

**What are the Factors Affecting the Loan Repayment of Microfinance Industry:
A Case Study in Rathnapura District**

W. I. B. Weerakkuttige¹ and Ruwan Abeysekera²

Department of Finance, University of Kelaniya, Sri Lanka^{1,2}

Weerakkutti0@gmail.com¹, ruwanab@kln.ac.lk²

ABSTRACT

Introduction - Microfinance gives a solution for people who are excluded from a formal financial system. The typical idea of providing credit to lower-income people is to increase their income and enhance their necessity needs and thereby reduce poverty. Microfinance becomes a more productive tool for poverty alleviation. Microfinance Institutions (MFIs) provide microcredit (i.e. loans) to clients. Loan repayment is very important for the sustainability of MFIs. This research was used to study MFI and borrower factors that affect loan repayments.

Design/Methodology/Approach - The researcher has purposively selected four microfinance institution in Sri Lanka and Data were gathered using sixteen in-depth interviews through a semi-structured questionnaire. Those collected data were transcribed and analysed.

Findings - The study found income, expenses, family background, attitudes, information asymmetry, educational level, amount of loan borrowed, and economic instability affected the loan repayment from the borrower's side. Further, training programmes, grace period, lending policy, regulatory framework, interpersonal relationship and interest rate affected loan repayment from the MFI side. Further, the researcher has found barriers that affect both microfinance institution and borrowers in loan repayments, such as income, family support, group barriers, lack of collateral, financial instability and technology barriers, high competition and employee turnover.

Conclusion - The study will help the development of microfinance institutions and achieve microfinance loan holder's objectives.

Key words: *Microfinance, Microfinance institutions, poverty, In-depth interviews, Lower-income people*