

Factors of Microloan default in Microfinance Institutions- Evidence by Puttalam District, Sri Lanka.

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Abstract

Introduction: The origin of microfinance was combined with micro-credit. The main reason for this is to provide access to financial and banking services to low-income or poor people who have access to financial services. As is quite common in this net capitalization, microfinance loan defaults have also become the main challenge of microfinance institutions. Although financial institutions involved in microfinance have tried to find solutions, there is a lack of an approach to finding solutions experimentally. There is also a lack of theoretical and written literature on this issue. Considering these issues, the main aim of this study is to identify the factors affecting the default of microloans.

Methodology: This study uses deductive and quantitative methods to analyse the data. Data were gathered from 330 micro-loan borrowers from microfinance institutions in Puttalam district, Sri Lanka. The dependent and independent variables were loan default and borrowers' income level, loan amount, loan duration, knowledge of CRIB, borrower age and purpose of the microloan. Descriptive statistics, correlation and panel regression were used to analyse the data.

Findings: The study found a strong positive relationship between the income level of borrowers, borrowed loan amount, duration of the loan and knowledge of CRIB with the loan default. However, there was a weak relationship between borrowers' age and the microloan's purpose for microloan default.

Conclusion: This research offers actionable insights for microfinance institutions and micro-loan borrowers in Sri Lanka.

Keywords: Micro Finance, Micro-Credit, CRIB, Age of Borrower, Income level of Borrower, Microfinance Institutions, Sri Lanka.