INFLUENCE OF LOAN DEFAULT IN GROUP LENDING PROGRAMMES ON SOCIO-ECONOMIC STATUS OF HOUSEHOLDS IN NORTH IMENTI, MERU COUNTY

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ABSTRACT

Microfinance has made enormous contribution towards poverty alleviation, women empowerment and the growth of small, micro and medium enterprises. This has been possible due to adoption of group lending as an effective lending methodology for small medium and micro enterprises and the productive poor. The basics of microcredit are to provide a group loan today and have it repaid, usually with an interest, sometime in the future. Natural time delay in a loan contract, and as compared to an instant exchange of two goods, however inherently makes microcredit potentially risky. Group lending schemes in North Imenti sub County in Meru have therefore been characterized by rising levels of default. Different effects have been felt among the households in the process of managing the defaults. Against this rising trend therefore, this research was carried out to investigate how loan default in group lending schemes influences the social and economic status of borrowing and loan guarantors households with regard to self esteem, respect in the society, household incomes and relationships both at family and group level. Using a descriptive design, default in group lending programmes was described, and also insights on issues surrounding loan default were brought to the fore, processes of loan recovery and its influence in society. Questionnaires consisting of both open and closed ended questions, interviews and focus group discussions were used in data collection. The study revealed that loan default in group lending schemes had negative consequences on the social status of both loan borrowers and guarantors such as loss of self esteem, social standing and respect. Similarly, the study found that, as a result of default, group members had lost income from their businesses and cash collateral as they took responsibility of the defaulted loans. In addition, social relations have been affected adversely both at family and group levels. The study recommends proper group foundation and management, pre and post trainings appropriate for lending schemes, effective screening of members before recruitment, business appraisal and security assessment and use of the applicable law in loan recovery in the events of default.

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