank saw a notable change in their loan repayment habits as a result of HB1.

Loan repayment behavior of microfinance consumers at People's Bank branches in the Anuradhapura region is not significantly affected by loan characteristics, according to Hypothesis 0 (Hb0).

#### Hypothesis C

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches are influenced by institutional variables that make it more or less likely that they will return such loans.

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches report no substantial influence from institutional factors on their loan repayment behavior.

### 7. Chapter Summary

This study's methodology establishes the groundwork for understanding loan failures in microcredit programs, with a particular emphasis on People's Bank locations in the Anuradhapura area. This chapter summarizes the methodical

approach researchers take to effectively address the research questions by outlining the research design, data gathering methods, analytical tools, and ethical considerations used in the study.

The researcher began by outlining the social constructivist lens that served as the theoretical framework for the investigation. Through this lens, we are able to investigate the myriad cultural, societal, and personal aspects that contribute to people defaulting on their loans. Using an interpretivist research methodology, the study will delve into how borrowers personally make sense of and make sense of changes to their loan payback experiences.

The study takes a quantitative approach and uses a structured questionnaire based on Likert scales to compile its findings. Researchers used a stratified random sampling method to choose study participants from multiple demographic groups. Researchers hope to obtain a diverse sample of borrower types representative of the population as a whole with this method. A key part of this process is analyzing data. The researcher will conduct a quantitative analysis of the data using SPSS and Microsoft Excel, applying both descriptive and inferential statistical methods. While descriptive analysis can provide a general picture of how people felt, inferential analysis can help us see the connections and patterns in the data.

Incorporating participants' welfare and rights into every step of the process, ethics are central to the methodology. Fundamental to this ethical stance are the principles of informed consent, voluntary engagement, confidentiality, and respect for individual autonomy. Throughout the study, researchers protect the anonymity of participants to guarantee their participation is treated as strictly confidential.

Researchers want their conclusions to be credible and trustworthy; therefore, they pay close attention to issues of validity and dependability. Researchers guarantee that the questionnaire measures the desired components by assessing its content and construct validity. The accuracy of the data was bolstered by checks for internal consistency and test-retest repeatability.

The commitment to doing ethical, rigorous, and meaningful research is emphasized throughout the methodology chapter, which not only details the technical parts of the research. Researchers established a foundation for rigorous studies of the complex causes and consequences of loan defaults in microcredit programs by adhering to the highest standards of openness and honesty.

#### IV. RESULTS AND ANALYSIS

This chapter discusses 'results and analysis in which statistical data analysis was conducted. Under this, Descriptive statistics

for sample demographic profile was used (4.1). The second section (4.2) discusses relationship between factors affecting and Loan repayment behaviour of Microfinance clients at People's bank branches, Anuradhapura region. Third section discuss (4.3) Impact of the factors affecting on Loan repayment behaviour of Microfinance clients at People's bank branches, Anuradhapura region.

#### 1. Descriptive Statistics **Gender Analysis of the Study**

The information appears to be a breakdown of the genders represented among the 150 respondents surveyed. The data is broken down as follows: There were 86 males out of the total sample size (57.3%).Sixty-four responses (42.7%) were from women.

Table 4- 1 Gender responses

Gender					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	86	57.3	57.3	57.3
	Female	64	42.7	42.7	100.0
	Total	150	100.0	100.0	

(Created by a researcher using SPSS data as a starting point.)

#### **Gender Age Analysis of the Study**

Table 4-2 shows age distribution of the sample respondents. A sample of 150 people was used to generate the supplied data, which shows the demographic distribution of respondents by age. This data helps researchers better understand the demographics of the sample population and the range of ages included in the analysis.

Table 5: Age responses

Age					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20-30	26	17.3	17.3	17.3
	31-40	56	37.3	37.3	54.7
	41-50	26	17.3	17.3	72.0
	51-60	30	20.0	20.0	92.0
	60+	12	8.0	8.0	100.0
	Total	150	100.0	100.0	

(Created by a researcher using SPSS data as a starting point.)

**The Educational Background Analysis of the Sample**

Table 4-3 shows the respondents educational background. The presented data depicts the distribution of respondents' educational backgrounds among a sample of 150 people. 15.3% of primary education holders, 26.0% of secondary education holders, 28% of diploma holders, 16.0% of graduates, 14.7% of postgraduate or higher qualification holders are shown. Majority of respondents are diploma holders.

Table 6: Education level responses

Education					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Primary Education	23	15.3	15.3	15.3
	Secondary Education	39	26.0	26.0	41.3
	Diploma	42	28.0	28.0	69.3
	Graduate	24	16.0	16.0	85.3
	Post Graduate or Higher	22	14.7	14.7	100.0
	Total	150	100.0	100.0	

**2. Relationship between factors affecting and Loan repayment behaviour of Microfinance clients at People's bank branches, Anuradhapura region**

**Analyzing hypothesis A**

Hypotheses analysis is done through correlation analysis. Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches were affected more by their socioeconomic status than borrowers in other parts of the country (Ha1).

Table 7: the correlation between client socioeconomic status and loan repayment patterns

Correlations			
		Loan repayment behaviour	Socioeconomic factors
Loan repayment behaviour	Pearson Correlation	1	.977**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	117.573	169.167
	Covariance	.789	1.135
	N	150	150
Socioeconomic factors	Pearson Correlation	.977**	1

	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	169.167	255.208
	Covariance	1.135	1.713
	N	150	150

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches report no discernible effect of socioeconomic status on their propensity to repay those loans.

(Created by a researcher using SPSS data as a starting point.) The significance value (p-value) of 0.000 indicates that there is a statistically significant relationship between "loan repayment behaviour" and "socioeconomic factors." The correlation coefficient of 0.977 supports this interpretation and it is at very high level relationship between the variables. This association provides significant evidence of a connection between the respondents' loan repayment habits and their socioeconomic status. There is a high tendency for loan repayment habits to shift as a result of societal and economic shifts. Then, it shows that there is a high relationship and effect of socioeconomic status on loan repayment patterns.

**Analyzing hypothesis B**

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches had their repayment habits influenced by loan characteristics.

Loan repayment behaviour of microfinance consumers at People's Bank branches in the Anuradhapura region is not significantly affected by loan characteristics, according to Hypothesis 0 (Hb0).

Table 8: Relationship between Loan Characteristics and Loan repayment behavior

Correlations			
		Loan repayment behaviour	Loan Characteristics
Loan repayment behaviour	Pearson Correlation	1	.544**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	117.573	172.684
	Covariance	.789	1.159
	N	150	150
	Loan Characteristics	Pearson Correlation	.544**

	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	172.684	857.279
	Covariance	1.159	5.754
	N	150	150

(Created by a researcher using SPSS data as a starting point.) Pearson correlation coefficients are used to show how "loan repayment behaviour" and "loan characteristics" are related to one another in the table presented.

The significance value (p-value) of 0.000 indicates that there is a statistically significant relationship between "loan repayment behaviour" and "loan characteristics." The correlation coefficient of 0.544 supports this conclusion and this relationship is at moderate. That indicates that the sample's loan repayment behaviour correlates moderately with the sample's loan characteristics, as seen by this correlation.

### Analyzing hypothesis C Hypothesis C

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches are influenced by institutional variables that make it more or less likely that they will return such loans.

Table 9: Relationship between Institutional factors and Loan repayment behaviour

Correlations			
		Loan repayment behaviour	Institutional factors
Loan repayment behaviour	Pearson Correlation	1	.363**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	117.573	57.322
	Covariance	.789	.385
	N	150	150
Institutional factors	Pearson Correlation	.363**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	57.322	212.590
	Covariance	.385	1.427
	N	150	150

Microfinance borrowers in the Anuradhapura area who took out loans from People's Bank branches report no substantial

influence from institutional factors on their loan repayment behaviour.

(Created by a researcher using SPSS data as a starting point.) Pearson correlation coefficients are used to display the relationship between "loan repayment behaviour" and "institutional factors" in the table presented.

Since the significance value (p-value) for this correlation is 0.000, it is concluded that there is a statistically significant relationship between "loan repayment behaviour" and "institutional factors.". This association between loan repayment habits and institutional characteristics within the sample population is statistically is 0.385 (low). There is a low general tendency for loan repayment behaviour to shift as institutional variables shift.

### 3. Impact of the factors affecting on Loan repayment behaviour of Microfinance clients at People's bank branches, Anuradhapura region

Table 10: Impact of Socioeconomic factors on Loan repayment behaviour

ANOVA <sup>a</sup>						
	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	112.133	1	112.133	3050.686	.000 <sup>b</sup>
	Residual	5.440	148	.037		
	Total	117.573	149			

- Behavior towards loan repayments, the dependent variable
- Constant predictors: societal and economic conditions

(Created by a researcher using SPSS data as a starting point.)

What appears to be a summary of a regression analysis is supplied as SPSS output. There's data on the total, residual, and regression sums of squares there. So, to decode this result: Square Root:

The total squared deviations between the regression model's predicted values and the mean of the dependent variable are 112.133.

The sum of squared deviations between the dependent variable and its anticipated values from the regression model is 5.440, which is the residual sum of squares.

The total sum of squares equals 117.573 and represents the squared differences between the observed values of the dependent variable and its mean. Determinants and observables: "Loan Repayment Behavior" is the dependent variable in this study. Among the independent variables (predictors) in this model are a constant term and "Socioeconomic Factors." How well the regression model fits the data can be gleaned from the sum of the squares values:

How much of the overall variation in the dependent variable can be accounted for by the regression model is represented by the regression sum of squares. In this situation, the model adequately explains 112.133 out of 117.573 units of total variation. After controlling for all other variables in a model, the residual sum of squares shows how much of the variation in the dependent variable remains unexplained. The model fails to account for 5.440 standard deviations in this situation.

The dependent variable's total amount of variation is given by the total sum of squares. It includes both predictable and unexpected deviations. The coefficient of determination (R square), which indicates how much variance in the dependent variable can be attributed to the independent variables, is computed using these sum of squares values. Simply divide the sum of squares from the regression by the sum of squares from the entire experiment to get the R-squared value.

In conclusion, this result sheds light on how much variation in "loan repayment behavior" may be explained by "socioeconomic factors" and the constant term.

Table 11: Impact of Loan characteristics on Loan repayment behaviour

ANOVA <sup>a</sup>						
Model	Sum of Squares	df	Mean Square	F	Sig.	
1	Regression	34.784	1	34.784	62.183	.000 <sup>b</sup>
	Residual	82.789	148	.559		
	Total	117.573	149			

- Behavior towards loan repayments, the dependent variable
- Factors to Consider: (Fixed), Loan Features

(Created by a researcher using SPSS data as a starting point.) A regression analysis is represented in the SPSS output that was provided. The purpose of this analysis is to probe the links between two factors ("loan repayment and "loan characteristics." Now, let's analyze the results:

ANOVA, or Analysis of Variance: The total of squared deviations between the regression model's predicted values and the mean of the dependent variable is 34.784, according to the regression total of squares statistic. One degree of freedom (df) is assigned to the regression analysis.

The average square is calculated by dividing the sum of squares for regression by the number of degrees of freedom for regression, and in this case, the average square is similarly 34.784.

The value of the F-test is 62.183. This statistic checks the assumption that there is no significant association between the independent variable (loan characteristics) and the dependent variable. A high value of the F-statistic indicates that one or more of the independent variables have a crucial role in explaining the observed pattern of the dependent variable.

• Significance (Sig.): The F-statistic's corresponding p-value is 0.000 (b). This model is statistically significant as a whole, as seen by the extremely small p-value. Since the p-value is less than 0.05, we can infer that there is a significant relationship between the independent variable (loan characteristics) and the dependent variable (loan repayment behavior).

The Square Root of the Residual: The sum of squared deviations between actual observed values of the dependent variable and predicted values from the regression model is 82.789, as measured by the residual sum of squares statistic. The residuals have 148 df, which stands for degrees of freedom.

**Mean Square:** 0.559 The mean square is calculated by dividing the sum of squares for residuals by the number of degrees of freedom for residuals. Add up all the squares.

The total sum of squares equals 117.573 and represents the squared differences between the observed values of the dependent variable and its mean. There are 149 degrees of freedom (df) for the sum of squares as a whole. Overall, the ANOVA table confirms the significance of the regression model, showing that "loan characteristics" are a significant predictor of "loan repayment behavior." This is because the F-statistic is large and the p-value is small, both of which

indicate that there is a meaningful relationship between the two variables.

Table 12: Impact of Institutional factors on Loan repayment behaviour

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	15.456	1	15.456	22.401	.000 <sup>b</sup>
	Residual	102.117	148	.690		
	Total	117.573	149			

- Behavior towards loan repayments, the dependent variable
- Factors at play inside institutions

(Created by a researcher using SPSS data as a starting point.)

It seems that a regression analysis was performed using the provided SPSS results. The goal of this investigation is to clarify the connection between a set of independent variables and a selected dependent one.

**ANOVA, or Analysis of Variance:** When comparing the regression model's predicted values to the mean of the dependent variable, the sum of the squared differences is 15.456 (regression sum of squares). One degree of freedom (df) is assigned to the regression analysis.

**Mean Square:** This value of 15.456 is calculated by dividing the sum of squares for regression by the number of degrees of freedom for regression.

In terms of the F-statistic, the value is 22.401. It is the ratio of the regression mean square to the error term mean square. This statistic examines the possibility that there is no correlation between the independent and dependent variables by testing the null hypothesis that all regression coefficients are equal to zero.

**Significance (Sig.):** The F-statistic's corresponding p-value is 0.000 (b). The significance level is so low because at least one of the independent variables is a major factor in explaining the dependent variable's variability. The p-value is less than the commonly accepted 0.05 threshold; hence, the null hypothesis can be rejected and the model is considered significant.

### The Square Root of the Residual

**Residual Sum of Squares:** 102.117, which is the total squared deviation from the regression model's predicted values for the dependent variable.

The residuals have 148 df, which stands for degrees of freedom. The mean square, equal to 0.690, is calculated by dividing the sum of squares for residuals by the number of degrees of freedom for residuals. Add up all the squares.

The total sum of squares equals 117.573 and represents the squared differences between the observed values of the dependent variable and its mean. There are 149 degrees of freedom (df) for the sum of squares as a whole. In conclusion, the significance of the regression model as a whole can be gleaned from the ANOVA table. The model appears to be statistically significant based on the F-statistic and associated p-value, which indicate that at least one of the independent variables has a noteworthy effect on the dependent variable. This result can be used as a jumping-off point for further exploration into the regression model's performance and explanatory ability.

## V. DISCUSSION

### 1 Introduction

We have reached a point in this investigation where the results are ready to be explained and placed in perspective. Microfinance research has come a long way, and this discussion chapter is a major milestone along the way. This chapter provides the backdrop for a thorough evaluation of the study's findings, drawing connections between them and the existing body of knowledge and discussing the study's implications for actual practices while also noting the study's limitations.

The empirical research into the intricate world of loan repayment behavior has given insights that echo the theoretical and practical complexities of the microcredit domain. By delving deeper, we learn how these results resonate across the financial landscape, shedding light on the underlying processes that control the relationships between microfinance borrowers, lending institutions, and the economy at large.

This section does more than just outline the findings; it also puts them in context with the larger body of literature. The researcher improves comprehension of the originality and consequences of the discovered patterns by setting them in the context of previous literature. Data analysis yields useful insights that add to the ongoing conversation about consumer finance, risk management, and the long-term viability of microcredit providers.

Furthermore, this debate is not limited to theoretical considerations in the classroom. Knowledge application relies heavily on the practical implementation of academic results. In the next sections, the researcher explains how these findings can be used by financial professionals, legislators, and institutions, giving the theoretical findings real-world relevance. Lending procedures, policymaking, and borrower financial education could all be influenced by these ramifications.

However, there are always caveats to any research project that cast doubt on the results. Researchers, in the interest of academic rigor and openness, discuss these restrictions and how they affected the study's findings. The complexity of research findings is illuminated by the authors' frank assessment of their limitations.

The researcher weaves together the complex strands of the research process as they traverse the landscapes of importance, relevance to literature, practical implications, and restrictions. This chapter concludes with a summary that not only summarizes the findings but also reflects the ongoing conversation about microcredit, loan repayment behavior, and the complex interplay between financial processes and human actions.

## 2. Significance of Findings

The consequences of this study's conclusions extend beyond the academic community and extend to microfinance institutions, legislators, and the general public. These findings give important insights that have the potential to significantly affect a wide range of disciplines, including but not limited to practices, methods, and viewpoints.

**Improving the State of Knowledge** The results add significantly to the existing academic literature. There is a complex interplay between socioeconomic determinants, loan features, and institutional dynamics, and these studies provide empirical information to shed light on this topic. These results add to the body of knowledge in microfinance and financial behavior by supporting, elaborating on, or even opposing earlier studies.

Microfinance institutions must strike a balance between their social objective of promoting financial inclusion and the requirement that their operations be financially viable. The findings of this study provide these financial institutions with a more nuanced comprehension of the elements affecting borrowers' propensity to repay loans. Better credit assessment methods, individualized repayment schedules, and targeted measures to reduce default risks can all be spawned from this comprehension. This can improve the institution's long-term viability and their capacity to provide responsible financial services.

Financial sector policymakers and regulators can use these findings as they work to formulate and implement policies that support responsible lending and broaden access to financial services. The findings from this data-driven analysis provide empirical evidence to support policy decisions that aim to reduce loan defaults, safeguard borrowers, and expand access to microcredit. As a result, a more favorable regulatory environment can be established, protecting the interests of borrowers while also ensuring the viability of financial institutions.

The findings provide useful insights into the factors that influence borrowers' loan repayment behavior, which may be used to strengthen financial literacy programs. These findings can be incorporated into financial literacy initiatives, giving borrowers the tools they need to make smart choices with their money. Such programs can enable borrowers to better manage their finances and meet their repayment responsibilities by focusing on the underlying reasons for loan defaults.

The study's findings extend beyond the realm of finance and could have a positive effect on the economy and the community at large. Better loan repayment habits can help borrowers improve their financial standing, which can help them escape poverty and gain economic independence. Further, microfinance organizations are more secure when there are fewer loan defaults, guaranteeing a steady supply of services that benefit neglected populations.

The importance of these results goes much beyond any merely statistical relationships. They could lead to improvements in the microfinance industry, financial decision-making, and community use of financial services. This study's findings on what influences borrowers to pay back loans shed light on how to make the financial system more equal, accountable, and sustainable.

## 3. Relation to Literature

This study adds to the growing body of work on microcredit, loan repayment behavior, and related financial habits by establishing a dynamic and nuanced link between them. By shedding light on points of agreement, extension, and divergence, the dialogue between discoveries and literature enhances our comprehension of the phenomena at hand. The results are connected to the larger scholarly discussion in the following ways:

Several results are consistent with and lend credence to previously established ideas and empirical research. A finding consistent with the literature's emphasis on the role of financial education in developing responsible financial behaviors would be that borrowers with higher levels of financial literacy demonstrate better loan repayment behaviors. This congruence bolsters the validity of previously

proven theories as applied to the specified geographical area and demographic.

The results may contribute to the literature by shedding light on previously unexplored facets or by improving upon already established conceptual frameworks. One way in which cultural and contextual factors interact with monetary behaviors is through the identification of distinct socioeconomic elements unique to the place investigated that influence loan repayment behavior. Such elaborations offer a more nuanced setting for established hypotheses.

In certain circumstances, the results may go against the grain of commonly held beliefs or conventional wisdom, opening up interesting new avenues of inquiry. Such inconsistencies provide fresh viewpoints, which in turn encourage scholarly debate and force a reappraisal of current paradigms. For instance, if the study disproves the conventional wisdom that higher interest rates cause more defaults, then researchers will have more room to investigate other potential causes and factors that contribute to defaulting.

**Possible Directions for Future Study** The results may also highlight gaps in the current literature, indicating places where more study is needed. The findings may motivate further investigation into previously underappreciated characteristics that have a significant impact on borrowers' propensity to make timely loan repayments. These voids and uncharted territories fuel the development of the field.

The results shed light on the specifics of the investigated region, helping to place global theories in their proper context. This allows for theories and notions to be flexible in light of the wide range of economic, cultural, and institutional conditions that exist in the world. Putting works of literature in their proper context broadens their usefulness and increases their importance.

#### 4. Managerial/Business Implications

The implications of the study's findings for microfinance institutions, lenders, financial policymakers, and practitioners engaged in loan portfolio management and improving operational efficiency are substantial. Insights from the academy are translated into strategies that can have an immediate effect on how businesses operate and the choices they make. These findings have important managerial and business consequences, including:

Microfinance organizations can improve their risk assessment and underwriting by using the discovered characteristics that influence loan repayment behavior. Lenders can create more accurate and thorough risk profiles for borrowers by incorporating these facts. This allows financial institutions to reduce default risks through educated lending decisions, improving the overall health of their loan portfolios.

Lenders may now create repayment plans that are unique for each borrower, thanks to the research findings. Lenders can better accommodate borrowers' financial capacities and preferences when they have a better understanding of the elements that encourage repayment behavior. This individualization has the potential to ease borrowers' minds about their loan payments, boost their contentment, and ultimately increase their repayment rates.

Microfinance organizations can use the research findings to inform the design of effective financial education programs. The ability to make good financial decisions, keep up with repayment commitments, and strengthen one's financial standing can all benefit from educating borrowers on responsible financial conduct, budgeting, and smart money management.

Microfinance institutions can improve their customer relationship management by identifying borrowers who are more likely to be successful in their repayment attempts based on the criteria associated with better repayment behavior. This data can direct CEM initiatives, helping to forge closer ties with trustworthy borrowers by providing them with enhanced services and perks.

The findings of this study can inform the creation of groundbreaking banking services tailored to the specific needs of borrowers. For instance, if financial institutions discover a good relationship between a certain socioeconomic component and loan payback, they can create products that specifically target that group.

Microfinance operations greatly benefit from data-driven decision-making, as shown by the study's findings. To reduce the likelihood of borrowers defaulting on their loans, financial institutions can use data analytics techniques to keep a close eye on their borrowers' actions.

**Policy Formulation and Advocacy:** The findings of this study offer policymakers and regulatory authorities a basis for developing regulations that encourage ethical lending. Evidence-based policymaking allows policymakers to argue for programs that improve financial literacy, safeguard consumers, and ensure the long-term viability of institutions.

The management and business implications of the study's findings allow microfinance institutions and their stakeholders to improve their decision-making, increase efficiency, and further the cause of financial inclusion and stability.

Institutions can promote sustainable lending practices that benefit borrowers and the financial sector as a whole by aligning strategies with the known factors impacting loan repayment behavior.

### 5. Limitations

It is important to recognize several limitations that temper the interpretation and generalization of the findings, despite the fact that this study effort has given vital insights into the determinants impacting loan repayment behavior within the microfinance environment. There are such constraints as:

Figure 13: Issue priority matrix

High Priority / Low Urgency	High Priority / High Urgency
<b>Data Analysis Challenges:</b> While addressing data analysis challenges is crucial, they might not require immediate action if they do not impact the overall validity of the research. These challenges can be systematically	<b>Data Quality:</b> Ensuring the accuracy and reliability of data used for analysis is paramount. Any issues related to data integrity must be addressed immediately to prevent the propagation of errors in the findings.
<b>Resource Allocation:</b> Managing resources, such as time and budget, is essential but may not be urgent unless there are significant deviations from the planned allocation.	<b>Ethical Considerations:</b> Ethical concerns, such as participant privacy and informed consent, demand immediate attention to maintain the integrity of the research.
	<b>Research Validity and Reliability:</b> Assessing and ensuring the validity and reliability of research findings is of high priority. Any threats to the validity of the research design or data collection methods should be addressed promptly.
Low Priority / Low Urgency	Low Priority / High Urgency
<b>Literature Review Updates:</b> While staying current with the literature is important, it may not be a high-priority issue unless new research directly challenges the foundational assumptions of your study.	<b>Unexpected Findings:</b> If unexpected findings emerge during data analysis, they may require immediate attention to understand their implications and adjust the research approach accordingly.
<b>Minor Data Collection Challenges:</b> Minor issues during data collection, such as minor disruptions or inconveniences, may not require immediate action as long as they do not compromise data quality.	<b>Participant Recruitment:</b> If difficulties arise in participant recruitment, especially if the sample size is crucial for statistical power, these issues should be addressed promptly to avoid delays.

The research may not accurately portray the variety of microfinance clients in different locations because it relies on a select sample size gathered from a single location. This means that the results may not apply across populations or cultures with the same degree of certainty.

Research is based on cross-sectional data, which provides a snapshot of borrowers' loan-repayment habits at a given

moment. This makes it difficult, if not impossible, to evaluate changes in behavior over time and establish causal links between variables.

Survey data may be skewed when respondents choose to indicate more positive characteristics about themselves than actually exist due to the influence of social desirability bias. This bias has the potential to undermine respondent confidence and distort outcomes.

While every attempt was made to include as many relevant variables as possible, it is possible that some important ones were left out owing to space or data constraints. These excluded factors may have an effect on the reliability of the results.

**Method of Data Collection** Using a Likert-scale structured questionnaire to gather information could oversimplify respondents' thoughts and feelings about loan repayment and lead to inaccurate conclusions.

**External Economic Factors:** Due to a lack of data, it was not possible to clearly account for the impact of external economic factors such as macroeconomic conditions on the analysis. However, the impact these variables can have on borrowers' propensity to make timely loan payments was not thoroughly investigated.

It's possible that the characteristics of respondents who opted out of taking part in the survey differ from those of those who participated, creating a non-response bias that could affect how broadly applicable the results are.

### 6. Chapter Summary

Finally, the ramifications of the study's findings are outlined in the discussion chapter. This brief synopsis leads readers on the same path of discovery and understanding as the research did. It summarizes the study's significance, emphasizes its connection to prior research, underlines its practical applicability for different stakeholders, recognizes its limitations, and highlights its overall contribution to the field.

## VI. CONCLUSION

### 1. Introduction

The last section of this study is when all the questions, observations, and analyses from the rest of the study come together to produce a coherent whole. Before setting out on this final leg of the voyage, the researcher takes stock of the goals pursued, the insights gained, and the reverberating consequences in the fields of microfinance, financial behavior, and scholarly discussion.

This section is when the researcher looks back at the study's stated goals and assesses how well they were met.

Researchers participate in a synthesis of the findings, constructing a story out of the data that does more than just address the study questions.

The significance of the research findings becomes increasingly clear as the researcher reads this chapter. Implications for microfinance organizations, policymakers, and the financial sector at large are explored. Researchers also discuss how their findings relate to the larger body of literature, illuminating how their study supports existing hypotheses while also raising new questions.

The final chapter also sets the stage for additional research. It lays out paths for future study and draws attention to unexplored areas that invite academics to delve more deeply into the complexities of loan repayment behavior and its myriad influences.

The final chapter is a chance for the author to reflect on their work. Here, the researcher looks back on the research process as a whole. Researchers reflect on their development as individuals and on the knowledge they have received. In this section, we offer the opportunity to reflect on the impact of our study on our own growth and understanding.

## 2. Review of Objectives

This study set out to discover the complex elements that affect borrowers' propensity to repay microloans, and it did so with a clear set of goals in mind. The researcher finds that all of these goals have been diligently pursued and accomplished:

**Finding Economic and Social Determinants of Loan Repayment Behavior** The goal of this endeavor was to identify the socioeconomic factors that influence the repayment habits of borrowers. Researchers have found that criteria including income, education, and employment position are all correlated with loan repayment behavior through careful data analysis. Because of this success, microfinance institutions now have more data with which to adjust their operations to the specific needs of their clientele, who are borrowers.

Second, we hope to examine how various loan features influence borrowers' propensity to make timely payments by studying: This goal dove into the world of loan characteristics with the hope of figuring out how factors like loan amount, interest rate, and payback periods affect borrowers' propensity to fulfill their financial commitments. By delving into these facets, researchers have uncovered crucial links that illuminate the complex interplay between loan characteristics and repayment patterns.

**Studying the Impact of Institutional Determinants on Borrower Repayment Behavior** The purpose of this research was to gain a better understanding of the institutional setting and the elements that influence borrowers' decisions to repay

loans, such as loan approval processes, borrower screening systems, and collection techniques. Microfinance institutions can now benefit from the analysis's upgraded tactics, which serve to bridge the gap between organizational practices and borrower behavior.

**Goal #4: Investigate the Connection Between Borrowers' Savings Habits, Budgeting Prowess, and Financial Literacy and Their Propensity to Repay Loans** The goal of this research was to better understand the relationship between borrowers' saving habits, budgeting prowess, and financial literacy and their propensity to repay loans. The results shed light on the connection between financial habits and loan payback, which can help in the development of interventions to encourage healthy money management.

**Purpose #5: Check results against the literature and add to the body of knowledge.** This goal was to verify or add to the findings of previous studies in order to place the research within the context of the existing academic debate. To better understand microfinance, loan behavior, and financial decision-making, this study reviews the relevant literature and integrates empirical findings into theoretical frameworks.

In conclusion, every goal has been thoroughly tackled, revealing discoveries that reverberate throughout the theoretical, applied, and policy spheres. These results not only accomplish the study's aims but also provide the groundwork for better judgment, more efficient lending procedures, and the development of future studies in the fields of microfinance and consumer finance.

## 3. Summary of Contributions

The journey's end result is a patchwork of findings that improve the microfinance field on academic, practical, and policy levels. These works shed light on the complex dynamics of borrowers' loan repayment habits, going beyond simple empirical correlations to offer a novel understanding. Here is a rundown of the study's most important findings:

**Validating Factors through Experience:** This study provides empirical support for the hypothesis that a number of factors affect borrowers' propensity to return their loans. This research helps to fortify the empirical basis of microfinance studies by establishing connections between socioeconomic variables, loan characteristics, institutional factors, financial behaviors, and loan repayment behavior.

**Microfinance Dynamics, Better Comprehended** The findings improve our comprehension of the interplay between different players in the microfinance sector. This study elucidates the intricate web of variables that drives microcredit dynamics by describing the interplay between borrowers' socioeconomic status, loan characteristics, and institutional practices.

Third, the study's findings provide concrete advice for microfinance organizations on how to improve their practices. Institutions can better customize their procedures, reduce default risks, and boost borrower involvement if they can detect risk indicators, highlight the influence of loan characteristics, and shed information on borrowers' financial activities.

The empirical evidence from this study can be used by policymakers and regulators to create well-informed policies and regulations. A better understanding of borrower behavior, institutional practices, and financial literacy can inform the development of policies and procedures that support responsible lending and broaden access to financial services.

5. This study broadens the current academic discourse by connecting new data to previously accepted theories. The study provides support for previously held beliefs by situating its findings within the canon of prior research and adding new aspects to the ongoing dialogue on microfinance and financial behavior.

**Motivation for Future Studies:** This study lays the path for additional investigation by highlighting areas of uncertainty. The study's suggestions for future research provide a road map for examining the nuances of loan repayment behavior in different settings.

As a result, the implications of this study go far beyond the realm of empirical analysis, touching upon the realms of academia, practice, and policymaking and setting the framework for future research. Together, these efforts weave together a more complete and nuanced picture of how borrowers behave when it comes to paying back loans in the complex and ever-changing world of microfinance.

#### 4. Recommendations for Future Work

This investigation, like any other scholarly undertaking, opens up potential new lines of inquiry. Additional research could investigate cultural factors that contribute to the observed differences in loan repayment practices among geographic regions. Borrower behavior may change over time and in reaction to economic situations, and this may be revealed through longitudinal studies. A deeper knowledge of the psychological and emotional aspects that influence loan repayment behavior may be gained by incorporating qualitative methodologies.

#### 5. Personal Reflection

A lot of maturing and expanding has taken place during the course of this study. An increased capacity for analysis and a more nuanced understanding of the research process have resulted from the process of developing research questions, gathering data, and evaluating results. Finding one's way through the academic literature was an eye-opening experience that revealed a thriving community of intellectual

discussion and debate. Understanding the connection between theory and practice was enhanced by working with real-world data and wrestling with its intricacies.

While this study is now complete, it is just the beginning of a deeper appreciation for the complex forces at work in the realms of microfinance and financial conduct. The results of this study shed light on a road that leads to better choices, more responsible lending, and more agency for borrowers. As the researcher wraps up this study, the insights obtained and the new questions it prompted will hopefully serve as a springboard for future investigations into the intersection of money and human nature.

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