

**INFLUENCE OF GROUP TRAINING ON LOAN REPAYMENT
PERFORMANCE OF GOVERNMENT REVOLVING FUNDS IN KISUMU
CENTRAL CONSTITUENCY KENYA**

BY

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DECLARATION

This research project is my original work and has not been presented for any award in any other University.

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This research project has been written and submitted for examination with my approval as University supervisor.

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DEDICATION

I dedicate this research project to the glory and honor of God, to my wife, children, parents, siblings and friends for their support, prayers and encouragement throughout the time of my studies.

ACKNOWLEDGEMENT

With sincere thanks and utmost gratitude, I acknowledge the crucial contribution, support and commitment of my supervisor Mr. Ndichu P.K, to whom I am greatly indebted. He invested most of his, time and effort in perfecting my work and giving me the necessary direction and professional advice throughout my entire research project process.

I thank my course colleagues for their support. I wish to heartily register my acknowledgement for their encouragement and team work that fuelled me through this work.

Finally, I thank God Almighty for his endless love upon me for the energy and intelligence of all those who necessitated the completion of this research project.

ABSTRACT

Training before advancing a credit facility, plays a vital role in enabling the borrower to achieve the level of knowledge, skills and competencies needed to carry out his entrepreneurship activities effectively. Inadequate or lack of group training before loan disbursement can lead to a high loan default rate. From the existing empirical evidence on aspects of group training viz Group Joint Liability, Group Homogeneity, Group Peer Pressure and Group Cohesion, it is evident that, much of the past research provides mixed findings leading to divided conclusions as to whether a group training intervention before loan disbursement have delivered a positive and cost effective results on the loan repayment performance. Limited research had been conducted on the influence of group training on loan repayment performance of the government revolving funds in Kenya particularly in Kisumu Central Constituency. The main purpose of the study was to establish influence of group training on loan repayment performance of the government revolving funds in Kisumu central constituency Kenya. The conceptual framework outlined group training dimensions being the independent variable influenced loan repayment performance which was the dependent variable. The study is anchored on contract theory. The study adopted a descriptive research design through administered questionnaires to get the relationship between the variables under study. Selected self-help groups within Kisumu Central Constituency formed the target population of loan beneficiaries between the years 2010-2014. Out of 1050 loan beneficiaries, the study adopted a simple random sampling technique to generate ultimate respondents of 105 which is 10% of the target population, a considerable representation sample to generalize on the entire population. Primary data was collected through questionnaires. Secondary data was collected from published journals, articles and text books. Data was analyzed using inferential statistical analyses, in which case, Pearson correlation analysis was used. The results of processed data were presented in form of tables, charts and graphs. The study found out that group joint liability, cohesion, homogeneity and peer pressure on one hand and success of loan repayment performance of government revolving funds on the other hand demonstrated a strong positive association when tested for correlation at 0.01 significance level, i.e. at 0.01 significance level, the correlation between training on group joint liability, group homogeneity, group cohesion, group peer pressure and loan repayment performance were established at .919(a strong positive association of 91.9%), .75(a strong positive association of 75%), .64(a strong positive association of 64%) and .919(a strong positive association of 91.9%). The analysis of the variance (ANOVA) was also used to the test of the hypotheses of the study, and at 1 degrees of freedom, the computed F was found greater than the critical F on all variables, i.e. for group joint liability, the computed $F=435.600$, was greater than the critical $F=.00$. For group homogeneity, the computed $F=231.600$, was greater than the critical $F=.024$. For group cohesion, the computed $F=18.711$, was greater than the critical $F=.031$. This implied that the overall regression model was significant in all cases. The rule of thumb is that when computed F is greater than the significant F we reject the null hypothesis and thereby accept the alternate hypotheses. The study concluded that the players in the revolving fund should intensify group training at all levels of loan administration. This study was anticipated to be of paramount significance to commercial banks, government agencies and funding partners. The study's findings would be set to induce a renewed dimension of service delivery by the existing government revolving funds to their clients.

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LIST OF ABBREVIATIONS

ANOVA	Analysis of Variance
C-YES	Constituency youth enterprise scheme
EMU	Efficiency monitoring unit
FIs	Financial intermediaries
IFS	Institutional financial sufficiency
KNBS	Kenya National Bureau of Statistics
MDG	Millennium development goal
MFIS	Micro finance Institutions
MFO	Micro finance officer
WEF	Women Enterprise Development Fund
YEDF	Youth Enterprise Development Fund

OPERATIONAL DEFINITION OF TERMS

Revolving Funds: A Revolving Fund is a fund or account that remains available to finance an organization's continuing operations without any fiscal year limitation, because the organization replenishes the fund by repaying money used from the account. Revolving funds have been used to support government agenda among the youth, women and vulnerable groups in Kenya.

Group Training: Group training as a planned and systematic modification of behavior through learning events, programmes and instructions, which enable individuals to achieve the level of knowledge, skills and competencies needed to carry out their work effectively

Financial Intermediaries: Financial intermediaries refer to the middle-link corporations who offer financial solutions/services between the government and their target beneficiaries. They include commercial banks and micro-finance institutions engaging in lending and receive

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CHAPTER ONE

INTRODUCTION

1.1 Background Information

Lending is a challenging proposition in any setting particularly in the developing world, where legal or judicial enforcement is weak, where information about the ability and willingness to repay of applicants is not readily available and where many of the prospective lenders are from poor households or firms; many of whom have never before borrowed and cannot pledge collateral to guarantee repayment (Gonzalez-Vega, 2003; Conning and Udry, 2007). Lending in Kenya is a direct juxtapose of the prevailing factors in developing countries enumerated above.

The Kenyan lending sector was in the 80's and 90's saddled with a momentous Non-Performing Loans (NPLs) portfolio. This invariably led to the collapse of some lending institutions. One of the catalysts in this scenario were "Serial defaulters", who borrowed from various sources with no intention of repaying the loans. Undoubtedly these defaulters thrived in the "information asymmetry" environment that prevailed due to lack of a credit training and information sharing mechanism. (www.centralbank.go.ke - 2016)

This study investigates the influence of group training on loan repayment performance of government revolving funds in Kenya. It begins with a particular emphasis on training components used in mitigating against loan defaults, i.e. group joint liability, group cohesion, and group peer pressure and group homogeneity. It gives the general definition of group training and government revolving funds as well as their scope in this study.

Joint liability conditions future loans to group members to the repayment of the group as a whole by requiring that all members in a group be responsible for the loans of each other. The model of Besley and Coate (1995) shows that joint liability acts as repayment insurance within the group, but it can also induce a negative effect of mass default. However, a recent study of Gine and Karlan (2009) raises questions on the role of joint liability in improving the repayment performance of group loans. Based on two randomized trials in Philippines, the authors conclude that joint liability in itself does not lead to better repayment performance.

According to the existing empirical evidence, the success of monitoring activities depends on the effectiveness of social ties use. However, group members may use social ties differently. Hermes *et al.* (2005, 2006) are the first to differentiate between the social ties of group leaders and the social ties of the other group members. Hermes *et al.* (2005) show that social ties of group leaders reduce moral hazard behavior of group members. In addition, Hermes *et al.* (2006) prove that the social ties of group leaders positively affect group repayment, and they are more strongly related to repayment performance than social ties of the other group members. Zeller (1998) finds credit group performance positively related to social cohesion within groups. Wydick (1999) finds that while peer monitoring appears to have some positive effect on group loan repayment, strong social ties within groups appears to make it more difficult to pressure fellow members to repay loans.

Peer pressure refers to the influence peers can exert on enforcing repayment and mitigating ex post moral hazard (e.g. deliberate default). The effectiveness of these effects hinges on the premise that group borrowers living in close-knit poor communities or as suggested by Naveen Kumar (2012) as social collateral, can effectively identify, as well as punish, irresponsible borrowers and deliberate defaulters through social penalties. Author likes Attanasio *et al.* (2011) found that the impacts of group lending on poverty indicators such as income and consumption remains ambiguous. They also found that there is little merits of individual and group lending in terms of borrower impacts such as repayment rate and social pressure.

Van Tassel (1999) and Ghatak (1999) who both demonstrate that the borrower self-selection process used in most group lending schemes improves repayment rates through mitigating adverse selection in credit markets. If borrowers have clear information over the riskiness of one another's projects, they sort themselves into homogeneous group through an assortative matching process. However, both Manski (2001) and Gan, Hernandez and Liu (2013) argue that peer effects can be categorized into endogenous peer effects or contextual peer effects. For endogenous peer effect, it can capture the fact that peer's behavior (e.g. in repayment schedule) could be directly affected by the behavior of other peers. For contextual peer effect, it relates to how characteristics / parameters of a group affect its borrower's decisions. Both, as mentioned by Li, Liu and

Deininger (2012) have different implications. Endogenous peer effects give rise to “multiplier effects’ through the feedback in borrower behaviors whereas contextual effects do not. Socially heterogeneous groups consistently performing worse than socially homogeneous groups supports the notion that relational social capital matters to group lending. Cassar, Crowley and Wydick (2005) found the personal trust between specific pairs of group members significantly affects performance in the microfinance games that supports the notion that informational social capital in the form of group self-selection and screening is important to group lending.

1.1.1 Group Training

Armstrong (2006) viewed training as a planned and systematic modification of behavior through learning events, programmes and instructions, which enable individuals to achieve the level of knowledge, skills and competencies needed to carry out their work effectively. Khandaker et al. (1995) in their study in Bangladesh found that training increases repayment performance. Norhaziah and Mohdnoor (2013) argued that examining repayment performance is important because, if borrowers do not repay, then there may not be sufficient funds to ensure that the liquidity position of the MFI is maintained. According to Khandaker et al. (1995), prior to the disbursement of credits or loans, it is prudent that groups are given appropriate training to ensure that the loans are judiciously and efficiently managed and paid back within the specified time frame.

1.1.2 Government Revolving Funds in Kenya

A Revolving Fund is a fund or account that remains available to finance an organization's continuing operations without any fiscal year limitation, because the organization replenishes the fund by repaying money used from the account. Revolving funds have been used to support government agenda among the youth, women and vulnerable groups in Kenya. Norhaziah and Mohdnoor (2013)

In the case of revolving funds for a government project whose budget goes through annual parliamentary or other legislative appropriations that relate to a fiscal year then the unutilized balance may lapse after the close of the financial year. However it is restored the next year provided the agency concerned includes the amount in next year's appropriation. Norhaziah and Mohdnoor (2013)

The government revolving funds in Kenya are discussed as below:

Youth Enterprise Development Fund (YEDF) was introduced on 8th December, 2006 and later formed into a State Corporation on 11th May, 2007. The Fund has engaged in partnership with 32 Financial Intermediaries (FIs) to enable the youth access funds directly either as individuals or as organized entities. Apart from the on-lending component of the fund through financial intermediaries, there is the Constituency Youth Enterprise Scheme (C-YES) which funds enterprises of youth groups in all constituencies. YEDF focuses on enterprise development as a key strategy for increasing economic opportunities for, and participation of Kenyan youth in nation building. (www.centralbank.go.ke - 2016)

Women Enterprise Fund is a Semi-Autonomous Government Agency in the Ministry of Devolution and Planning established in August 2007, to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation. The Fund also provides business support services such as capacity building, marketing, promotion of linkages and infrastructure support. It is a flagship project under the social pillar in Vision 2030 and therefore a demonstration of the Kenya Government's commitment to the realization of the Millennium Development Goal on Gender Equality and Women Empowerment (MDG 3). Within a span of four (4) years this commitment was actualized in 2011 when the Fund emerged the winner of the Millennium Development Goals Award for outstanding achievement on promoting Gender Equality and Women Empowerment. (www.centralbank.go.ke - 2016)

The Uwezo Fund is a flagship programme for vision 2030 aimed at enabling women, youth and persons with disability access finances to promote businesses and enterprises at the constituency level, thereby enhancing economic growth towards the realization of the same and the Millennium Development Goals No.1 (eradicate extreme poverty and hunger) and 3 (promote gender equality and empower women). The Fund was launched by His Excellency the President of the Republic of Kenya on 8th September 2013 and enacted through a Legal Notice No. 21 of the Public Finance Management Act, 2014, and published on 21st February, 2014. The Fund seeks to expand access to finances and promote women, youth and persons living with disability led enterprises at the constituency level. It also provides mentorship opportunities to enable the beneficiaries

take advantage of the 30% government procurement preference through its Capacity Building Programme. Uwezo Fund, therefore, is an avenue for incubating enterprises, catalyzing innovation, promoting industry, creating employment, and growing the economy. (www.centralbank.go.ke - 2016)

1.2 Statement of the Problem

Inadequate or lack of skills among Kenyan youths is one of the key factors that contribute to low loan repayment performance of the established Government revolving funds, as part of the tools for the attainment of vision 2030. There is no known evidence on the impact of group training on improving loan repayment performance for the existing government revolving funds in Kenya. Group training programs before loan disbursement are a potential solution to the problem of lack of skills for individual youths who have already left the formal schooling system. This study looks at Group joint liability, homogeneity, peer pressure and cohesion as indicators to determine whether group training intervention before loan disbursement can deliver a positive and cost effective result on the loan repayment performance. Most of the generalizations regarding loan repayment performance for the training dimensions under study, have been extracted from established commercial banks and Micro-Finance institutions whose clients form the average to above average income group as opposed to small and developing contexts such as the Kenyan government revolving funds whose beneficiaries are the youth and who cannot access bank loans due to lack of collaterals.

1.3 Research Objectives

The study's objectives were broken down into general and specific.

1.3.1 General Objective

The general objective was to establish the influence of group training on loan repayment performance of government revolving funds in Kenya.

1.3.2 Specific Objectives

The study sought to achieve the following objectives:

- (i) To examine the relationship between group joint liability and loan repayment performance of the government revolving funds in Kenya.

- (ii) To determine the relationship between group homogeneity and the loan repayment performance of the government revolving funds in Kenya.
- (iii) To establish the relationship between peer pressure and the loan repayment performance of the government revolving funds in Kenya.
- (iv) To determine the relationship between group cohesion and loan repayment performance of the government revolving funds in Kenya.

1.4 Research Hypotheses

- H_{a0}*: Group training influences loan repayment performance of the government revolving funds in Kenya.
- H_{a1}*: There is a positive relationship between group joint liability and loan repayment performance of the government revolving funds in Kenya.
- H_{a2}*: Group homogeneity influences loan repayment performance of the government revolving funds in Kenya.
- H_{a3}*: There is a positive relationship between group peer pressure and loan repayment performance of the government revolving funds in Kenya.
- H_{a4}*: Group cohesion influences loan repayment performance of the government revolving funds in Kenya.

1.5 Scope of the Study

The study was limited to analysis of the group training dimensions that have influence on loan repayment performance under the established government revolving funds in Kenya with a focus on self-help groups within Kisumu Central Constituency. The selected self-help groups formed a basis for objective generalization. The self-help groups with a target population of 1050 loan borrowers were constituted. Specific recommendations were pegged on the influence of group training on the loan repayment performance of government revolving funds in focus area

1.6 Justification of the Study

This study is anticipated to be of paramount significance to a number of both internal and external information users who include commercial, government agencies and funding partners. The government agencies and project executors will benefit from popular views and opinions on their commitment and approaches to implementing group training before loan disbursements, while the external government agencies such as Efficiency

Monitoring Unit (EMU), and auditors will easily access pre-requisite information for respective decision making. The funding agencies on the other hand will be enabled to determine the efficiency with which their inputs will be converted unto outputs. Finally, the study's findings will be set to induce a renewed dimension of service delivery by the existing government revolving funds to their clients (youth, women and persons with disability) through anticipated enhancement of internal efficiency.

1.7 Conceptual Framework

A conceptual framework can be defined as a set of broad ideas and principles taken from relevant fields of enquiry and used to structure a subsequent presentation (Raps, and Kauffman, 2005). It is a tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny.

An independent variable is that variable which is presumed to affect or determine a dependent variable. It can be changed as required, and its values do not represent a problem requiring explanation in an analysis, but are taken simply as given. A dependent variable is a variable relies on another. A dependent variable is what you measure in the experiment and what is affected during the experiment. The dependent variable responds to the independent variable (Goold and Quinn, 1990).

Figure 1.1 below outlines the conceptual framework of the study

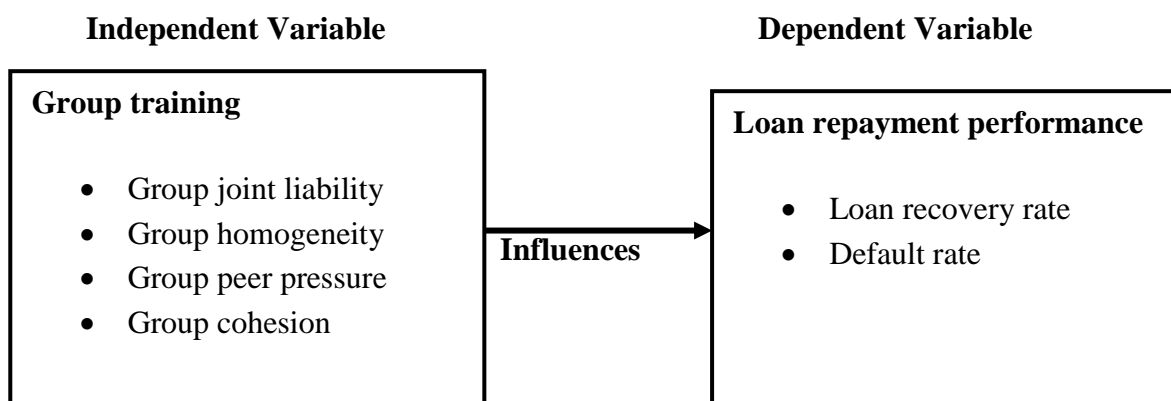


Fig. 1.1 Relationship between dependent and independent variables

Source: Adopted from Hill and Jones (2010)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

A guided review of literature as contained in this section is done for the purpose of understanding the study area and putting the research questions in their right scope and context. The key areas covered include theoretical reviews, empirical reviews, critical review and summary of existing research gaps to be filled by this study.

2.2 Theoretical Framework

This study was anchored on contract theory that is further discussed in the sub-section below.

2.2.1 Contract Theory

According to Mehr (1985) under joint liability, members of a peer lending group must have some way to ensure that the other members of the group repay their portions of the loan so that all have future access to loans. Each group devises implicit and explicit rules and norms that can diminish the risk of default, provided that repaying the loan is a utility maximizing outcome for group members. Risk management includes identifying and evaluating exposure to loss as well as selecting optimum methods of reducing exposure to risk. A formal or informal contract between group members is a risk management method. It will ensure high repayment rates because the combined mechanism induces borrowers to self-select in homogeneous groups of low risks before the loan contract is concluded and it induces several peer measures within in the group of borrowers if anybody defaults.

The analysis of group contracts show that an access to higher loans (dynamic incentives) induces peer monitoring, peer support and peer pressure among the borrowers when access is made dependent on the repayment of all borrowers in the group (cf. Stiglitz [1990], Varian [1990], Banerjee et al. [1994], Besley and Coate [1995], Hulme and Mosley [1996], Kritikos [1999], Armendariz and Morduch [2003]).Threatened with exclusion from further loans if one (or more) of its members is not able to repay, each person will monitor the other members so that investments are undertaken in a profitable

way. Further, each person will support the other group members if they face repayment problems they are not responsible for, and each borrower will be put under pressure if he mis-uses his loan. As a result, the probability of moral hazard is reduced because, by introducing joint-liability contracts, a considerable part of the risk is transferred from the lender to the borrowers.

Similar reasoning holds for the problem of strategic default when borrowers are able but unwilling to meet their obligations. The lender's enforcement capacity is created through the termination threat (cf. Besley and Coate [1995], Armendariz [1999], Kritikos [1999]). With joint-liability, if a borrower rejects to repay his share of the loan, the whole credit group is considered as being in default losing access to subsequent loans. This induces the group either to repay for the delinquent partner, or to exert social pressure on him. As a consequence of these incentives, lenders are able to achieve the repayment of all loans with high probability.

2.3 Overview of Training Dimensions

According to Khandaker et al. (1995), prior to the disbursement of credits or loans, it is prudent that groups are given appropriate training to ensure that the loans are judiciously and efficiently managed and paid back within the specified time frame. However, while there are good reasons to advocate the use of training programs for youth entrepreneurs, there are mixed results from previous studies on the influence of group joint liability, group homogeneity, group peer pressure and group cohesion on the loan repayment performance.

According to Ghatak and Guinnane (1999), joint liability leads to an enhanced repayment performance, on the contrary, Gine and Karlan (2006), in their study conclude that joint liability in itself does not lead to better repayment performance.

In another study, for instance, Okeke (2006), reported that homogeneity in age and genders have not affected loan repayment in South-Eastern Nigeria. Other studies on the contrary say that homogeneity of groups has been shown as an important element of high repayment rates (Devereux and Fische, 1993).

A study by Zeller (1998) finds credit group performance positively related to social cohesion within groups. On the contrary, Wydick (1999) finds that while peer monitoring appears to have some positive effect on group loan repayment, strong social ties within groups appears to make it more difficult to pressure fellow members to repay loans.

According to Attanasio et al (2011), there are little merits of individual and group lending in terms of borrower impacts such as repayment rate and social pressure. This is contrary to the study conducted by Floro and Yotopolous (1991) who demonstrate that where social pressure is strong, group lending can both improve loan repayment and relax credit constraints. While providing useful insights, the mixed findings lead to inadequate conclusions as to whether a group training intervention can deliver a positive and cost effective result on loan repayment performance.

2.3.1 Joint Liability

Under group joint liability, all the group members take full responsibility in the event of a loan default either from a single group member or the entire group. Joint liability alleviates the four main problems faced by formal credit institutions that lead to poor borrowers who cannot offer much in the way of collateral: adverse selection, moral hazard, costly audits and enforcement. The theoretical literature on joint liability builds on an earlier contract theory literature from the early 1990s that studies when a principal should contract with a group of agents to encourage side-contracts between them as opposed to contracting individually with each agent. In a survey article, Ghatak and Guinnane (1999) summarize the literature on joint liability by identifying four channels through which this contract feature can help institutions improve repayment. For example, adverse selection: ascertaining the riskiness of borrowers (Ghatak (1999; 2000), N'Guessan and Laffont (2000), and Sadoulet (2000)) or by the insurance effect that results from diversification even if borrowers do not know each other well (Armendariz de Aghion and Gollier (2000)), ex-ante moral hazard: ensuring that the funds will be used properly (Stiglitz (1990) and Laffont and Rey (2000)), monitoring: ensuring that the borrower tells the truth in case of default about her ability to pay, finally voluntary default, or ex-post moral hazard: enforcing repayment if the borrower is reluctant to pay (Besley and Coate (1995)). Studies conducted by Wenner, (1995) and Wydick, (1999), Provide preliminary evidence that joint liability increases loan repayment performance. In

their analysis, variables that proxy for social cohesion and better information flow among group members imply improved repayment rates. Group liability contracts in theory can lead to higher repayment because borrowers have better information about each other, can better monitor each other's investment, and may be able to impose powerful non-pecuniary social sanctions at low cost.

2.3.2 Group Homogeneity

Homogenous group(s) tends to be more successful when members share one or several socio-economic conditions and are therefore relatively homogenous. Devereux and Fische (1993) wrote that in the formation of membership group, some members may misrepresent their economic status, claiming what they are not, thereby resulting in the formation of a group with non-homogenous members. Consequently, the potential for default or delinquency is high and the chance that the group will remain together over time becomes remote. Group homogeneity is therefore a group quality, highly valued by members themselves. Consequently, group homogeneity has the greatest potential for influencing outcome at the individual member level. This makes sense because the probability of members behaving in conformity with group objectives is likely to be greater in a homogenous group where individual members have similar interests and share similar problems.

2.3.3 Group Peer Pressure

Group peer pressure employs joint liability systems that can improve financial sustainability, by inducing group members to use their mutual interest, familiarity and understanding in performing the following roles: screening of fellow borrowers to retain creditworthiness, monitoring their use of borrowed funds and pressuring them to repay as well as providing mutual insurance (Ghatak, 1999).

Many group lending schemes have historically been characterized by group level joint liability. In these contract structures, there is a direct role for peer decisions to affect repayment rates. For example, if one member defaults on her loan, then the remaining members must bear the cost of that defaulted loan if they intend to continue to receive loans from the organization. This extra cost may result in other group members with debt choosing to default and walk away from the lending relationship. Alternately, the non-

defaulting borrowers could use a local enforcement technology to coax the defaulter into repaying her loan. In both of these scenarios, the actions of the peer group have direct consequences for an individual's own repayment decisions. Several theoretical models examine various mechanisms through which joint liability operates including screening, monitoring and enforcement. Candidate pathways include moral hazard and project selection, Stiglitz (1990), moral hazard and project effort, Banerjee, Besley and Guinnane (1994), adverse selection of borrowers, Ghatak (1999), and village sanctions and limited contract enforcement, Besley and Coate (1995). These models have different predictions for borrower repayment, but all conclude that peer behaviors should affect individual decisions. Ahlin and Townsend (2002) use data from Thailand to test the theoretical predictions and find that higher degrees of joint liability coincide with lower repayment as do higher levels of cooperation within borrower groups. Their results highlight the potential for perverse social effects on repayment. Using quasi-random group formation data, Karlan (2007) finds that stronger social connections imply higher repayment rates in joint liability groups in Peru and that default is detrimental to social ties.

2.3.4 Group Cohesion

A great deal of theoretical research on group lending posits that the performance of the institution is likely to be dependent on the strength of different types of social cohesion within borrowing groups. The work of Stiglitz (1990), Varian (1990), and Rashid and Townsend (1992), for example, emphasize the importance of peer monitoring in group lending. Stiglitz shows that by transferring risk from the lender to borrowing groups, group lending is able to offer borrowers a loan contract that improves borrower welfare. Varian concludes that group lending can be advantageous for lenders if group members can insure one another across states of nature that are unobservable to the lender. Rashid and Townsend point to the superiority of group lending over individual lending provided that borrowers are able to monitor one another, and that group member' investment returns are not heavily correlated.

Other theoretical work, such as Floro and Yotopolous (1991), has tied the success of group lending to its ability to harness social ties between borrowers to improve loan repayment. Since there are negative externalities inflicted on other members of the community from individual default, and because borrowers' utility functions are

presumably sensitive to changes in social standing in tightly knit communities, borrowers therefore internalize the externalities associated with moral hazard in credit contracts. According to this view, we should expect to see better borrowing group performance where social ties between members of borrowing groups are strong.

2.4 Empirical Literature Review

2.4.1 Group Joint Liability

According to Ghatak and Guinnane (1999), joint liability leads to an enhanced repayment performance, on the contrary, Gine and Karlan (2006), in their study conclude that joint liability in itself does not lead to better repayment performance. A study on group size and social ties in microfinance institutions conducted by Abbink, Irlenbusch, and Renner (2006) indicated that microfinance programs provided poor people with small loans given to jointly liable self-selected groups. A study on key factors of joint-liability loan contracts by Alexander and Denitsa (2004) reported that joint liability induces a group formation of low risk borrowers. Furthermore, the incentive system leads to peer-measures between the borrowers, helping the lender to address the moral hazard and enforcement problem. They also demonstrate that the mechanism realizes high repayment rates, if the loan officers fulfill their complementary duties in the screening and enforcement process.

2.4.2 Group Homogeneity

Determinants of repayment performance of credit groups in Madagascar were analyzed by Zeller (1996). He found that groups with higher level of social cohesion have a better repayment rate. Moreover, the programs that provide saving service to their members have a significantly higher repayment rate. Julia (1996) studied the determinants of successful group loan repayment in Burkina Faso. This study revealed that probability of loan repayment is influenced by effective use of group dynamics (ex ante and ex post peer pressure and group solidarity) as well as other factors such as appropriate training and leadership; homogeneous groups with sufficient training and reliable leaders had the highest probability of repaying their loans. The capacity to enforce rules in groups where members are homogenous is higher than in groups with membership heterogeneity (Olomola, 2002). Such characteristics which can enhance trust building include regularity of operations, religion, and membership of the same community, belonging to the same

ethnic group, cultural affinity, common neighborhood and consanguinity. These factors can strengthen the social cohesion and moral bands required for effective enforcement of the loan contractual agreement. The more homogeneous the group members are the more intensive the social ties and the trust within the groups and the higher is the group's endowment of social capital (Woolcock, 1998). In countries such as Thailand, Malawi, Bangladesh where membership homogeneity thrived very well, the key determinants of the success were as follows: membership size, fund size and fund allocation method (Hossain, 1988; Huppi and Feder, 1989). These design characteristics of membership homogeneity affects the group performance. Also, the efficiency of financial intermediation of a group is synonymous with the measures of group performance such as social cohesion, intra-group risk pooling and loan repayment performance.

Group membership homogeneity functions effectively with a small homogenous group which is designed to achieve better screening of intending members, contend with adverse selection, encourage peer monitoring, reduce moral hazards, reduce lenders audit cost as well as boost group members incentive to enforce their social obligation programmes as social cohesion increase (Ghatak and Ghuinnane, 1999; Olomola, 2002). On the other hand, though large membership size makes for greater fund mobilization and reduces the fixed costs of a member in a group, it also increases membership congestion and peer monitoring cost which will invariably reduce the net gains of services a member will receive and lead to reduced group cohesion. Information and communication advantages which makes group formation worthwhile for lenders and borrowers is lacking in large group size (Huppi and Feder, 1989). A great deal of theoretical research on group lending posits that the performance of the institution is likely to be dependent on the strength of different types of social cohesion within borrowing groups. The work of Stiglitz (1990), Varian (1990), and Rashid and Townsend (1992), for example, emphasize the importance of peer monitoring in group lending.

2.4.3 Group Peer Pressure

According to Attanasio et al (2011), there are little merits of individual and group lending in terms of borrower impacts such as repayment rate and social pressure. This is contrary to the study conducted by Floro and Yotopolous (1991) who demonstrate that where

social pressure is strong, group lending can both improve loan repayment and relax credit constraints.

2.4.4 Group Cohesion

The model of Besley and Coate (1995) shows a positive relation between group cohesion and loan repayment performance. A study by Zeller (1998) finds credit group performance positively related to social cohesion within groups. On the contrary, Wydick (1999) finds that while peer monitoring appears to have some positive effect on group loan repayment, strong social ties within groups appears to make it more difficult to pressure fellow members to repay loans.

2.5 Research Gaps

Trainings prior to loan disbursements in organizations is a research area that cuts across different fields of social sciences including finance, entrepreneurship, strategic management and organization development. According to Hitt et al (2006), the result of this intertwined complexity is rightly construed to activate a comprehensive investigative endeavor to bring forward a universal model concerning reality and ideal-think underpinning the concept of sustainable activities that yield better results. Previous studies have majorly focused on established financial institutions and not Government revolving funds, especially in Kenya. This augurs well for a subjective reference but adds little value if objectivity and inclusivity are the bases for deductions. It is this argument that informs the design of this study where none of the same has been conducted with the intent of adding diversity to existing subjective knowledge. The choice of the Kisumu Central Constituency as study location and variable scope is embedded on the ideals of fair inclusion and geographical representativeness which are key ingredients towards universal theory formation. Based on proposed design and methodology on the target population, it is highly anticipated that this study will induce a renewed debate and further researches on relationship between group training and optimality in loan repayment execution.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter introduces the research methodology that was used in meeting the pre-set study objectives. In particular, it explains the research design, target population, research instruments, research validity and reliability, and data analysis.

3.2 Research Design

The study adopted a descriptive research design, which according to Yin (2003), is structured to examine a number of logical sub-units or units of analysis within organizations.

3.3 Study Area

The study was carried out in Kisumu Central Constituency. It is Constituency number 0240, within Kisumu County. It covers an area of 32.70 sq.kms; It has a population of 168,892(KNBS 2009), with a total of 6 County assembly wards.

3.4 Target Population

A population is any set of persons or objects that possesses at least one common characteristic (Busha & Harter, 1980).The target population of this study was major Self-Help Groups within Kisumu Central Constituency. Out of the selected self-help groups, a target population of 1050 loan beneficiaries between the years 2010-2014 was constituted. Due to financial constraints and limited data accessibility, the study only narrowed down on Youth enterprise development fund.

Table 3.1 below illustrates the target population.

Table 3.1: Target Population.

Group loan Beneficiaries Between 2010 - 2014	Group Population	Study Respondents	Valid Percent	Cumulative Percent
Dunga Flying	120	12	11.4	11.4
One Act	160	16	15.2	26.7
Mariba Youth	10	1	1.0	27.6
Serious Friends	180	18	17.1	44.8
Mwireri Brothers	110	11	10.5	55.2
Transformer	130	13	12.4	67.6
St. Edwards	80	8	7.6	75.2
Kowino Summit	100	10	9.5	84.8
Changers	70	7	6.7	91.4
Tido Junction Boda Boda	90	9	8.6	100.0
Total	1,050	105	100.0	

Source: Research data July 2016

3.5 Sampling Procedure

In this study, sampling was conducted by simple random sampling technique. The sample size was 10% of the accessible 1050 loan beneficiaries. The substantive figure therefore was 105 respondents. The choice of 10% is justified by separate pronouncement of research Scholar: Kerlinger (1986) contends that the percentage is a considerably representative sample and is viable in social sciences study. Mugenda and Mugenda (1999) maintain that 10% of the population can be used to generalize on the entire population. Gall & Borg (1997) further argues that similarity of characteristics of respondents permits the researcher to select a study sample of not more than 30% of the accessible population. Ideally, 10% is legitimately within the 30% quota.

3.6 Data Collection Methods

Data was collected through administered questionnaires and interviews to the 105 respondents who were basically group members, selected at random within the groups. Gathering information from published journals, text books and articles

3.6.1 Data Sources

Primary data was collected through administered questionnaires and interviews to the loan beneficiaries falling within the self-help groups. Secondary data was collected from published journals, articles and Text books.

3.6.2 Data Collection Procedures

Primary data collection was through questionnaires that were administered to the randomly selected self-help groups, additionally, interviews were conducted to the loan beneficiaries of the selected self-help groups to generate information. Secondary data was generated by gathering information from published journals, text books and articles.

3.6.3 Data Collection Instruments

The data collection tools were questionnaires and interviews. These were administered to the loan beneficiaries of the selected self-help groups.

3.6.4 Reliability Tests

Dornyei (2003) argued that research instruments were measurement devices that must possess adequate reliability. He identified pre-testing as one comprehensive procedure towards enhancing instrument reliability. This underlined the intent of this study to conducting a rigorous instrument validation exercise through pre-testing. The pilot units, equivalent to one-tenth of the proposed sample size of 105 respondents, were obtained from comparable members of the population from which the sample for the full study was taken.

3.6.5 Validity Tests

The study's content validity was attained through expert opinion by the supervisors, identification of relevant indicators through extensive search of the literature on the concept to be measured, while the criterion validity was accomplished through a good knowledge of theory relating to the concept so that the researcher would decide what variables were expected to be predicted by and related to it and a measure of the relationship between the measure and those factors.

3.7 Data Analysis and Presentation

The researcher examined the collected quantitative data to make inferences through a series of operations involving editing to eliminate inconsistencies, classification on the basis of similarity and tabulation to relate variables. Subsequently, the collected data was analyzed using inferential statistical analyses in which case, Pearson correlation coefficient was used. Descriptive statistics involving percentages and mean scores to determine varying degrees of response-concentration were also used. These statistics were generated with aid of the computer software, Statistical Package for Social Sciences (SPSS) Version 20.0.

Pearson's correlation coefficient when applied to a sample is commonly represented by the letter r and may be referred to as the sample correlation coefficient or the sample Pearson correlation coefficient. We can obtain a formula for r by substituting estimates of the covariances and variances based on a sample into the formula above. So if we have one dataset $\{x_1 \dots x_n\}$ containing n values and another dataset $\{y_1 \dots y_n\}$ containing n values then that formula for r is:

$$r = r_{xy} = \frac{\sum_{i=1}^n (x_i - \bar{x})(y_i - \bar{y})}{\sqrt{\sum_{i=1}^n (x_i - \bar{x})^2} \sqrt{\sum_{i=1}^n (y_i - \bar{y})^2}} \dots\dots\dots 3.2$$

Where:

- n, x_i, y_i are defined as above
- $\bar{x} = \frac{1}{n} \sum_{i=1}^n x_i$ (this is the sample mean: the term for y is similar)

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the study's findings based on analysis of its primary data. To facilitate ease of dissemination and understanding for the target audience, presentation of findings is done using tables and figures. Moreover, below each statistical presentation relevant explanations and interpretations are given. The study also made valid replicable inferences on the data in various contexts. At the end of every variable described, hypothesis testing was done and analysis conducted to statistically determine whether the independent variables affect or influence the dependent variable.

4.2 Response Rate

In this study, sampling was conducted by simple random sampling technique. The sample size was 10% of the accessible 1050 loan beneficiaries. The substantive figure therefore was 105 respondents. The choice of 10% is justified by separate pronouncement of research Scholar: Kerlinger (1986) who contends that the percentage is a considerably representative sample and is viable in social sciences study. Mugenda and Mugenda (1999) maintain that 10% of the population can be used to generalize on the entire population.

From the sample population of 105 respondents who were all drawn from the selected Self Help Groups within Kisumu Central constituency, questionnaires were distributed and were dully filled by a total of 105 respondents. This contributed to 100% response rate. This response rate was sufficient and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% is excellent.

Table 4.1 shows the contributive proportions of responses obtained from the selected Self Help Groups.

Table 4.1: Responses from Self Help Groups

	Frequency	Percent	Valid Percent	Cumulative Percent
Dunga Flying	12	11.4	11.4	11.4
One Act	16	15.2	15.2	26.7
Mariba Youth	1	1.0	1.0	27.6
Serious Friends	18	17.1	17.1	44.8
Mwireri Brothers	11	10.5	10.5	55.2
Transformer	13	12.4	12.4	67.6
St. Edwards	8	7.6	7.6	75.2
Kowino Summit	10	9.5	9.5	84.8
Changers	7	6.7	6.7	91.4
Tido Junction Boda Boda	9	8.6	8.6	100.0
Total	105	100.0	100.0	

Source| Kisumu County Self Help Groups Research Data (2016)

Serious Friends Self Help Group contributed to the study at the highest rate of 17.1% followed by One Act with an input of 15.2%. The fact that responses were attained from all the target entities reflected highly anticipated representativeness.

The gender composition of the groups that responded were as in Table 4.2 below

Table 4.2: Respondents Gender Composition

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	61	58.1	58.1	58.1
Valid Female	44	41.9	41.9	100.0
Total	105	100.0	100.0	

Source| Kisumu County Self Help Groups Research Data (2016)

The respondent gender composition was considered fair. The female gender composition percentage stood at 41.9 percent which is equitable since it was well above the one-third national standard gender rule

4.3 Influence of Joint Liability Training on Group Loan Repayment

Group Joint liability has been considered the key feature to reduce the risk of default; the model of Besley and Coate (1995) shows that joint liability acts as repayment insurance within the group. According to Ghatak and Guinnane (1999), joint liability leads to an

enhanced repayment performance. The study respondents were asked the extent to which Joint Liability Training influenced Group Loan Repayment within the self-help groups. The responses were analyzed by using descriptive statistics as shown in Table 4.3 below:

Table 4.3: Descriptive Statistics

	N	Mean	Std. Deviation	Skewness
Statistic	Statistic	Std. Error	Statistic	Std. Error
Influence of Joint Liability Training on Group Loan Repayment	105	1.05	.021	.214
Valid N (listwise)	105			4.310

Source| Kisumu County Self Help Groups Research Data (2016)

The distribution's means score was found to be 1.05, meaning that respondent's understanding and support of joint liability training was marginally above average. Moreover, the derived standard deviation of $v < 1$ (0.214) implied that the extent of response-agreement was high, but inclined more to the right hand-side as reflected by the 4.310 value of skewness. The interpretation for this is that most respondents understood the influence of Joint Liability Training on Group Loan Repayment.

4.3.1 Correlation between Group Joint Liability training and loan repayment performance of government revolving funds in Kenya

Table 4.3.2 below shows the relationship between Group Joint Liability training and loan repayment performance of government revolving funds.

Table 4.3.2: Correlation between Group Joint Liability training and loan repayment performance of government revolving funds

Correlations		GROUP LIABILITY TRAINING: Do you understand the concept of group joint liability in your Group?	JOINT	Rating success of awareness trainings in reducing chances of loan defaults
GROUP JOINT LIABILITY TRAINING: Do you understand the concept of group joint liability in your Group?	Pearson Correlation Sig. (2-tailed) N		1 82	.919** .000 82
Rating success of awareness trainings in reducing chances of loan defaults	Pearson Correlation Sig. (2-tailed) N		.919** .000 82	1 82

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data, (2016)

At 0.01 significance level, the correlation between group joint liability training and success of loan repayment performance of government revolving funds was established at .919 implying a strong positive association of 91.9 percent. The positivity of the correlation means that when group joint liability training awareness increases, success of loan repayment performance of government revolving funds also increases. This finding concurs with Ghatak and Guinnane (1999), which finds that joint liability, leads to an enhanced loan repayment. It is thus incumbent on the players managing the government revolving fund to step up all initiatives designed to increase training and awareness on group joint liability.

4.3.3 ANOVA for group joint liability training

The analysis of the variance (ANOVA) was used to the test the first hypothesis of the study.

4.3.3.1 Testing Hypothesis H_{a1} : There is a positive relationship between group joint liability and loan repayment performance of the government revolving funds in Kenya

Table 4.3.3 presents analysis of the variance that was used the test the first hypothesis of the study.

Table 4.3.3: Testing of the first Hypothesis H_{a1}

ANOVA					
Rating success of group joint liability training in reducing loan repayment defaults					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	53.122	1	53.122	435.600	.000
Within Groups	9.756	80	.122		
Total	62.878	81			

Source: Research data, (2016)

At 1 degrees of freedom, the computed $F = 435.600$ is greater than the critical $F = .00$. This implies that the overall regression model was significant. This is because when the computed F is greater than the significant F , then a conclusion that the overall regression model was fit in estimating variation in the response variable. The rule of thumb is that when F computed is greater than the significant F we reject the null hypothesis and thereby accept the alternate hypothesis that; H_{a1} : There is a positive relationship between group joint liability and loan repayment performance of the government revolving funds in Kenya.

4.4 Influence of Group Homogeneity on Group Loan Repayment

Group homogeneity has been shown as an important element of high repayment rates (Devereux and Fische, 1993). The study respondents were asked the extent to which Group Homogeneity Training influenced Group Loan Repayment within the self-help groups. The responses were analyzed by use descriptive statistics as shown in Table 4.4 below

Table 4.4: Descriptive Statistics

	N	Mean	Std. Deviation	Skewness
Statistic	Statistic	Std. Error	Statistic	Std. Error
Influence of Group Homogeneity on Group Loan Repayment	105	1.04	.019	.192
Valid N (listwise)	105			4.896 .236

Source| Kisumu County Self Help Groups Research Data (2016)

The distribution's means score was found to be 1.04, meaning that respondents' understanding of group homogeneity training was marginally above average. The derived standard deviation of $v < 1$ (0.192) implied that the extent of response-agreement was high, but inclined more to the right hand-side as reflected by the 4.896 value of skewness. The interpretation for this is that most respondents understood the influence of group homogeneity Training on Group Loan Repayment. This finding conforms to Van Tassel (1999) and Ghatak (1999) who both demonstrated that the borrower self-selection process used in most group lending schemes improved repayment rates through mitigating adverse selection in credit markets.

Van Tassel (1999) and Ghatak (1999) further argue that if borrowers have clear information over the riskiness of one another's projects, they sort themselves into homogeneous group through an assortative matching process.

4.4.2 Correlation between Group homogeneity training and loan repayment performance of government revolving funds in Kenya

Table 4.4.1 below shows the relationship between Group homogeneity training and loan repayment performance of government revolving funds.

Table 4.4.2: Correlation between Group Joint Liability training and loan repayment performance of government revolving funds

Correlations		GROUP HOMOGENEITY TRAINING: sharing one or several socio-economic conditions	Do you find this strategy useful as an intervention in preventing loan defaults in revolving funds?
GROUP HOMOGENEITY TRAINING: sharing one or several socio-economic conditions	Pearson Correlation	. ^a	0.75**
	Sig. (2-tailed) N	82	82
Do you find this strategy useful as an intervention in preventing loan defaults in revolving funds?	Pearson Correlation	0.75**	1
	Sig. (2-tailed) N	. 82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data, (2016)

At 0.01 significance level, the correlation between group homogeneity training and successful performance of government revolving funds was established at 0.75 implying a strong positive association of 75 percent. The positivity of the correlation means that when group homogeneity training increases, effectiveness of strategic interventions in increasing the performance of government revolving funds and of reducing possibility of loan defaulters also increases. This is similar to the findings of Li, Liu and Deininger (2012) who argue that socially homogeneous groups consistently perform better than socially heterogeneous groups, and this supports the notion that relational social capital matters to loan repayment performance in group lending.

4.4.3 ANOVA for group Homogeneity training

Table 4.19 below tests the second hypothesis of the study.

4.4.3.1 Testing Hypothesis H_{a2}: Group homogeneity training influences loan repayment performance of the government revolving funds in Kenya

Table 4.4.3: Testing of the second Hypotheses H_{a2}

ANOVA					
Group Homogeneity in increasing repayment performance in government revolving funds					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	53.122	1	53.122	231.600	.024
Within Groups	9.756	80	.122		
Total	62.878	81			

Source: Research data, (2016)

At 1 degrees of freedom, the computed $F = 231.600$ is greater than the critical $F = .024$. This implies that the overall regression model was significant. This is because when the computed F is greater than the significant F , then a conclusion that the overall regression model was fit in estimating variation in the response variable. The rule of thumb is that when F computed is greater than the significant F we reject the null hypothesis and thereby accept the alternate hypothesis that; **H_{a2}**: Group homogeneity influences loan repayment performance of the government revolving funds in Kenya.

4.5 Influence of Group Cohesion Training on Loan Repayment

A study by Zeller (1998) finds credit group performance positively related to social cohesion within groups. The study respondents were asked the extent to which Group Cohesion Training influenced Group Loan Repayment within the self-help groups. The responses were analyzed by use descriptive statistics as shown in Table 4.5 below

Table 4.5: Descriptive Statistics

		N	Mean	Std. Deviation	Skewness		
		Statistic	Std. Error	Statistic	Std. Error		
Influence of Group Cohesion Training on Loan Repayment Attitude		105	1.04	.019	.192	4.896	.236

Source| Kisumu County Self Help Groups Research Data (2016)

The distribution's means score was found to be 1.04, meaning that respondents' understanding of group cohesion training was marginally above average. The derived standard deviation of $v < 1$ (0.192) implied that the extent of response-agreement was high, but inclined more to the right hand-side as reflected by the 4.896 value of skewness. The interpretation for this is that most respondents understood the influence of group cohesion Training on Group Loan repayment. This conforms to the study by Hermes *etal.* (2006), who find that the social ties of group leaders positively affect group repayment. Al-Azzam and Mimouni (2012) further show that the degree of friendship between the group leader and the group members improves on-time loan repayment.

Table 4.5.2: Correlation between Group cohesion and loan repayment performance of government revolving funds in Kenya

Correlations			
		GROUP COHESION TRAINING: Does your group fully understand the concept of group cohesion?	Reduced incidences of loan defaults as ads a result of group solidarity
GROUP COHESION TRAINING: Does your group fully understand the concept of group cohesion?	Pearson Correlation Sig. (2-tailed)	. ^a	.64**
	N	82	82
Reduced incidences of loan defaults as ads a result of group solidarity	Pearson Correlation Sig. (2-tailed)	.64**	1
	N	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data, (2016)

At 0.01 significance level, the correlation between group cohesion practices and success of government revolving funds was established at 0.64 implying a strong positive association of 64 percent.

4.5.3 ANOVA for group cohesion

4.5.3.1 Testing Hypothesis H_{a3}: There is a positive relationship between group cohesion and loan repayment performance of the government revolving funds in Kenya.

Table 4.5.3 below shows the testing of the third hypothesis of the study.

Table: 4.5.3: Testing of the third hypothesis H_{a3}

ANOVA					
Group Cohesion in increasing repayment performance in government revolving funds					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	55.111	1	53.122	18.711	.031
Within Groups	8.352	80	.122		
Total	61.261	81			

Source: Research data, (2016)

At 1 degrees of freedom, the computed $F = 18.711$ is greater than the critical $F = .031$. This implies that the overall regression model was significant. This is because when the computed F is greater than the significant F , then a conclusion that the overall regression model was fit in estimating variation in the response variable. The rule of thumb is that when F computed is greater than the significant F we reject the null hypothesis and thereby accept the alternate hypothesis that; **H_{a3}:** There is a positive relationship between cohesion and loan repayment performance of the government revolving funds in Kenya

4.6 Influence of Group Peer Pressure on Loan Repayment

A study conducted by Floro and Yotopolous (1991) demonstrate that where social pressure is strong, group lending can both improve loan repayment and relax credit constraints. The study respondents were asked the extent to which Group Peer Pressure Training influenced Group Loan Repayment within the self-help groups. The responses were analyzed by use descriptive statistics as shown in Table 4.6 below:

Table 4.6: Descriptive Statistics

	N		Mean	Std. Deviation		Skewness
	Statistic	Statistic	Std. Error	Statistic	Statistic	Std. Error
Influence of Group Peer Pressure on Loan Repayment	105	1.04	.019	.192	4.896	.236
Valid N (listwise)	105					

Source| Kisumu County Self Help Groups Research Data (2016)

The distribution's means score was found to be 1.04, meaning that respondents' understanding of group peer pressure training was marginally above average. The derived standard deviation of $v < 1$ (0.192) implied that the extent of response-agreement was high, but inclined more to the right hand-side as reflected by the 4.896 value of skewness. The interpretation for this is that most respondents understood the influence of group peer pressure Training on Group Loan repayment. This conforms to the findings of Naveen Kumar (2012) who argues that peer pressure as social collateral, can effectively identify, as well as punish, irresponsible borrowers and deliberate defaulters through social penalties.

4.6.2 Correlation between Group Peer Pressure and loan repayment performance of government revolving funds in Kenya

Table 4.3.2: Correlation between Group Peer Pressure and loan repayment performance of government revolving funds

Correlations			GROUP PEER PRESSURE: Do you understand the concept of group peer pressure?	Rating success of screening of fellow borrowers to retain creditworthiness, monitoring their use of borrowed funds and pressuring them to repay
GROUP PRESSURE: Do you understand the concept of group peer pressure?	PEER	Pearson Correlation Sig. (2-tailed)	1	.919**
		N	82	82
Rating success of screening of fellow borrowers to retain creditworthiness, monitoring their use of borrowed funds and pressuring them to repay		Pearson Correlation Sig. (2-tailed)	.919**	1
		N	82	82

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Research data, (2016)

At 0.01 significance level, the correlation between group peer pressure and success of loan repayment performance of government revolving funds was established at .919 implying a strong positive association of 91.9 percent. The positivity of the correlation means that when group peer pressure increases, success of loan repayment performance of government revolving funds also increases. This finding attests to the efficacy of peer pressure as had been established by earlier researchers' as Ghatak, (1999). It is thus incumbent on the players managing the government revolving fund to step up all initiatives designed to increase training and awareness on group peer pressure.

4.6.3 ANOVA for Group Peer Pressure

The analysis of the variance (ANOVA) was used to test the fourth hypothesis of the study.

4.6.3.1 Testing Hypothesis H_{a4} : There is a positive relationship between group peer pressure and loan repayment performance of the government revolving funds in Kenya.

Table 4.3.3 presents analysis of the variance that was used to test the fourth hypothesis of the study.

Table 4.6.3: Testing of the fourth Hypothesis H_{a4}

ANOVA					
Rating success of group joint liability training in reducing loan repayment defaults					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	53.122	1	53.122	435.600	.000
Within Groups	9.756	80	.122		
Total	62.878	81			

Source: Research data, (2016)

At 1 degrees of freedom, the computed $F = 435.600$ is greater than the critical $F = .00$. This implies that the overall regression model was significant. This is because when the computed F is greater than the significant F , then a conclusion that the overall regression model was fit in estimating variation in the response variable. The rule of thumb is that when F computed is greater than the significant F we reject the null hypothesis and thereby accept the alternate hypothesis that; **H_{a4} :** There is a positive relationship between group peer pressure and loan repayment performance of the government revolving funds in Kenya.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter presents the summary of the study's findings, conclusions, recommendations, and suggestions for further studies.

5.2 Summary of Findings

The study findings were summarized on particular training dimensions discussed as under:

5.2.1 Joint Liability Training

Group Joint liability has been considered the key feature to reduce the risk of default; the model of Besley and Coate (1995) shows that joint liability acts as repayment insurance within the group. According to Ghatak and Guinnane (1999), joint liability leads to an enhanced repayment performance. Assessing the Influence of Joint Liability Training on Group Loan Repayment, indicators such as training period, training duration, training highlights and group remaining intact after joint liability training were used. The study found that groups' understanding and support of joint liability was marginally above average. This implied that although most group members underwent joint liability training, some of them did not understand core objectives underlying their individual responsibilities. Most often than not, the rules and regulations applicable on joint liability aspect of group training remained a responsibility of group leaders to enforce. However, group joint liability as it was largely capable of enforcement by the lender. The shop-floor group members were actively involved in making or contributing to essential rules and regulations that governed their relationships.

At 0.01 significance level, the correlation between group joint liability training and success of loan repayment performance of government revolving funds was established at .919 implying a strong positive association of 91.9 percent. The positivity of the correlation means that when group joint liability training awareness increases, success of loan repayment performance of government revolving funds also increases. This finding

attests to the efficacy of awareness campaigns as had been established previous researchers' as Oluduro (2010). It is thus incumbent on the players managing the government revolving fund to step up all initiatives designed to increase training and awareness on group joint liability.

5.2.2 Group homogeneity training

Group homogeneity has been shown as an important element of high repayment rates (Devereux and Fische, 1993). In determining the Influence of Group homogeneity training on Group Loan Repayment indicators such as training quality, group team work and training consistency were used. The study respondents were asked the extent to which Group homogeneity training influenced Group Loan Repayment within the self-help groups. The study respondents' understanding of group homogeneity training was found to be above average. The extent of response-agreement was high; most respondents understood the influence of group homogeneity training on group loan repayment.

At 0.01 significance level, the correlation between group homogeneity training and successful performance of government revolving funds was established at 0.75 implying a strong positive association of 75 percent. The positivity of the correlation means that when group homogeneity training increases, effectiveness of strategic interventions in increasing the performance of government revolving funds and of reducing possibility of loan defaulters also increases. It is therefore obvious that it is crucial to emphasize need for solidarity in groups to enhance loan repayment performance

5.2.3 Group Cohesion

A study by Zeller (1998) finds credit group performance positively related to social cohesion within groups. In assessing the Influence of group cohesion Training on Group Loan Repayment indicators such as disbursement timing and group attitude were used. The study found the respondents' understanding of group cohesion training as marginally above average. Most respondents understood the influence of group cohesion training on group loan repayment.

In determining the Influence of Group peer pressure on Group Loan Repayment indicators such as group cohesion and group joint liability were used. The study respondents were

asked the extent to which Group peer pressure influenced group loan repayment within the self-help groups. The study respondents' understanding of group peer pressure was found to be above average. The extent of response-agreement was high; most respondents understood the influence of group peer pressure training on group loan repayment.

The distribution's means score was found to be 1.04, meaning that respondents' understanding of group cohesion training was marginally above average. At 0.01 significance level, the correlation between group cohesion practices and success of government revolving funds was established at 0.64 implying a strong positive association of 64 percent.

5.2.4 Group Peer Pressure

A study conducted by Floro and Yotopolous (1991) demonstrate that where social pressure is strong, group lending can both improve loan repayment and relax credit constraints. The distribution's means score was found to be 1.04, meaning that respondents' understanding of group peer pressure training was marginally above average. Generally, the study interrogated how well group members were coordinated and integrated at the group level using the respondents' opinions on individual commitment to achievement of group goals and objectives. It was evident that majority of group members were in full psychological contract with their groups. This was a welcome move that indicated a positive gesture on group cohesion and subsequent loan repayment attitude.

At 0.01 significance level, the correlation between group peer pressure and success of loan repayment performance of government revolving funds was established at .919 implying a strong positive association of 91.9 percent. The positivity of the correlation means that when group peer pressure increases, success of loan repayment performance of government revolving funds also increases

5.3 Study Conclusions

From the study findings, it is concluded that all elements of group training viz group joint liability, group cohesion, group peer pressure and group homogeneity influenced loan repayment performance of government revolving funds in Kenya. Group joint liability

was found to boost insurance against potential default. Group cohesion ensures sustainable existence of the group as a going concern. Group peer pressure was found to compel members to meet their obligations. Finally, group homogeneity was found to cause evenness among members and acted to resolve conflicts.

5.4 Study Recommendations

Based on the research findings, it is recommended that the players in the lending industry take note of cultural dynamics so that an absolutely new slate of practices is enacted. The internal culture that does not support ultimate realization of objectives should be avoided by first ensuring that all groups are well inducted into their roles and space in service delivery.

Further, it is the recommendation of this study that experts are involved both in group trainings and regular reviews of adopted organizational lending structures. This is so the case to avoid monotony in job design and bureaucracies which barricade goal realization. In addition to experts, the organizations should have internal research and development units to constantly and consistently align their strategic outlooks to structural flexibility with emphasis on group development.

On leadership, it is recommended that top group leaders undergo capacity building sessions to come to realization that their group objectives are easily attained through team work and not through strict supervision and instructions. Group leadership should be converted from a barrier to an enabler by encouraging teamwork and winning support from all the members concerned.

5.5 Suggestions for Further Studies

The study recommends further studies on effects of retained bureaucracies on strategic success of self-help groups.

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APPENDICES

Appendix I: Questionnaire Draft

Q/No:

Dear respondent,

Q/No:

This academic questionnaire is prepared purposely to assist in collecting data relating to the influence of group training on the loan repayment performance under the government revolving funds in Kenya. A survey of selected self-help groups within Kisumu Town. As one of the key identified respondents/informants, you are hereby requested to complete it. Any information given with respect to this request shall be treated with strict confidentiality and will only be used for the intent aforementioned.

Kindly indicate your consent prior to completion.

I agree

I disagree

Biographical Information

1. Name.....(optional)
2. Gender.....Male () Female () Tick appropriately.
3. Level of Education..... Primary () Secondary() College()
4. Marital status.....Married () Single() Other ()
5. Home Constituency.....

Group Membership

6. Do you belong to any group? Yes () No () Tick appropriately
7. What is the name of the group?
8. How many groups do you belong to? One () Two () Three () Other ()
9. How many members are you? Eight () Ten () Fifteen () other ()
specify.....
10. Is membership composed of both males and females? Yes () No () Other ()
Please specify.....
11. What is the length of time in the group membership? Please, specify.....
(Years)

12. Is the group registered? Yes () No () other () Please, specify.....

Group Training

13. Have you gone through any training in the group? Yes () No () Other ()

Please, specify.....

14. Was the training conducted by an expert? Yes () No () Other ()

Please, specify.....

15. Was the training conducted before loan application? Yes () No () Other ()

Please, specify.....

16. Did all members attend the training? Yes () No () Other ()

Please, specify.....

17. What was the duration of the training? One week () Two weeks () Four weeks ()

other () Please, specify.....

18. Would you recommend a group to be trained before loan application? Yes () No ()

Other () Please, specify.....

19. Was the training information relevant to the group activities? Yes () No ()

Other () Please, specify.....

20. How would you rank the overall duration for the training sessions applied to the group members? (1-Strongly Agree, 2-Agree, 3-Neutral, 4-Disagree, 5-Strongly Disagree)

	1	2	3	4	5
One day	()	()	()	()	()
Two days	()	()	()	()	()
Three days	()	()	()	()	()
One week	()	()	()	()	()
Two weeks	()	()	()	()	()

Any other (Specify):

21. Would you recommend continuous training even after loan disbursement?

Yes () No ()

Give Reason(s)

Group Training Dimensions

22. Did you come across any of the following during the training sessions?

- | | | | | |
|-------|-----------------------|---------|--------|---------------------|
| (i) | Group Joint liability | Yes () | No () | Tick appropriately. |
| (ii) | Group Homogeneity | Yes() | No() | |
| (iii) | Group peer pressure | Yes() | No() | |
| (iv) | Group Cohesion | Yes() | No() | |
| (v) | Any other | | | training |
- (specify).....

Group Joint Liability

23. Do you understand the concept of group joint liability? Yes () No ()
 Other () specify.....
24. Was the concept properly highlighted during the training sessions? Yes () No ()
 Other () specify.....
25. Is it necessary for group members to understand the concept of group joint liability during loan application? Yes () No () other ()
 specify.....
26. When should training on the concept of group joint liability be conducted to the group?
- | | | |
|------------------------------|---------|--------|
| (i) Before loan disbursement | Yes () | No () |
| (ii) After loan disbursement | Yes () | No () |
| (iii) Should be continuous | Yes () | No () |
- (vi) Any other. (Specify).....
27. Would training on the concept of group joint liability influence the group's loan repayment?
- (i) Yes ()
 (ii) No ()
 (iii) Any other (specify).....
28. Do the group members understand the value of joint liability on group loan repayment?
- (i) Yes ()
 (ii) No ()
 (iii) Any other (specify).....
29. How many group members attended the training sessions?
- | | | |
|-----------------|---------|--------|
| (i) All members | Yes () | No () |
|-----------------|---------|--------|

(ii) Any other (Specify).....

30. What was the duration of the training period?

- | | | |
|------------------------------|---------|--------|
| (i) One day | Yes () | No () |
| (ii) Three days | Yes () | No () |
| (iii) One week | Yes () | No () |
| (iv) Two weeks | Yes () | No () |
| (v) Any other (Specify | | |

31. After the training on group joint liability, is the group still intact?

Yes () No ()

Any other (Specify).....

Group Homogeneity

32. Do you understand the concept of group homogeneity?

(i) Yes ()

(ii) No ()

(iii) Any other (specify).....

33. Was the concept properly clarified during the group training? Yes () No ()

Other () specify.....

34. Does group homogeneity influence group loan repayment? Yes () No ()

Other () specify.....

35. When should training on group homogeneity be conducted to the group?

(i) Before loan disbursement Yes () No ()

(ii) After loan disbursement Yes () No ()

(iii) Should be continuous Yes () No ()

36. Would training on group homogeneity influence the group's attitude towards loan repayment?

(i) Yes ()

(ii) No ()

(iii) Any other (specify).....

Group Peer Pressure

37. Do you understand the concept of group peer pressure?

- (i) Yes ()
- (ii) No ()
- (iii) Any other (Please, specify).....

38. Was the concept properly clarified during the group training? Yes () No ()
 other () Please, specify.....

39. Does group peer pressure influence group loan repayment? Yes () No ()
 other () Please, specify.....

40. When should training on group peer pressure be conducted to the group?

- (i) Before loan disbursement Yes () No ()
- (ii) After loan disbursement Yes () No ()
- (iii) Should be continuous Yes () No ()

41. Would training on group peer pressure influence the group's attitude towards loan repayment?

- (i) Yes ()
- (ii) No ()
- (iii) Any other (please, specify).....

Group Cohesion

42. Do you understand the concept of group cohesion?

- (i) Yes ()
- (ii) No ()
- (iii) Any other (please, specify).....

43. Was the concept properly clarified during the group training? Yes () No ()
 Other () Please, specify.....

44. Does group cohesion influence group loan repayment? Yes () No () Other ()
 Please, specify.....

45. When should training on group cohesion be conducted to the group?

- (i) Before loan disbursement Yes () No ()
- (ii) After loan disbursement Yes () No ()
- (iii) Should be continuous Yes () No ()

46. Would training on group cohesion influence the group's attitude towards loan repayment?

- (i) Yes ()

(ii) No ()

(iii) Any other (please, specify).....

Loan Repayment Performance

47. Have you ever defaulted in repaying your loan? Yes () No () other ()

Please, specify.....

48. When do you normally repay your loan? Weekly () Monthly () Occasionally ()

49. Do you value the need to repay loans promptly?

Yes () No ()

Any other (Please, specify).....

50. Would you link good loan repayment with group training before loan disbursement?

Yes () No ()

Any other (Please specify).....

Loan Default Rate

51. Have you been issued with a loan repayment schedule?

Yes () No ()

51. Do you understand the meaning of loan default rate?

Yes () No ()

52. What is your loan default rate in a complete loan cycle?

1 % () 5 % () 10 % () 50 % ()

Any other (Please, specify).....

Thank you.