International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

High Interest Rate and Loan Repayments in Winneba Microfinance Institutions case of Multi Credit Saving and Loans

Ramatu Ussif (Ph.D)

Department of Applied Finance and Policy Management, University of Education, Winneba, Winneba, Ghana
russif @uew.edu.gh

Abstract*: The objective of the study was to examine how interest rates affect loan repayment in Multicredit Savings and Loans and how loan defaults affect the institution. The research was conducted using Multi Credit, a savings and loan organization in Winneba. Questionnaires were used in this research. Ten (10) staff and 100 customers were sampled for the study. The study shows that high interest rates are a significant factor in loan repayment in Multicredit Savings and Loans. Although interest rates were one of the main reasons for loan default, other elements, including loan term, frequency of repayment, and late loan delivery, also had an impact on loan payback. While the customers acknowledged that reduced interest rates would improve loan repayment, they also stressed the importance of accessibility and funding availability. The effectiveness of Savings and Loans institutions' loan management, budgets, and spending are all impacted by defaulted loans. Moderate interest rates are recommended by the researcher to lessen the strain of loan repayment, and loans should only be amounts that the customers can afford. Again, Savings and Loans should make sure that loans are delivered on schedule to customers and should set up micro-insurance to safeguard both the institution and its customers in the event of a default.*

Keywords—*High Interest Rate, Loan Repayment, Savings and Loans, Multicredit, Winneba.*

1. INTRODUCTION

Microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low-income clients. It includes loans, savings, insurance, transfer services, and other financial products and services. (BoG, 2007). Robinson (2001) defines microfinance as a small-scale service for both loans and deposits that is provided to people who farm or fish; work for commission; trade; provide services to other individuals. An important function of the MFIs is to provide access to loans to people who are not able to meet the eligibility criteria for bank loans. MFIs provide access to loans to the poor or entrepreneurs to start a business or expand an existing business. (Abor, 2018). The lending models used by the microfinance institutions are different from those of the banking institutions. Microfinance Institutions are the major financial institution that are providing SMEs with loans in Ghana and other training facilities (Ussif and Ertugrul, 2020). The institutions arose from the need to provide financial assistance to the poor and those who were ineligible for loans from banks.(Abor, 2018). Developing countries have developed means of reaching out to the poor without having to adopt the banking model of western countries. Some of these lending models adopted by MFI include group-based lending and individual banking. The group-based lending utilizes shared liability as all members are jointly liable for the debts of others. Due to shared liability, if a member of a group defaults, it gives the MFI the right to deny future credit to the entire group until they pay the debt. (Abor, 2018). One of the challenges that were associated with the group-based lending model was the high cost involved in its implementation. This made some people quit the model to use the individual lending model. With the individual model, the MFI lends to individuals who are solely responsible for the repayment of the loan. Due to the high risk involved in lending to these individual clients who may not be eligible for bank loans, the MFI tends to charge a high interest rate to cover the risk involved. Banks and other financial institutions set their own interest rates using the monetary policy rate set by the Bank of Ghana as a bench mark. Loans form a greater part of the microfinance institutions' assets. Therefore, critical attention should be given to the loans given out and how they are repaid. The loans are given out to support individuals, corporate bodies, as well as promote small and medium enterprises. So, for loans to serve their purpose, they have to be moderate enough so that they don't only serve the financial institutions involved by making a profit but also benefit the customers by expanding their business and improving their lives as well as being flexible to repay.

1.1 Research Gap

It has been observed that the majority of borrowers who defaults loan payments now struggle with high interest rates. We enquired as to why they would not pay back their debt in full or pay on time. Some contend that the amount they requested would have been flexible to pay given their abilities and what they are doing. As a result, the principal amount they applied for ultimately increases due to the interest rates, making it difficult to pay. Others are unaware of how interest rates function and calculated, uncertain of the precise amount due, and frequently become demoralized after making numerous loan repayments. Much research has been conducted on high interest rates and loan repayment in microfinance and other financial institutions. But most of the researchers have put more emphasis on the other factors that result in loan repayment defaults than the high interest rate charged by microfinance institutions. Quartey (2011) conducted research on the Effect of Interest Rates on Loan Repayment in Microfinance Institutions the research revealed that, interest rate makes loan repayment more difficult, while customers also agreed that a low interest rate would make loan repayment easier. Ussif, R. and Salifu, K. (2020) revealed that, loan repayments contribute to Economic development. It is necessary to conduct this research on other microfinance institutions in Winneba to see the real impact in the Municipality.

1.2 Research Objectives

The objectives of this research are to focus on the following:

1. To identify the effect of high interest rate on loan repayment in microfinance institutions.
2. To analyze the effect of loan repayment default on the microfinance institutions

1.3 Research Questions

The research questions for this study are:

1. How does high interest rate affect loan repayment?
2. What is/are the effect of loan repayment default on microfinance institutions?

1.4 Research Impact

This study focuses on the customers of microfinance institutions. These people are usually the poor and small-scale businesses that may not be eligible for loans from banking institutions. This study tends to examine the effect of the high interest rates charged by microfinance institutions on loan repayment. Considering the financial status of these poor people and their source of income, can they pay for the high cost of the loan? The study will be beneficial to academic fraternity; meaning after the work is done it will serve as a reference point to future researchers who are going to research in the area of this study and also have beneficiary to the community. The study will also contribute to the body of knowledge and additional information in the banking industry.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

This section addresses the research components that introduce and describe the theories that explains why the research problem under study exists.

2.1.1 Information Asymmetry Theory

A business connection is fully symmetrical when all necessary information is available to both sides in a transaction. But in many transactions, one party has access to knowledge that the other party does not, leading to a phenomenon called information asymmetry. (Master Class, 2021). There is information asymmetry between MFIs and their clients. Increased information sharing encourages educated lending practices and lowers the cost of information searches. (Tayo et al, 2017). When a bank or its customer has more information than the other and withholds it, moral hazard emerges in the loan-granting process. By choosing the incorrect candidate over the appropriate candidate to provide a loan, this results in adverse selection by the bank.

2.1.2 Psychological Theory of Microfinance

Psychological Theory of Microfinance, as advocated by Muhammad Yunus (1998) promotes the idea of capitalism that is driven by social awareness. According to his theory, it is possible to create capitalist businesses that maximize profits while taking consumers' interests into consideration. The current modernity theory of production, in his opinion, is lacking since it is predicated on the idea that people engage in business merely to maximize profit. This generalization cannot apply to all capitalists because some people care about other people's well-being as well. This can be seen as the distinction between professional money lending and microfinance, as the former involves "social consciousness motivated people" while the latter does not. According to his idea, it is conceivable to create capitalist businesses that maximize individual profits while taking into account the legitimate interests of their customers. (Tayo et al, 2017).

2.1.3 Agency Theory

Agency theory or principal-agent theory involves one party as principal and another party as an agent, which carry principal agents on behalf of the principal (Jensen & Meckling, 1976). However, both parties have a conflict of interest where in this case, the principal, who is the donors, persists on focusing welfare mission, meanwhile the agents, MFIs management are in pursuit with profitability for the sake of the institutions' financial position.

2.1.4 Profit-Incentive Theory

Profit-Incentive Theory, also referred to as a venture capitalist method, is used when Microfinance Institutions rely on commercial finance rather than donor assistance to satisfy the needs of the underprivileged while being commercially viable. This is due to the fact that donor money has a quantity cap and has drawn a lot of criticism (Hudon & Traca, 2011), where the strong reliance on subsidies for operating costs limits MFI efficiency.

2.1.5 Life-Cycle Theory

Life-Cycle Theory is associated with the growth of Microfinance Institutions, where the conversion to private capital occurs (Farrington & Abrams, 2002). When MFIs are in their early stages, they are primarily funded by grants and soft loans from donors and social investors. As they evolve, they turn their attention to obtaining private money to finance their financial sustainability. Based on reviews of all the previously stated theories, this article applies the Life-Cycle Stage Theory as a lens to develop research theories about MFI funding patterns regarding how the sources of funding MFIs choose at various stages of their institutions' life cycles may affect the institutions' objectives to reach the poor and progress toward financial sustainability.

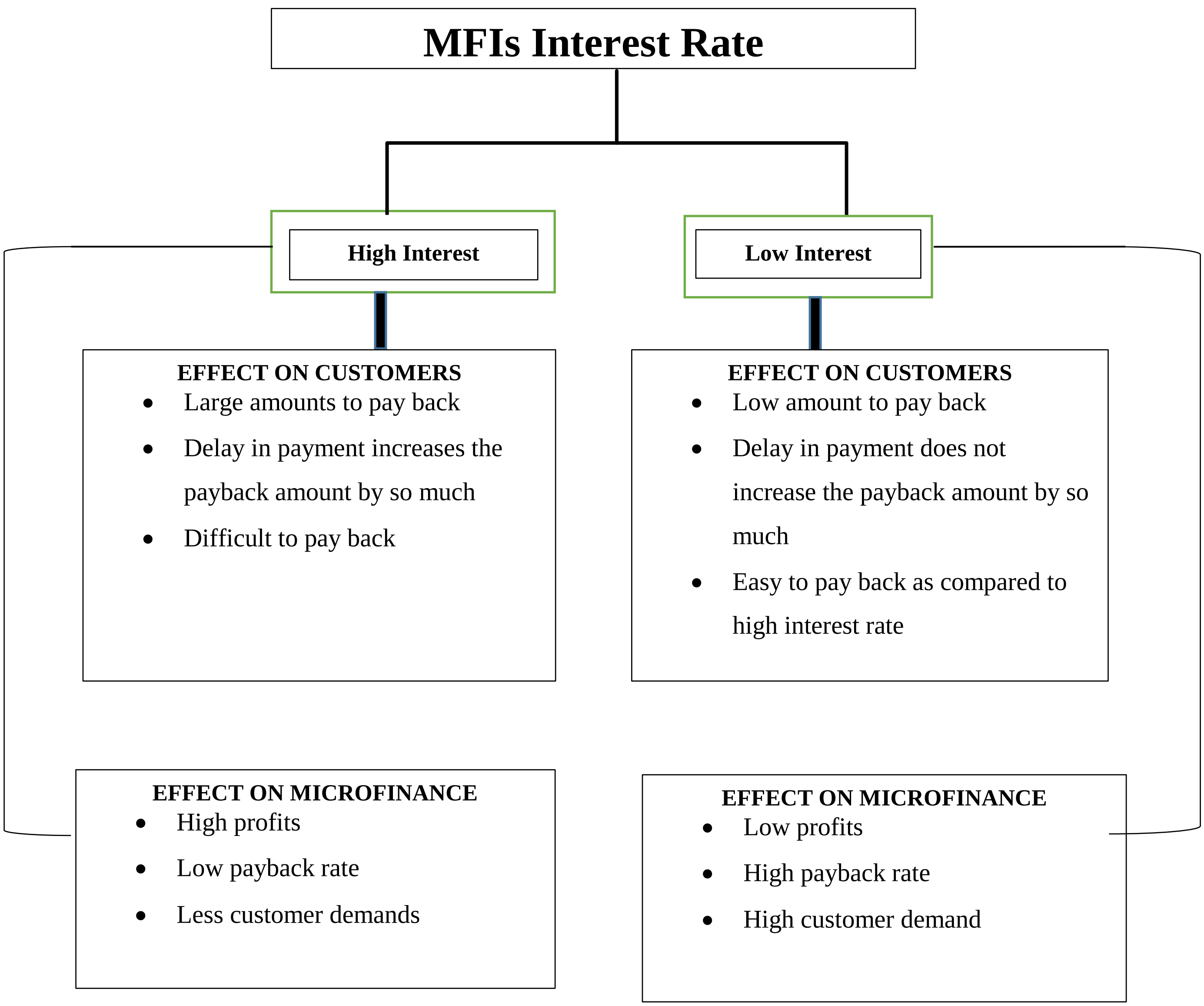
2.2 Empirical Review

Quartey (2011) in their study indicated that, the Microfinance Institution's staff in Tanoah Capital Point interest rate increases the burden of loan repayment. However, they mentioned that interest rates did not scare borrowers as a result of repayment problems. Customers agreed that a low interest rate would make loan repayment easier. To begin with, debtors should be thoroughly scrutinized before receiving loans. To avoid money diversion, Tanoah Capital Point employees should strengthen loan monitoring and loans should be offered to group borrowers so that repayment can be adequately tracked. Loans that have been approved should also be disbursed on time. Finally, when it comes to loan repayment, the day, time, and season should be considered. Similarly, Charles Mensah (2013), 37 percent strongly believed that increasing interest rates would cause them to default, while 44 percent moderately agreed. Despite the fact that some respondents agreed, this does not mean that all did; 16 percent disagreed, with another 3 percent strongly disagreeing. As a result, 81 percent of all respondents believed that interest charges played a role in loan default. The study found that gender and the number of dependents had no bearing on loan default in microfinance institutions, despite the fact that females defaulted more than males. Also, the repayment schedule exhibited no significant relationship with loan default. Customers with short repayment terms default more as compared to those with long-term repayment. Meanwhile, loan interest rates, moral hazard, and customers who obtained additional Sinapi Aba Trust loans all demonstrated a strong positive relationship with loan default. A study by Amonoo et al (2003) discovered that some borrowers redirected their loans from the banks to other institutions. they conducted a study with the goal of determining whether there is empirical evidence on the relationship between high interest rates and SME's need for financing. The relationship is statistically significant and unfavorable. Furthermore, the study discovered that the length of time it takes to grant a loan has an impact on loan repayment. According to the study, over 80% of individuals who were considered for loans did not get the approved amount on time. The SMEs also highlighted the following factors as contributing to loan defaults: a lack of a ready market; approval of just a small percentage of the loans requested; and a poor profit margin. Reduced interest rates, good evaluation, and the implementation of a proper strategy are among the suggestions made by banks and non-banking entities for enhancing loan recovery. The simultaneous use of these variables may result in the satisfaction of SMEs' expectations and aspirations. Similarly Dadzi et al. (2012), making conclusions based on negative findings is common in retrospect of findings based on both quantitative and qualitative data acquired from the field. The following results were reached: Default payments of loans have a cost effect on the operations of microfinance institutions. The circumstances causing loan default by microfinance institutions' clients vary. Clients give different factors, while loan officers on the ground assign different ones. In order to reduce loan defaults, it has been discovered that causes stated by clients as grounds for nonpayment are not explicitly the major reasons. As a result, significant care should be devoted to that of loan officers. Loan default has been seen to have a negative impact on microfinance institutions' operations, as it increases operational costs and reduces payout amounts. The performance study clearly showed that increasing the portfolio has a direct relationship with increasing the portfolio at risk. Aidoo & Mensah (2018) revealed that, the most important variables that impact loan default in microfinance institutions in the country are high interest rates, inadequate monitoring, and high utility prices. According to the report, manufacturing is riskier than the rest of the economy in terms of loan defaults. As a result, management at these microfinance institutions is expected to take steps to reduce non-performing loans, which can lead to loan default. According to the study's findings, non-performing loans have increased over a six-year period, posing a threat to corporate operations. The quality of non-performing loans improved in 2012 as a result of loan renegotiation, loan financing, and loan provision reduction. The study also found that providing non-performing loans and loan defaults have an influence on interest income and operating profit, which in turn has an impact on the financial performance of microfinance institutions in terms of liquidity and profitability from 2009 to 2014. Aidoo and Mensah suggested that the government and the Bank of Ghana work together to lower lending interest rates by developing policies to help shape Ghana's microfinance industry. The Bank of Ghana should once again reform and sanitize the MFIs' activities. This will help to reduce the number of credit loans resulting from non-performing loans as well as their impact on the microfinance industry's financial performance. Addae-Korankye (2014) conducted research on 25 selected microfinance institutions. Ten MFIs, accounting for 40% of the total, have a default rate of less than 3%, which is in line with the internationally approved rate of default. Eighteen percent (32%) have a default rate of more than 3-6 percent, fourteen percent (16%) have a default rate of more than 6-10 percent, and three percent (12%), have a default rate of more than ten percent. The implication is that the default rates of 60% of MFIs are higher than the globally allowed rate of 3%. This must be urgently addressed, or else the MFIs will be forced to close. In addition, the causes of loan default by MFI clients vary; individuals attribute different factors, and loan officials on the ground assign diverse factors as well. In order to reduce loan defaults, it has been discovered that causes stated by clients as grounds for nonpayment are not explicitly the major reasons. As a result, significant care should be paid to the loan officers. It should be noted that MFIs have the potential to help build wealth and reduce poverty, so the government and, in particular, the Bank of Ghana, should ensure their success in order to prevent them from collapsing. Also, Damptey et al., in order for MFIs to be sustainable and successful, they must be innovative in their product design and unique in the services they provide. As a result, MFIs should devote resources to research in order to better understand their market's needs. It is also recommended that MFIs develop their personnel's capacity in order for them to practice sound management practices and MFI design. Awuah and Addaney (2016) conducted research to determine the consequences of contacts between SMEs and microfinance institutions, as well as the barriers that prevent seamless transactions between the two. According to the study, microfinance has enhanced the business conditions of its clients by increasing revenue, profit, acquiring more business assets, and opening more branches than before microfinance intervention. SMEs, however, continue to encounter a number of obstacles. Short loan repayment terms, high interest rates, excessive loan processing costs, and insufficient loan amounts are just a few of them. Issahaku et al. (2013), in their paper indicated that, the loan repayment rate, loan period, maximum loan ceiling, size of loan portfolio, and interest rate on loans all have an impact on MFIs' ability to innovate in various ways. The impact of the repayment rate on innovation is particularly important because the repayment rate has a direct impact on the survival of MFIs. MFIs in northern Ghana are being urged to develop, strengthen, and implement measures to persuade consumers to return their loans. The positive influence of interest rates on innovation is also worth emphasizing. While a high interest rate is proven to foster innovation in general, an unnecessarily high interest rate may put MFI loans out of the reach of the poor, thus contradicting MFIs' pro-poor objective.

2.3 Conceptual Framework

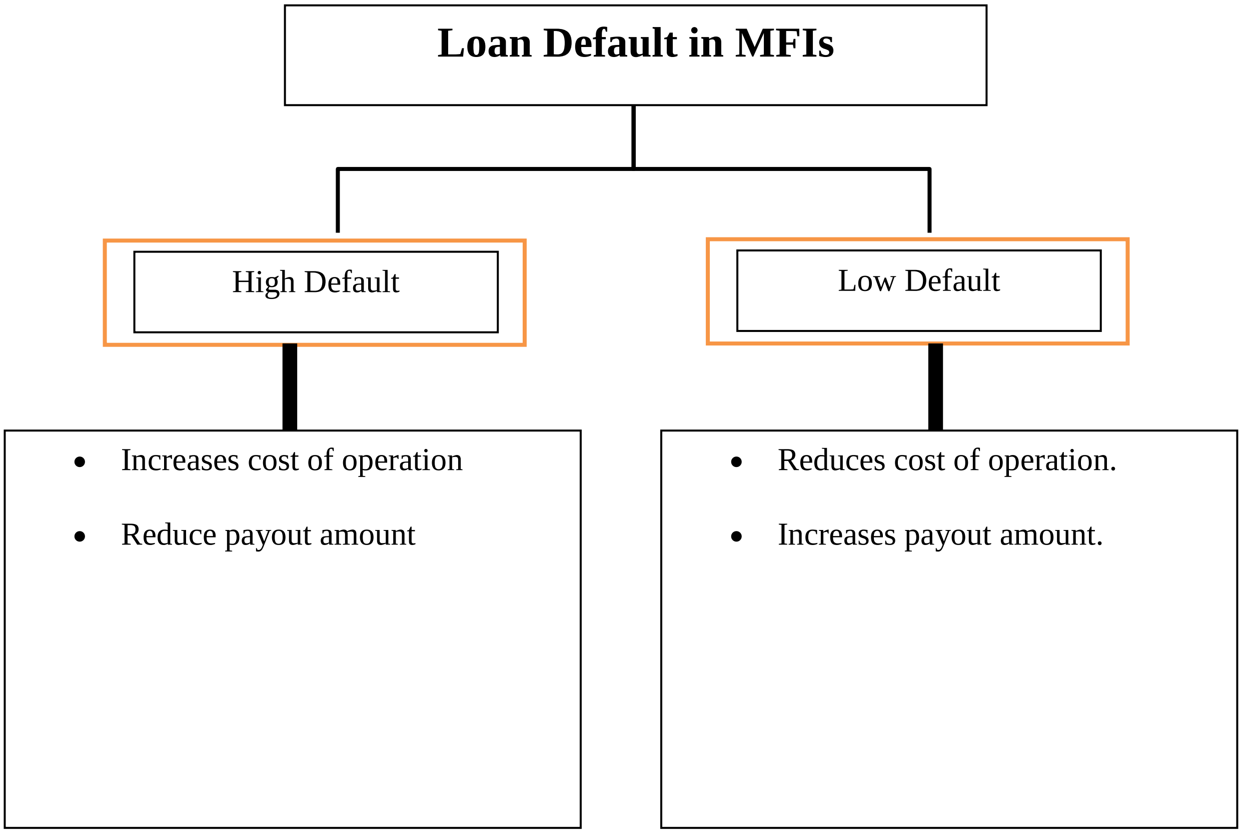
A strong conceptual framework captures real ideas or phenomena and presents them in a way and manner that is easy to understand, remember, and apply. The below frameworks also shows the effects of high and low interest rates on profitability and the ability to amass customers.

Figure 1.1



ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

Figure 1.2



3.0 Methodology

3.1 Research Design

Emory (1985) did not define but reviewed a definition of research design by Kerlinger (1973). Research design is re-conceived as representing the plan, structure, and strategy of investigation conceived so as to obtain answers to research questions and control variance. This study adopted the case study strategy. Among the various research designs, case studies are frequently regarded as using both quantitative and qualitative research methods and a combination of both approaches (Bryman, 2004). Since Multicredit Saving and Loan is only one institution out of the many in Ghana, and since the study would use both primary and secondary data sources, it was considered most appropriate for this study.

3.1 Data Sources

The study involved the use of primary sources of information from the Microfinance Institutions and its customers. The primary sources of data included information that was gathered from the questionnaires administered to management and customers of the Microfinance Institution.

3.2 Population of the Study

The population is the group of interest to the researcher, the group to which the researcher wishes to generalize the study's findings. The population of this study is the microfinance institutions in Ghana. It involves all the stakeholders of the microfinance institutions. Thus, management, customers, and the general public have an interest in dealing with any microfinance institution.

3.3 Sample and Sample Selection

Sampling is the process of choosing adequate and representative elements from the population. According to Punch (1998), one cannot study everyone everywhere doing everything, and so sampling decisions are required not only about which people to interview or which events to observe, but also about settings and processes. Non-probability sampling techniques a non-probability sample is a sample for which each element of a population has an unequal chance of being selected. Snowball sampling is used as a non-probability sampling technique for locating informants by asking others to identify individuals or groups who may qualify to take part in this survey. This method is used because it was difficult to identify members of the desired population.

In all, 100 stakeholders of microfinance institutions in Ghana were identified and used as the sample for this study.

3.4 Data Collection Instrument

The primary instrument for the data collection for this study is the questionnaire. The reason for using the questionnaire was that it provides a quick way of collecting data from the sample, since some spend a little time at the work place and others have busy schedules at the workplace, so an interview cannot be used. The questionnaire facilitates the collection of data, which ensures the best possible match of concepts with reality; it provides the same responses from a given set of respondents and helps reduce inconvenience caused by unfavorable interview times and busy schedules.

3.5 Data Editing and Analysis

This part deals with the methods of analysis of the data. The collected primary data was processed and analyzed with the Statistical Package for Social Sciences (SPSS) software. The justification for the choice of program was that it facilitated data analysis and made interpretations very easy and accurate. Editing was carried out to detect and eliminate any errors in the data. Analysis of data was done in line with the objectives of the study. The analysis of the data employed both qualitative and quantitative techniques. Qualitative data analysis was done using frequency tables, pie charts, and bar charts to describe the variables in the study. Quantitative data analysis was done by computing the raw data into the SPSS software, which gave the necessary results for the study

4.0 RESULT PRESENTATION AND ANALYSIS

4.1 Introduction

The study looked at how field data are presented, discussed, and analyzed. The phases of the research project that include the findings from the research are significant (Yin 2001). It is an important part of the survey and affects how successfully it is carried out. According to Twumasi (1986), the findings and discussions of the study can be combined and presented simultaneously or they can be presented individually. The results are frequently given in order to offer evidence in support of each of the research questions posed to guide the investigation. This paper presents the results and findings of the study. Statistics were used to show the data in a descriptive manner. Charts, percentages, and frequencies were employed where necessary to illustrate particular concepts.

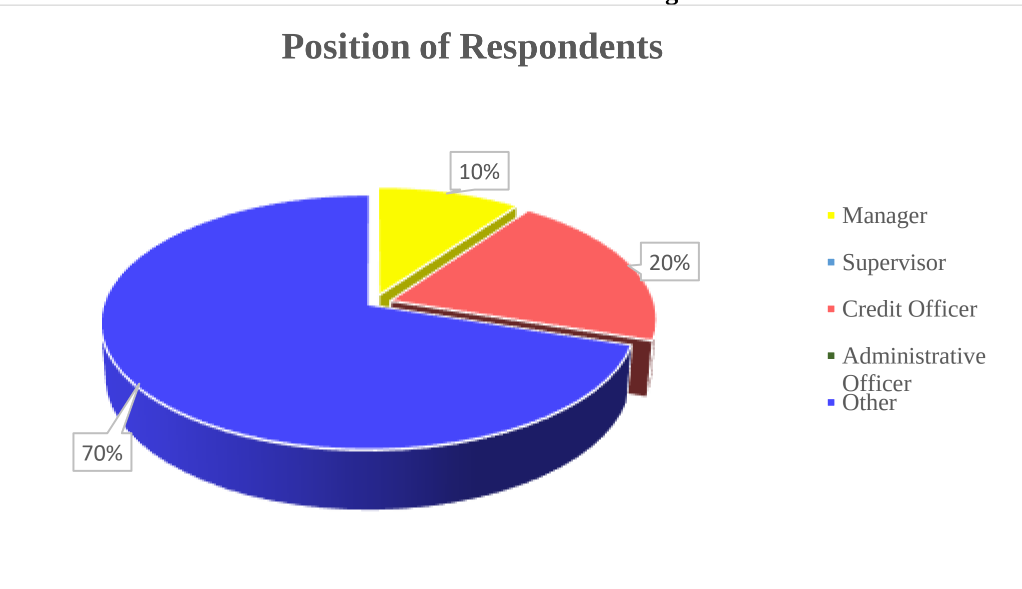
4.2 Responses from Multi Credit Staffs

A total of ten (10) respondents who are Multi-Credit staff were used in this section.

4.2.1 Position of Respondents in the Organization

The position that each responder held in their respective departments was determined by the analysis of this variable. It was discovered that the majority of respondents (70%) were other staff members, including susu or cash collectors, while 20% were credit officers and 10% were managers.

Figure 2.3



Source: Research, 2023

4.3Years of Employment in the Organization.

Table 1.1 shows the ranges of years the respondents had experience using Multi Credit. Out of the 10 respondents who were contacted, 5 had worked with Multi Credit for five years or more, 3 for three to four years, and the other 2 had worked for one to

International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

two years and less than a year, respectively. 90% of respondents have experience working with Multi Credit for two years or longer, with the majority of them having done so for at least three years. This demonstrated that the majority of the personnel had acquired significant on-the-job experience regarding interest rates and its impact on loan repayment.

Table 1.1

No of years with Multi Credit	Frequency	Percentage
Less than 1 year	1	10
1-2 years	1	10
3-4 years	3	30
5 years and above	5	50
Total	10	100

Source: Research, 2023

4.4 Effect of High Interest Rate on Loan Repayment in Microfinance Institutions.

The majority of the staff felt that interest rates did certainly affect loan repayment. 70 % said they agreed with the statement that high interest rates have an impact on loan repayment when asked if they agreed or disagreed with it. As to whether or not MFI interest rates had a substantial impact on loan repayment, 10% of them strongly agreed, 10% strongly disagreed, and 10% were unsure. The notion that high interest rates make it more difficult to repay loans was generally accepted by the respondents. Here, 20% and 60% of them, respectively, strongly agreed and agreed with this assumption. According to Table 1.2, 20% of the respondents expressed uncertainty. Thus, it may be inferred that in order for the MFI to guarantee consistent repayments, it must set interest rates that will motivate customers to repay their loans without difficulty.

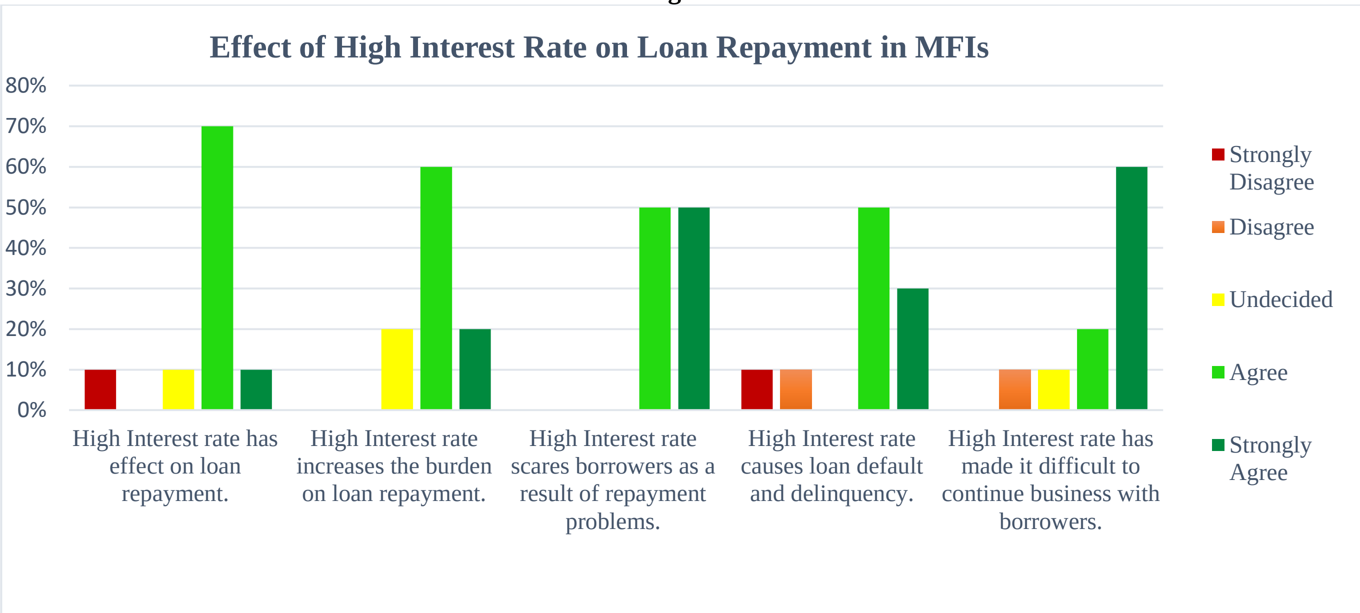
Table 1.2 Effect of High Interest Rate on Loan Repayment in MFIs

Questions	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
High Interest rate has effect on loan repayment.	10%	0%	10%	70%	10%
High Interest rate increases the burden on loan repayment.	0%	0%	20%	60%	20%
High Interest rate scares borrowers as a result of repayment problems.	0%	0%	0%	50%	50%
High Interest rate causes loan default and delinquency.	10%	10%	0%	50%	30%
High Interest rate has made it difficult to continue business with borrowers.	0%	10%	10%	60%	20%

Source: Research, 2023

The research also reveals that 50% of respondents strongly agreed with the assertion that high interest rates scare away potential borrowers because of repayment issues, and the remaining 50% also agreed. Additionally, 50 % of the respondents agreed with the statement that high interest rates contribute to loan default and delinquency, while 30 percent of respondents disagreed strongly with it. The remaining 20 % either strongly disagreed with the statement or disagreed with it. Again, 80% of respondents agreed with the statement when asked if high interest rates have made it difficult to continue doing business with borrowers.

Figure 2.4



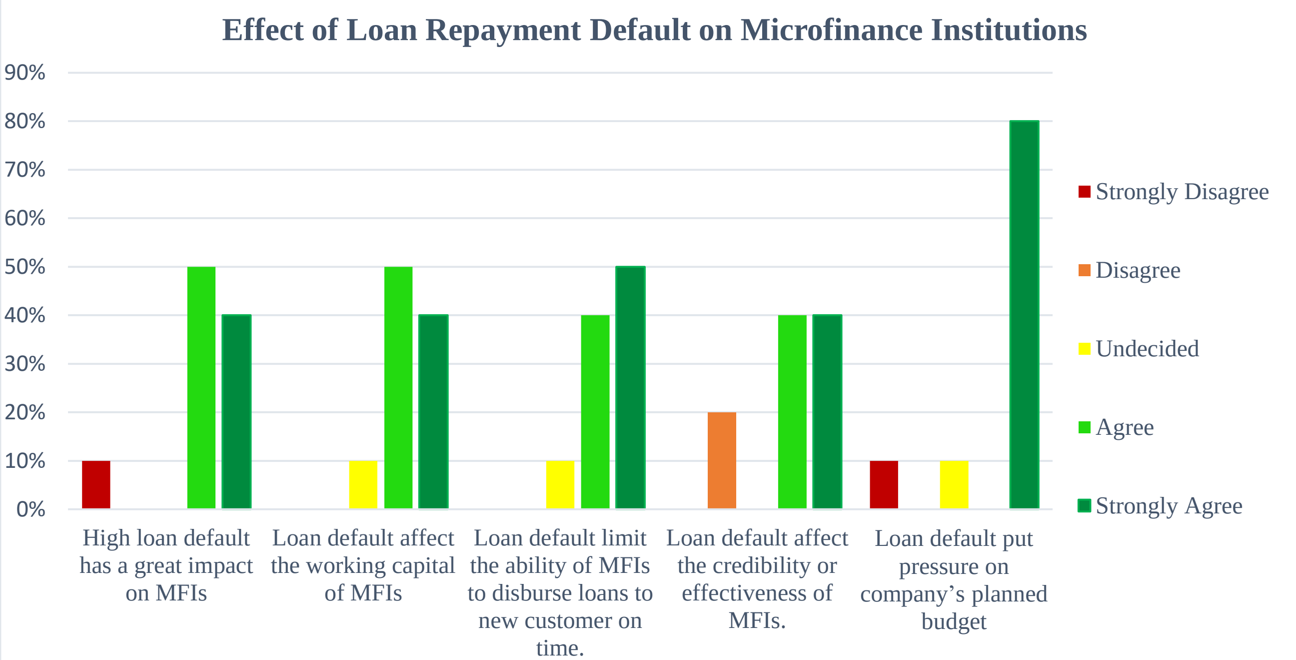
4.2.6 Effect of Loan Repayment Default on Microfinance Institutions.

Only 10% of the respondents to Table 1.3 disagreed with the statement that "High loan default has a big impact on MFIs," while 90% agreed or strongly agreed. This demonstrates how much of an impact loan default has on the institution. 90% of respondents agreed with the statement that loan defaults had an impact on MFIs' working capital or strongly agreed with it, while the remaining 10% were unsure. About 90% of respondents either agreed or strongly agreed that loan default limits MFIs' ability to timely issue loans to new customers. In contrast, 80% of respondents agreed an strongly agreed that loan defaults have an impact on the legitimacy or efficacy of MFIs, while just 20% disagreed. Finally, the respondents firmly agreed that the loan default put strain on the company's planned budget, with 80% of them agreeing, and 10% opposing. This data demonstrates how negatively loan default impacts every area of microfinance institutions' operation.

Questions	Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
High loan default has a great impact on MFIs	10%	0%	0%	50%	40%
Loan default affect the working capital of MFIs	0%	0%	10%	50%	40%
Loan default limit the ability of MFIs to disburse loans to new customer on time.	0%	0%	10%	40%	50%
Loan default affect the credibility or effectiveness of MFIs.	0%	20%	0%	40%	40%
Loan default put pressure on company’s planned budget	10%	0%	10%	0%	80%

International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

Figure. 2.5



Source: Research, 2023

4.3 Responses from Multi Credit Customers

In this phase of the study, a total of one hundred (100) respondents who use Multi Credit were consulted.

4.3.3 Respondents Years of Taking Microcredit from MFI

The study took into account how long the respondent had been using microcredit in order to assess their reliability as well as the influence of interest rates on those loans and their experience with using microcredit. Table 1.4 shows that 71 percent of the respondents have used microcredit for two years or less (28 percent for two years, 23 percent for one year, and 20 percent for less than a year), while the remaining 29 percent have been using it for three years or more. This shows that the majority of respondents have experience with microcredit, with about 80 percent having had at least one year of experience.

Table 1.4

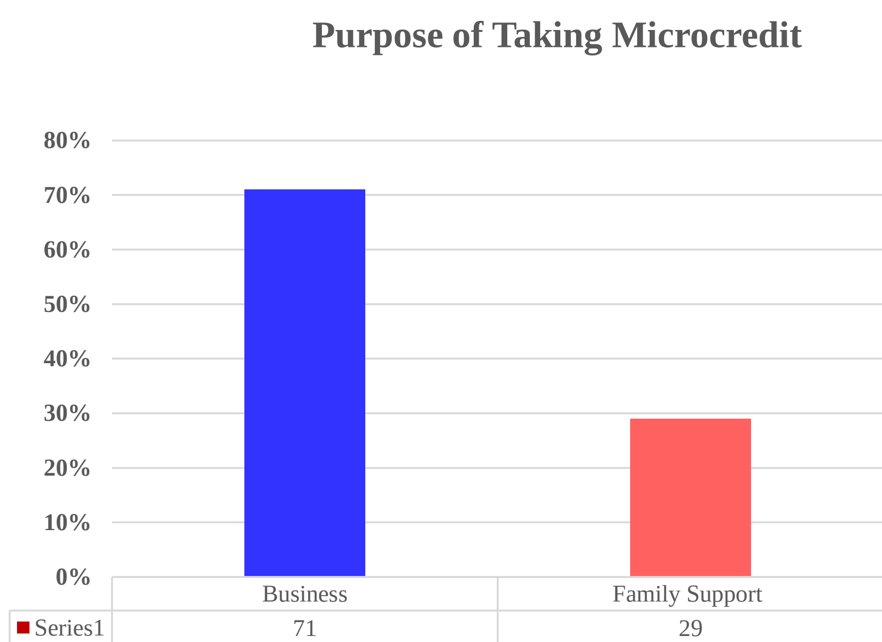
	Frequency	**Percentage**
Less than a year	20	20%
1 year	23	23%
2 years	28	28%
3 years	12	12%
4 years and above	17	17%
	100	**100%**

International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

4.3.4 Purpose of Taking Microcredit.

In order to evaluate how the loans were used, respondents were asked why they would choose microcredit. According to the information in Figure 2.8, 71% of the respondents used the loan to either start a new business or grow an existing one. The remaining 29% of respondents, however, use the loan to support their families. This demonstrates that the majority of borrowers invest their loans in ventures that will bring in enough money to pay them back.

Figure 2.8



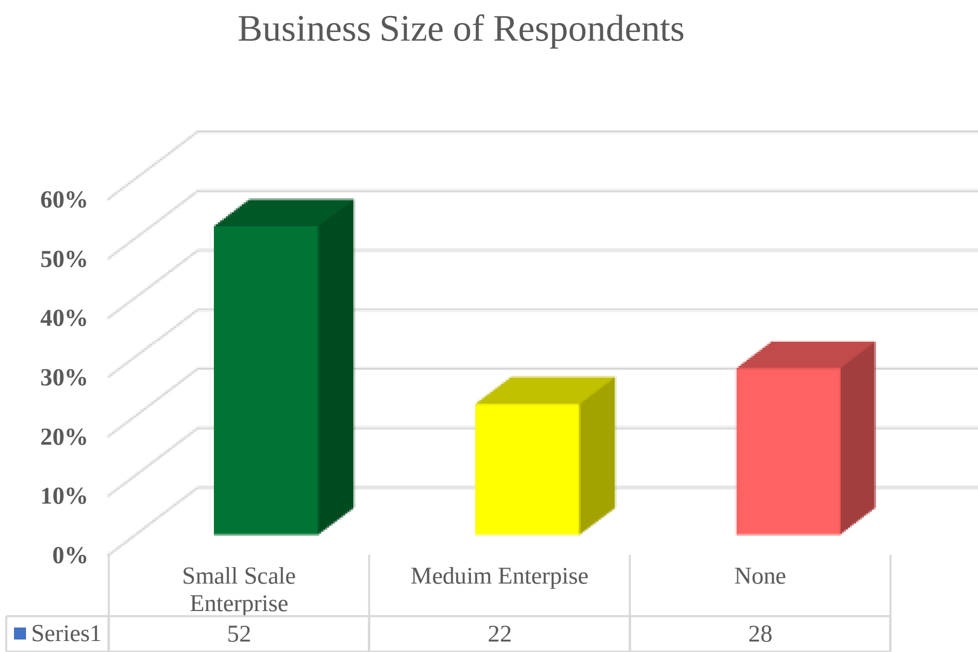
Source: Research, 2023

4.3.5 Business Size of Respondents

The size of the loan customers' businesses was also taken into account in this study. The data from Figure 2.9 reveals that, as shown below, 28% of loan customers had no business, while 22% had a medium-sized business and 52% had a small business. When pressed further, it emerged that the 22% who had no business were employed by other business owners.

International Journal of Academic Multidisciplinary Research (IJAMR)
ISSN: 2643-9670
Vol. 7 Issue 1, January - 2023, Pages: 314-328

Figure 2.9



Source: Research, 2023

4.3.6 Effect of High Interest Rate on Loans Repayment in MFIs.

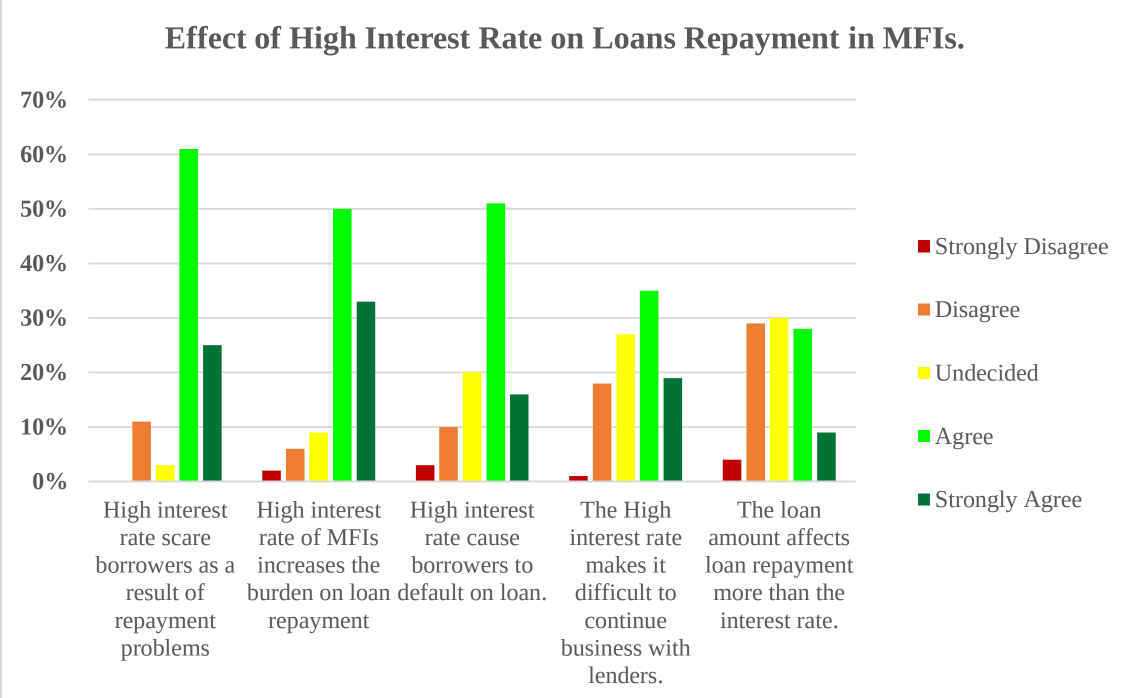
According to Table 1.5 below, 61% of respondents agreed and 25% of respondents strongly agreed that high interest rates concern them, whereas 11% of respondents disagreed. Less than 10% of respondents disagreed, and more than 80% agreed or strongly agreed that MFIs' high interest rates add to the difficulty of repaying loans. 20% of the respondents were unsure whether high interest rates have an impact on loan repayment, despite 67 % agreeing or strongly agreeing that they do. While 54 % agreed that dealing with lenders is difficult because of high interest rates, 27 % were unsure, and 19 % disagreed. The question of whether the loan amount has a greater impact on loan repayment than the interest rate was also put to the respondents, and 30% of them expressed uncertainty. Comparatively, 33% of respondents disagreed with the remark, while 37% agreed with it. Despite all the difficulties that come with the high interest rate, the research revealed that for the clients, accessibility and availability of the cash was the most crucial concern for them.

Table 1.5 Effect of High Interest Rate on Loans Repayment in MFIs.

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
High interest rate scare borrowers as a result of repayment problems	0.0%	11.0%	3.0%	61.0%	25.0%
High interest rate of MFIs increases the burden on loan repayment	2.0%	6.0%	9.0%	50.0%	33.0%
High interest rate cause borrowers to default on loan.	3.0%	10.0%	20.0%	51.0%	16.0%
The High interest rate makes it difficult to continue business with lenders.	1.0%	18.0%	27.0%	35.0%	19.0%

The loan amount affects loan repayment more than the interest rate.	4.0%	29.0%	30.0%	28.0%	9.0%

Figure 2.10



Source:Research, 2023

4.3.7 Effects of other Factors on Loan Repayment in Microfinance Institutions

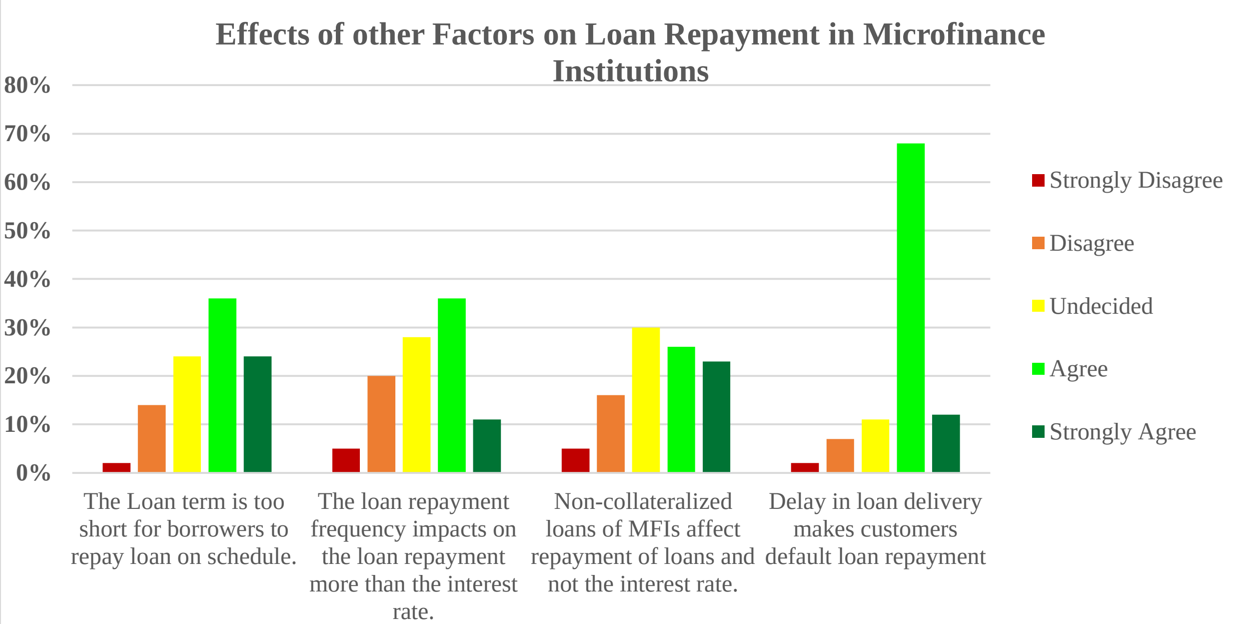
Respondents were asked if the length of the loan made it difficult for borrowers to return it on time. 24% of respondents strongly agreed, while 36% agreed. This suggests that 60% of loan clients agree with this statement. 14% strongly disagreed while 2% disagreed, and 24% were unsure. The respondents concurred with the assertion that the frequency of loan repayments has a greater impact on loan repayment than the interest rate. 36% of loan clients and 11% of those who strongly agreed with this statement. In contrast to the 25% of respondents who agreed or strongly agreed with the following percentages: strongly disagreed 5%, agreed 20%, and unsure 20%, 28% of respondents were unsure. Respondents were asked if non-collateralized loans from MFIs effect loan repayment rather than interest rates; while 30% were unsure, 49% either strongly agreed or agreed, with the other 21% rejecting, the allegation. Since they had never dealt with a situation involving a collateralized loan and lacked awareness of it, 30% of the respondents were unsure. The following results were found: 68 percent of respondents agreed, 12 % strongly agreed, and 12% either strongly disagreed or disagreed. Respondents confirm the statement that loan delivery delay causes customers to default loan repayment (Table 1.6). Nevertheless, 11% of them were unsure. The majority of respondents noted in follow-up interviews that it took a while for approved loans to be disbursed. Because the plans and preparations they made for the money are severely disrupted, this has a negative impact on their company. This therefore has an impact on loan repayment.

Table 1.6 Effects of other Factors on Loan Repayment in Microfinance Institutions

	Strongly Disagree	Disagree	Undecided	Agree	Strongly Agree
The Loan term is too short for borrowers to repay loan on schedule.	2.0%	14.0%	24.0%	36.0%	24.0%
The loan repayment frequency impacts on the loan repayment more than the interest rate.	5.0%	20.0%	28.0%	36.0%	11.0%

Non-collateralized loans of MFIs affect repayment of loans and not the interest rate.	5.0%	16.0%	30.0%	26.0%	23.0%
Delay in loan delivery makes customers default loan repayment	2.0%	7.0%	11.0%	68.0%	12.0%

Figure 2.11



Source: Research, 2023

5.0 SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Summary of Findings

5.1.1 Findings on the Effect of High Interest Rate on Loan Repayment in MFIs

According to the research, the vast majority of microfinance staffs concur that high interest rates have an effect on loan repayment, make it difficult for consumers to repay their loans, and deter potential borrowers. The staff members also concurred that it has become difficult to do business with borrowers due to the high default rate and interest rate. Customers, on the other hand, concurred that high interest rates make it more difficult to repay loans and add to their burden. As a result, it is confirmed that a high interest rate affects loan repayment.

5.1.2 Finding on the Effect of Loan Default on the Microfinance Institutions.

The Multi Credit employees concurred that high loan default rates have a significant effect on microfinance institutions. A sizable portion of the respondents concurred that loan default limits MFIs' effectiveness as well as their capacity to extend loans to consumers on time. They also strongly agreed that the company's intended budget was strained as a result of the loan default.

5.1.3 The Effects of other Factors on Loan Repayment in MFIs

Majority of the customers confirmed that the loan length makes it difficult for borrowers to repay loan on time. The research revealed a marginal number of respondents who agreed loan repayment frequency impacts on the loan repayment more than the interest rate whereas non-collateralized loans of MFIs affect repayment of loans and not the interest rate. Moreover, an appreciable number of customer respondents agreed that delay in loan delivery makes customers default loan repayment.

5.2 Conclusion

The research revealed that interest rate plays a role in loan repayment and customer relationship with microfinance institutions. Moral hazard has been one of the factors which cause loan default where loans are not committed to the very purposes for which the loans were given.

Most of the staff members who responded agreed that interest rates have an impact on loan repayment. Customers agreed that paying back loans at a high interest rate is more difficult. Again, customers are prepared to take out loans from MFIs notwithstanding the impact that high interest rates play in loan default. This is due to the ease with which customers can receive funds from MFIs, as opposed to regular banks.

One of the main factors contributing to loan default in MFIs was thought to be high interest rates. It was discovered that loan default significantly affects how well microfinance institutions operate. Loan administration, budgeting, and the effectiveness of multiple credit all suffered from loan default.

5.3 Recommendations

The following recommendations are provided after looking at how interest affects loan repayment in microfinance institutions and how loan default affects such institutions:

1. Even though accessibility and availability of loanable funds are crucial, the institution can think about reducing the interest rate to help with loan repayment.
2. Microfinance institutions should make sure that loans are provided to their consumers on time in order to ensure that they serve the intended purpose.
3. To ensure that candidates are thoroughly examined before being granted access to the loans, more training and education should be provided. This will help determine the applicants' capabilities and the loan amount they can handle.

6.0 REFERENCE

1. Abor, J. Y. (2018). Financial Market and Institutions. *A frontier market perspective*. 2th Ed.
2. Addae-Korankye A. (2012). Microfinance and Poverty Reduction in Ghana. The Case of Central Region of Ghana. *Asian Economic and Financial Review, 2(1),pp.135 141*
3. Addae-Korankye A. (2014). Causes and Control of Loan Default/Delinquency in Microfinance Institutions in Ghana. *American International Journal of Contemporary Research.* Vol. 4(12).
4. Aidoo, M., & Mensah, F. S. (2018). The Causes of Default Loans Risk in Microfinance Institutions in Ghana: Case Study of Some Selected Microfinance Institutions in Kumasi and Accra. *Global Journal of Management and Business Research: C Finance.* Vol 18(2)(1.0).
5. Amonoo, E., Acquah P. K., & Asmah E. E. (2003). The impact of interest rate on demand for credit and loan repayment by the poor and SMEs in Ghana. *FLIP Research Paper.* (3-10).
6. Awuah, S. B. & Addaney, M. (2016). The Interactions between Microfinance Institutions and Small and Medium. *Asian Development Policy Review, 4(2): 51 64.*Bank of Ghana, website.
7. Berlin, I. (1953). The hedgehog and the fox: An essay on Tolstoy’s view of history. London: Weidenfeld & Nicolson
8. Bryman, A. (2004) Social research methods. 2nd Edition, Oxford University Press, New York, 592.
9. Cantero C. (2019). How to Write a Literature Review. *San José State University Writing Center.*
10. Dadzie, G. E., Boampong, A. Y., Oppong-Adjei, H., Asuming G., & Puni, P. (2012*).* The Effects of Loan Defaults on the Operations of Microfinance Institutions – *A Case Study of Sinapi Aba Trust – Ashanti Region.*
11. Damptey, O. A., Oppong, A., Agyeiwaa, D., & Abruquah, L. (2015). Loan Default Rate Among Microfinance Institutions (MFIS) In Ghana Through Innovative Product Design, Delivery and Efficient Loan Management. *International Journal of Economics, Commerce and Management Reducing. Vol. III(3)*
12. Emory, W. (1985). Business Research Methods Irwin series in information and decision sciences
13. Farrington, T., & Abrams, J. (2002). The Evolving Capital Structure of Microfinance Institutions. Micro-Enterprise Development Review, Inter-American Development Bank, December.
14. Faure A. P. (2014). Interest rates 1: what are interest rates? SSRN Electronic Journal.
15. Hardy C. D., Holden P. & Vassili P. (2002). Microfinance Institutions and Public Policy. International Monetary Fund.
16. Hudon, M. & Traca, D. (2011). On the Efficiency Effects of Subsidies in Microfinance: An Empirical Inquiry. World Development, 39(6), pp 966-973.
17. Issahaku, H., Dary, S. K., & Ustarz, Y. (2013). Financial Characteristics and Innovations in Microfinance Institutions in Ghana. American Journal of Rural Development. Vol. 1(3), 40-48
18. Jensen, M.C. & Meckling, W.H. (1976). Theory of the Firm: Managerial Behaviour,Agency Costs and Ownership Structure. Journal of Financial Economics, 3(4), pp 305-360.
19. Kerlinger, F. N. (1973) Foundations of Behavioral Research. 2nd edition. Holt, Rinehart and Winston Master Class (2021), www.masterclass.com/articles/information-asymmetry-explained
20. Mensah, C. (2013). The Relationship between Loan Default and Repayment Schedule in Microfinance Institutions in Ghana: A Case Study of Sinapi Aba Trust. Research Journal of Finance and Accounting. Vol.4(19).
21. Punch, K.F. (1998) Introduction to Social Research: Quantitative and Qualitative
22. Approaches. Sage, London.

23. Quartey, E. (2011). The Effect of Interest Rate on Loan Repayment in Microfinance Institutions A Case Study of Tanoah Capital Point Ltd.
24. Robinson, M. S. (2001). The Microfinance Revolution. Sustainable Finance for the Poor.
25. Tayo, A., Haliso, Y., & Tayo, O. (2017). Influence of Information Asymmetry on Microfinance Lending to Women in Oyo State, Nigeria: A Critical Examination.
26. Twumasi, P. (1986). Social research in rural communities: the problems of fieldwork in Ghana
27. Ussif, R. and Ertugrul, M. (2020). ―The Effects of Microfinance Institutions Program on Small and Medium Enterprises Financing in Ghana‖ Global Scientific Journal GSJ: Volume 8, Issue 2, February 2020, Online: ISSN 2320-9186 www.globalscientificjournal.com.
28. Ussif, R. and Salifu, K. (2020). ―Contribution of Small and Medium Enterprises to Economic development of sub-Saharan African‖ International Journal of Academic Accounting, Finance & Management Research (IJAAFMR) ISSN: 2643-976X, Vol. 4, Issue 3, March – 2020, Pages: 63-78.
29. Yin, R. K., (2003) Case Study Research, Design and Methods, third ed. Sage Publications, California.
30. Yunus, M. (1998). Banker to the Poor.