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# Multi-Borrowing Practices and Loan Repayment of Micro and Small Enterprises in Trade Sector in Meru County, Kenya

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## ABSTRACT

*In Kenya, the increase in multi-borrowing and its effects on loan repayment is a growing concern for microfinance institutions. The general purpose of this research was to establish the effect of multi-borrowing on loan repayment among MSEs in Meru County. Specifically, the study aimed to determine how the number of loans borrowed, interest payable, and the financial literacy of borrowers influenced loan repayment within Meru County Microfinance. The research was anchored on information asymmetry, prospect theory, moral hazard, and adverse selection theories. The study targeted 6,000 MSE owners who were members of Meru County Microfinance, from which a sample of 200 borrowers was selected. A descriptive research design was employed to assess how multiple borrowings affected loan repayment. Cluster and random sampling methods were used to identify respondents across the seven branches of Meru County Microfinance. Primary data was collected using questionnaires, and analyzed by use of descriptive, correlational, and regression analysis techniques. Inferential analysis was conducted at a 0.05 significance threshold, utilizing the Statistical Package for Social Sciences (SPSS) version 28 for data analysis. Ethical standards were strictly observed throughout the study. The study revealed that the number of loans borrowed had a significant impact on loan repayment among MSEs in Meru County. Effective management of borrowing was crucial for better repayment outcomes. Interest payable was identified as a critical factor affecting loan repayment; enterprises with well-managed credit risk practices, including the adjustment of interest rates and repayment schedules, exhibited better repayment performance. Furthermore, the level of financial literacy positively influenced loan repayment, with higher financial literacy levels leading to improved loan management and repayment behaviors. The study concluded that the number of loans borrowed significantly affected loan repayment, although its impact was less direct compared to other factors. Interest payable had the most substantial effect on loan repayment, with effective credit risk management correlating strongly with better repayment outcomes. Additionally, a higher level of financial literacy was found to significantly enhance loan repayment. Based on the findings, it is recommended that micro and small enterprises regularly review and manage their borrowing policies to improve loan repayment. Financial institutions should implement clear policies on irrecoverable loan provisions and adopt robust credit management practices to ensure better loan repayment. Moreover, enhancing financial literacy among borrowers is crucial for improving loan repayment, and thus, targeted financial education programs should be developed. Policymakers should also evaluate and update regulatory frameworks to support effective loan management and repayment practices within microfinance institutions.*

**Key Words:** *Multi- Borrowing Practices, Interest Payable, Financial Literacy, Loan Repayment, Loan Repayment Rate, Loan Default Rate*

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## 1.0 Introduction

### 1.1 Background

Due to flexible repayment periods and attractive interest rates, microfinance institutions have seen a sharp increase in the number of MSEs in Kenya engaging in repeated borrowing and multi-borrowing. (Alumasa & Muathe, 2021). However, poor loan repayment remains a pressing issue, as highlighted by Twesige et al. (2021), largely driven by the cumulative interest burden associated with multiple borrowing. This borrowing behavior overwhelms MSEs, leading to liquidity problems and eventual poor loan repayment. Afroze et al. (2016) noted that as debt obligations increase, businesses are forced to take out additional loans, perpetuating a cycle of indebtedness and further exacerbating repayment challenges. The poor loan repayment problem becomes even more severe when businesses cannot meet their scheduled payments due to mounting interest and reduced cash flow, leaving them vulnerable to default.

Multiple borrowing poses a significant risk of loan repayment issues, primarily because it can overwhelm borrowers and lead to default. Multiple borrowing carries an increased risk of loan default, particularly when clients lack sufficient financial literacy. Borrowers with little prior knowledge of loan usage often struggle with repayment as their debt burden increases (Alumasa & Muathe, 2021). According to Lusardi & Mitchell (2014), individuals with limited financial literacy are more likely to mismanage debt, leading to defaults. Gaudence et al. (2018) found that low educational experience also raises default risk. Karlan et al. (2018) noted that inadequate borrower assessment often leads to microfinance institutions facing delinquencies. High interest rates further constrain loan repayment for MSEs (Muthuni, 2016; Twesige et al., 2021), increasing the likelihood of auctioning off assets.

#### 1.1.1 Loan repayment

Loan repayment implies the ability of the borrower to repay the borrowed funds when due. In the instance that the borrower fails to pay loan then they will be defaulters. However, for borrowers that settle the loans on time are termed as compliant (Charles & Mori, 2017). The measures of loan repayment that were used to assess the loan repayment among the MSEs will be the loan repayment rate, loan default rate and loan delinquency rate. These measures have been used by past scholars such as Kiptum (2019), Endris (2022), Ssekiziyivu *et al*. (2018), Ntiamoah *et al*. (2014) and Chong (2021). Loan repayment rate is the measure of percentage of loan borrowers who have successfully repaid their loan amount. Earlier research by Kiptum (2019) posits that loan repayment measure could be evaluated in terms of a binary variable to constitute borrowers that paid the loans on time following regular instalments soon after loan disbursements and those that did not comply with the agreed terms for payment of the loan. Endris (2022) established that loan repayment affects

MSEs due to inconveniences of loan payback period and lack of financial literacy skills and planning among many operators of the MSEs. Additionally, Ssekiziyivu *et al*. (2018) established that the higher the loan repayment rate, the higher the probability of the microfinance institution collecting interest revenues and the lower the loan losses which enhance its sustainability. In addition, weak repayment rates affect negatively MSEs relations with the financial institutions and make them disinterested to engage in other financial transactions (Endris, 2022).

Loan default rate is the percentage of loan borrowers who have failed to repay their loan amount and have no indications to pay. According to Ntiamoah *et al*. (2014) and Endris (2022) loan default would imply a repayment that has not been made and shows very minimal or no chances of getting paid. Loan default rate would thus be evaluated as a binary variable for the repayment that is not entirely made and that which is either made timely or late. High default rates in MSEs lending should be a major concern to policy makers in developing countries, because of its unintended negative impacts on MSEs financing (Ntiamoah *et al*., 2014; Kelchen & Li, 2017). Lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by Credit Officers are some of the causes of loan defaults (Ntiamoah *et al*., 2014). Loan delinquency rate is the percentage of loan borrowers who are behind on their loan payments. The measure will focus on the percentage of loans that are past due date for the loan repayment although the borrowers may have indicated the willingness to pay the loan. According to Chong (2021) a loan is delinquent when a payment is late and thus loan delinquency rate would be evaluated as a binary variable for the loans paid on time and those paid late. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help predicting how much of the portfolio will eventually be lost because it never gets repaid (Chong, 2021). The cost of delinquency in not only felt by the lender but also the MSEs operators who gets to a trade-off between the penalties in lost reputation from delinquency versus the opportunity cost of forgoing investments due to working out the current loan as per agreed time (Ntiamoah *et al*., 2014). As per Chong (2021) the resources for servicing the loan should be ascertained before lending so that the borrowers are not challenged when the loan is due. This study shall put focus on the loan repayment capacity among the MSEs by estimating the percentages of repayment, default and delinquency.

### 1.1.2 Multiple Borrowing

Multiple borrowing refers to the practice of obtaining loans from different sources within the same period (Diaz et al., 2017). This phenomenon can occur when borrowers engage with both banks and non-bank lenders, such as microfinance institutions, within the same population. Factors from both the demand and supply sides contribute to multiple borrowing, which poses a credible threat to the long-term sustainability of the microfinance sector (Mia, 2017). According to Afroze et al. (2016), key reasons for multiple borrowing include client rustling and loan pushing from financial institutions, along with loan recycling by borrowers. In this study, measures used to assess multiple borrowing included the number and amount of outstanding loans, interest payable, and the financial literacy levels of borrowers. Previous scholars have evaluated this variable by examining factors such as the number of outstanding loans, interest rates, and borrowers' financial literacy. For instance, Boatman and Evans (2017) highlighted that analyzing the number and amount of loans helps in understanding the prevalence of over-indebtedness. This study adopted similar measures, focusing on the number of outstanding loans, interest payable, and financial literacy, to gain insights into how multiple borrowing occurs and its impact on repayment capacities.

High interest rates can exacerbate repayment difficulties, as noted by Abu et al. (2017), while Kasoga and Tegambwage (2021) found that the number of loans is directly related to over-indebtedness, straining borrowers' financial stability. Kasoga and Tegambwage (2021) also established that a high number of loans taken by MSEs from microfinance institutions may inhibit their repayment capacity, leading to an increased prevalence of loan defaults. An increased amount and number of loans typically indicate that clients are engaged in multiple borrowing, which significantly contributes to their inability to repay. Furthermore, the interest rates associated with each loan taken by an individual can serve as a measure of the extent of multiple borrowing. Gaudence et al. (2018) found that borrowers' levels of financial literacy also influence loan repayment. Their research indicated that approximately one-third of American adults possess low financial literacy skills, hindering their ability to access and understand the information necessary to manage their loans effectively. Financial literacy plays a crucial role in helping individuals understand the risks and benefits of multiple borrowing (Boatman & Evans, 2017), enabling them to make informed decisions about their borrowing options and manage multiple debt payments through effective budgeting.

### 1.1.3 Micro and Small sized Enterprises

Micro and Small sized Enterprises refer to business enterprises that have a specific range of turnover, employees as well as asset levels. Micro and Small Enterprises in Kenya are regulated by the Micro and Small Enterprise (MSE) Act No. 55 of 2012 (Rithaa *et al*. 2019) The Micro and Small Enterprises industry in Kenya is characterized by the employment of between zero to 50 employees for micro enterprises 0 -10 employees and for small businesses 10-49 employees. MSEs are enterprises whose annual sales are less than a million Kenya shillings (Felix & Wachira, 2018). The Micro and Small Enterprises sector in Kenya is considered as one of the major contributors to the economy by providing income and employment to a significant proportion of the population (Nakhaima, 2016). In Kenya, MSEs is an important sub sector for the economy like many other developing countries since it employs about 85% of the Kenyan workforce (about 7.5million Kenyans of the current total employment) (Omondi & Jagongo, 2018). Mutuma (2020) revealed that Meru County Business Licensing office had in their records 4,514 small enterprises operating as of 2020, the majority of which were sole proprietorships, and a handful were partnerships. Muriithi and Kinyua (2020) discovered that the majority of the businesses in Meru County are generally indigenous and small; for instance, automotive repair shops, electronic appliance workshops, wooden fixture yards, dressmaking centers, retail shops, and bakeries, which qualify as MSEs.

Gichohi (2021) conducted a preliminary assessment of Meru town and its surrounding towns, revealing a prevalence of MSEs specializing in various products and services such as hardware, electronic appliances, groceries, cereal shops, eateries, and manufacturing, especially in dairy and soft beverages. There is also a high concentration of fuel and gas stations, beer and soft drinks distribution businesses. A number of these businesses are run within franchise agreements between owners and established large franchises. The owners of these businesses in the region are spread within the full range of social classes and demographics. Most of the MSEs in Meru County are members to the Meru County Microfinance that has its branches distributed to the seven Sub Counties in the region. However, the main branch in Meru town records the highest number of members of about 1500 out of the estimated member number of 6000 MSEs operators. Research has shown that 50% of the MSEs who borrow loans from the Meru County Microfinances experience loan under performance. (Kobia *et al*. 2021). Recently, Meru County (2018) report

shows that out of 200 loan applicants only 10% of them end up getting loans and this is due to either not fulfilling the requirements from the loaning institutions or non-repayment. Most of the MSEs have a history of either delinquency or defaulting the loan which bars them from ease access of the loan due to their poor repayment behaviors. Other than loans from the MFI, they also have loans from Saccos and banks in the region that deters them to comply with the loan repayment terms due to the huge interests on the loans that has to be settled in the different lending institutions.

### 1.2 Statement of the Problem

Loan repayment is still a major challenge in many lending institutions like the microfinance institutions (Murigi & Thuo, 2023). Meru Microfinance faces the same problem (Kobia *et al*. 2021). The challenge affects the economic conditions of the country and family relationship as many entrepreneurs in micro and small enterprises end up by losing their assets and income. Earlier researches have shown that MSEs in Meru County are not able to repay their loans to financial institutions when due (Kobia *et al*. 2021). This non-repayment has different facets such as rates of loan defaults, delinquency, and poor credit appraisal mechanisms, which exacerbate financial stress on both the borrowers and the lending institutions (Nguta & Huka, 2022). Most of the MSEs engage in multi-borrowing and are caught up with the inability to service the loans when due. Kiano (2022) established that most of the people in Meru region are not able to pay their loans owing to the unfavorable interest charged. Boiwa and Bwisa (2014) found that multiple borrowing among clients at Kenya Women Finance Trust, Trans Nzoia Region, resulted in high loan defaults due to insufficient loans from single institutions, loan recycling, and family obligations. The study emphasized the need for improved loan policies and better coordination among microfinance institutions to reduce defaults. Similarly, Mathai (2020) discovered that microfinance institutions in Kajiado County faced high delinquency rates due to multiple borrowing, undermining their capital growth efforts. Both studies highlight inadequate legal frameworks and coordination between MFIs as key contributors to the issue of multiborrowing. Kiano (2022) attributed the challenge of inability to repay loans to deficiency in entrepreneurial training, information and revised interest rates

The challenge of loan repayment among borrowers can significantly reduce their chances of accessing credit from microfinance institutions. Limited access to credit for small and medium enterprises (MSEs) is recognized as a major barrier to the performance, sustainability, and growth of MSEs globally (Micheni, 2021). According to the World Bank (2020), access to finance is frequently cited as a primary obstacle to the performance, sustainability, and growth of MSEs. Additionally, a study by Mutune (2018) highlighted that many women-owned MSEs in Meru County engage in multiple borrowing; however, the reasons and consequences of this phenomenon remain unclear. Furthermore, various studies have indicated that factors such as interest rates and borrowers' financial literacy levels play a crucial role in loan repayment. For example, Kiano (2022) identified a link between the lack of entrepreneurial training and loan repayment difficulties faced by borrowers. Since very scarce information exists on the factors behind the inability of MSEs to repay loans, this study will focus on establishing the effects of multiple borrowing on the loan repayment by MSEs in Meru County Microfinance.

### 1.3 Objectives of the Study

This study was guided by general and specific theories.

### 1.3.1 General Objective

The general objective of this research was to establish the effect of multi-borrowing on loan repayment among micro and small sized enterprises in Meru County Microfinance.

### 1.3.2. Specific Objectives

In order to determine multiple borrowing effect on the loan repayment, the study focused on the number of loans, interest payable and financial literacy sub variables which formed the following specific objectives:

i. To determine the effect of number of loans borrowed on the loan repayment among micro and small sized enterprises in Meru County Microfinance.

ii. To establish the effect of interest payable on the loan repayment among micro and small sized enterprises in Meru County Microfinance.

iii. To determine the effect of level of financial literacy on the loan repayment among micro and small sized enterprises in Meru County Microfinance.

## 2.0 Literature review

### 2.1 Theoretical Review

### 2.1.1. Information Asymmetry Theory

This theory was first introduced by Akerlofs (1970) in his paper entitled "The markets for Lemons: Quality Uncertainty and the Market Mechanism". The theory states that each party of an economic transaction needs to possess sufficient knowledge about the other party to be able to make accurate decisions (Akerlof, 1970). Lending and borrowing transaction involve two parties which is the lender and the borrower. The existence of asymmetric information between borrower and lenders create confusion for players about credit lending. Information imperfection or asymmetry occurs when one party to a transaction has more and timely information than the other party. The availability of credit information is important to both parties, Lenders and lendees who assist in making educated decisions about how much and to whom a loan will be given (Kaugi, 2020). Where the banks exchange their clients 'creditworthiness knowledge, they may recognize the legitimate clients to reduce delinquency. The lenders use the credit background to assess the collateral status of the borrowers. When the borrower gets a loan, he makes the promise to pay within the stipulated time, information exchange is essential as it helps the lenders to create an information capital by compiling and maintaining database used to generate reports from customer information database, which assists in credit analysis, execution, administration and review (Kaugi, 2020).

Financial literacy is a key variable in this study and the level of knowledge that the borrowers possess have a significant effect on the lending process. The expectation of the microfinance is that the borrowers are well informed and have the requisite formal education, loan usage education, entrepreneurial training on how to drive the MSEs and the needed business mentoring. The expectation of the microfinance also extends to the fact that the borrowers will pay the debt when due since they are aware of the loan terms. On the other hand, the borrower perceives the microfinance to understand any probable reason that may lead to late loan repayment. The borrower will also fail to disclose the needed information by the microfinance in fear of failure to be given the loan. The borrower in addition also fails to ask on the various loan terms that will

apply to the loan including the interest payable which makes them lack knowledge on the repayment terms increasing their inability to settle loans when due. Such information asymmetry where one party to the transaction fails to disclose information or clarifications have negative impacts including adverse selection and moral hazards (Abdelhafid & Mohammed, 2019). In the case of adverse selection, the lender lacks information on the riskiness of its borrowers (Amran & Mwasiaji, 2019). Riskier borrowers are more likely not to pay loans than safer borrowers, and thus should be charged higher interest rates to compensate for the increased risk of default.

Unlike the adverse selection problem that can occur prior to a transaction, the problem of moral hazard appears only after the contract, so that the borrower uses the finance obtained in unproductive or high-risk activities, which increases the likelihood of not paying the loan. The reason for a lender's or investor's exposure to risk of moral hazard remains the inability to consistently monitor the activities of the borrower or issuer due to high monitoring costs (Kanyare & Mungai, 2017). The process requires the costs of time and effort. Abdelhafid & Mohammed (2019) denotes that the problem of moral hazard can be summed up as a problem with the behavior of the borrower, which the lender cannot predict and it is more likely present in financing of small and medium-sized enterprises compared to financing big enterprises because of their lack of financial transparency, ownership structure and their owners' concealment of the real purpose of the project. Due to asymmetry information between the borrowers and lenders, each of the party needs to mitigate the risk of the decision made while transacting with each other (Rithaa *et al*., 2019). The lenders may request for collateral as a way of mitigating the risk involved. In case of default due to such asymmetry information, they may dispose the collateral attached to recover their investments. However, very limited options are available to the MSES in case of information asymmetry. This theory supports the variable of level of financial literacy, as it emphasizes the importance of knowledge and information exchange between borrowers and lenders to ensure accurate decision-making and reduce the risks associated with adverse selection and moral hazard.

### 2.1.2. Prospects Theory

Prospect theory was developed by Kahneman and Tversky (1979) as a theory of decision-making under conditions of risk and uncertainty. The theory asserts that decisions are based on judgment, where it is difficult to foresee the consequences or outcomes of events with clarity. Kahneman and Tversky's 1979 study tested financial choices under risk, concluding that such judgments deviate significantly from the assumptions of expected utility theory, which had remarkable impacts on science, policy and industry (Ruggeri *et al*., 2020). Prospect theory is a theory about how people make choices between different options or prospects, is designed to better describe, explain, and predict the choices that the typical person makes, especially in a world of uncertainty (Nzomo, 2017). The theory describes such decision processes as consisting of two stages, editing and evaluation.

People choose which results they regard to be essentially equivalent, they establish a reference point, and they treat smaller results as losses and larger results as wins. According to the theory, decision-makers first assess their options in relation to some sort of benchmark, usually the status quo or the existing situation (Nzomo, 2017). People typically use a risk-averse approach when deciding between options that seem to increase relative to that reference point, while taking a risk-seeking approach when deciding between options that seem to decrease compared to that reference point. As per Estrin *et al*. (2017), the prospect theory provides additional insights to aid in the credit evaluation of borrowers and aids in the comprehension of individual decision-making

processes. The prospect theory can be used to create a suitable system to limit the borrower's multiple borrowings and to more accurately determine the credit risk of their clients. This theory supports the variable of interest payable, as it highlights how borrowers' decision-making under risk and uncertainty influences their willingness to take on debt and manage loan repayments, particularly when faced with changing financial conditions and the perceived impact of interest rates.

### 2.1.3 The Moral Hazards Theory

The theory of moral hazard was first explored by economist Kenneth Arrow in 1963. Moral hazard in microfinance occurs when lenders cannot confirm if the borrower uses the loan as intended (Khandker, 2005). This also includes uncertainty about whether the borrower applies necessary inputs, like effort and entrepreneurial skill, to fulfill the loan terms (Armendáriz & Morduch, 2010). The borrower may subsequently be less able to repay if he receives fewer inputs than anticipated (Ghatak & Guinnane, 1999). The moral hazard also refers to banks' diminished ability to monitor borrower conduct when they are dealing with lower-income borrowers. Therefore, moral hazard develops when borrowers fail to uphold their end of the bargain between the financial institutions and the beneficiaries. The majority of business loans are solely provided to promote business expansion and increase operating capital. However, it occasionally occurs that some loan borrowers are unreliable in upholding the agreement reached with the financial institutions (Mukono,2015). Since the loan was diverted from its intended commercial purpose, moral risks can arise that may undermine micro and small businesses loan repayment. This theory supports the variable of number of loans borrowed, as it emphasizes the challenges lenders face in ensuring that borrowers use multiple loans for their intended purposes and apply the necessary effort to meet repayment obligations.

### 2.1.4 The Adverse Selection Theory

Stiglitz and Weiss (1981) are credited with developing the adverse selection theory. According to the theory, adverse selection happens when borrowers possess qualities that are invisible to the lender but have an impact on their likelihood of being able to repay the loan. The theory is predicated on two key premises: that lenders are unable to distinguish between borrowers with varying levels of risk, and that loan agreements are subject to limited liability. This means the borrower is not required to make any out-of-pocket payments if project returns are less than debt obligations. The adverse selection theory explains the circumstance where a financial institution is unable to distinguish between safe and risky borrowers. In the case of adverse selection, the lender is unsure of how risky the borrowers are. Riskier borrowers should be charged higher interest rates to offset the higher default risk compared to safer borrowers who are less likely to default. Safer borrowers ought to pay less, given that each type can be correctly identified. Due to the lender's insufficient knowledge of the risk profile of its borrowers, all borrowers, regardless of their risk profile, are subject to higher average interest rates (Mukono,2015). To mitigate adverse selection problems, lenders take their borrowers through an elaborate screening procedure before granting a loan however, this has been able to reduce loan default among MSEs.

## 2.2 Empirical Review

This section provides available literature on multiple borrowing and loan repayment among MSEs. The section focuses on the number of loans borrowed, interest payable, financial literacy and loan

repayment in microfinance institutions. The section explores previous studies on the aspects considered in this study and provides any empirical relations among them.

### 2.2.1 The Number of Loans Borrowed and Loan repayment

Micro and Small Enterprises (MSEs) borrow significantly, often due to loan recycling, insufficient loan amounts, and family obligations. This leads to increased debt burden, financial strain, and inadequate returns to meet repayment obligations thus diverting them to other purposes, as per Ravichandran (2016).This misuse of funds is corroborated by recent studies that highlight how financial mismanagement and lack of financial literacy contribute to poor loan repayment (Karanja et al., 2021; Kinyua & Muturi, 2020). Moreover, the cumulative effect of multiple loans not only heightens the debt burden but also diminishes cash flow, thereby reducing MSEs' capacity to repay their loans (Twesige et al., 2021). Research by Kinyuru (2022) supports this view, showing that MSEs with higher loan amounts experience more difficulty in meeting their repayment schedules, as the increasing debt load becomes unsustainable relative to their revenue streams. This highlights the critical need for better loan structuring and financial literacy interventions to ensure that MSEs can manage their debts effectively and improve loan repayment rates.

Ali *et al*. (2022) in a logistic regression model to assess the determinants of multiple borrowing established that the number and amount of loan acquired by the borrower has a positive relationship with multiple borrowing. More recently, the issue of multiple borrowing has become rampant in the microfinance industry, thus calling for the dire attention of practitioners and researchers (Mia, 2017). Generally, multiple borrowing signifies simultaneous acquisition of loans from more than one financial institution (Van Tassel, 2017). The growing trend of borrowers acquiring many loans cast doubt on the efficacy of microfinance programs (Mia, 2017; Charles and Mori, 2017). Studies have highlighted that having high number of loans to pay adversely impacts borrowers' welfare (Charles and Mori, 2017; Green and Liu, 2021) and MFIs (Mia, 2017). Some of the common undesirable risks associated with many loans include poor and late repayment, fewer savings, over-indebtedness and loan default and delinquency (Mia, 2017). Moreover, borrowing many loans raises opportunity cost, as borrowers tends to expend more time and undergo stress in forming various group, attending meetings and repaying loans.

Having a high number of the total loans borrowed, to some extent, was not an issue in the early days of microfinance when service providers were limited and group-based lending technique was predominantly followed to filter bad/multiple borrowers. Unfortunately, with the mushrooming of MFIs in recent years, competition has increased significantly, forcing many MFIs to discard joint liability scheme in favor of individual loans (Ali *et al*., 2022). As such, it becomes difficult for the loan officers to conduct extensive background check on potential loan applicants (many of whom lack credit history), which was initially mediated by the group members. Ali *et al*. (2022) also dictates that information asymmetry also plays an important role, as many borrowers secretly take multiple loans and fail to disclose them for the fear of their new application being rejected. Such laxity in loan application coupled with information asymmetry might be one of the supply side factors contributing to clients' multiple borrowing. Mia (2017) established that the growing competition and aggressive expansion of MFIs also inspire MSEs to take loans from multiple lenders Additionally, lack of monitoring and the weak regulatory framework of MFIs are also partially responsible for multiple borrowing increasing cases of delinquency. It's evident from the literature that the total number of loans borrowed has an effect on loan repayment by MSEs which this study seeks to establish in Meru County microfinance.

### 2.2.2 Interest Payable on the Loan repayment

Interest payable is the cost a borrower will incur when taking a loan from a bank. Interest payable is an important element in the demand for and supply of loan and credit. Salifu *et al* (2018) argues that loanable funds are not with-out cost (i.e., interest) and the interest element of a loan is as important as other determinants of loan repayment. Borrowers who are able to repay their loans together with interest are those who are likely to be given preference in subsequent lending exercise. Abu *et al*. (2017) established that the amount of interest payable and the amount of loan taken by the borrower are the simultaneous determinants of the rate and the probability of loan repayment. Higher interest rate increases the cost of loan and therefore deteriorates loan repayment. The elements considered under the interest payable in this current research are the average interest rate, the loan application fee and insurance charges. Salifu *et al* (2018) defines loan application fee as the cost that is incurred by a borrower in the process of applying for a loan.

The loan application cost in the form of processing fees is usually non-recoverable even when the loan application is unsuccessful and can vary widely depending on the type and the loan being borrowed (Ferrari *et al*., 2018). These processing fees increase the cost of borrowing and more often borrowers have to rely on money from their friends and relatives in order to meet such cost. When the loan is eventually granted, part of it is used to service the debt owed to friends and relatives (Salifu *et al*., 2018). As a result, borrowers are left with insufficient funds that cannot be adequately applied to the intended purpose, and thus reducing loan repayment. Akingunola *et al*. (2018) established that businesses that access microcredit have grown averagely regarding business expansion however microfinance banks should increase the size of loan and interest charged to MSEs, so that they have enough funds to finance their operation. Typically, MSEs growth may be determined by the ease of accessibility of loans to enable their expansion. However, the failure by the borrowers to use the funds for the intended MSEs expansion may increase the in-loan repayment when due.

The borrowers are not able to accumulate the needed principal amount and interest to be paid when due and therefore end up defaulting. Murage (2021) examined how interest rates affected the financial performance of MSEs in Mathare Sub- County and found that low-interest rates impact MSEs' willingness to apply for loans. Owing to the reasonable interest rates, the MSEs in Mathare Sub County were able to pay off their loans without difficulty that improved their performance. Odhiambo (2019) sought to assess if interest rates have an impact on MSEs' demand for credit in Kenya, as well as whether interest rates have an impact on MSEs' loan repayments and established that high interest rates did not have an effect on the demand of loans by the MSEs but yielded serious repercussions on loan repayment. Msomi & Olarewaju (2022) revealed that exorbitant lending rates deter MSEs from seeking loans from financial entities because the repayment of that kind of loans might effectively eliminate all the profits generated by their businesses or in the opposite lead to loans default. It’s behind this literature that this study seeks to establish the effects of interest payable on microfinance loan repayment among micro and small sized enterprises in Meru County.

### 2.2.3 The Level of Financial Literacy on the Loan repayment

Financial education of the borrower forms a key determinant of the loan repayment to the microfinance by the MSEs. Abera & Asfaw (2019) established that among the determinants that affects loans repayment is financial education. Typically, education refers to the knowledge capacity of the borrower. The elements considered under financial literacy in this study includes

formal education, loan usage education, entrepreneurial training and business mentoring. Santoso *et al*. (2020) established that higher educated borrowers are more likely to increase their assets from the provision of microcredit and increase their loan repayment. Endris (2022) in a logit regression showed that enterprise manager education level and financial literacy positively and significantly affected loan repayment. Endris (2022) findings implied that borrowers who had higher level of formal education as well as knowledgeable in financial literacy were more compliant in repayment of microfinance loans as opposed to them that had little or no formal education. However, the existing literature often overlooks the specific dimensions of financial literacy that contribute to repayment compliance, indicating a need for a more nuanced understanding of these elements in the context of MSEs.

Melese and Asfaw (2020) established that financial literacy of the borrower has a positive and statistically significant effect on loan repayment. The findings implied that as the level of education increases, borrowers enhance their ability to access business information, evaluate and understand the information and use it for different activities. Therefore, a borrower will likely have greater loan repayment ability when he or she has a higher financial literacy and vice versa, ceteris paribus. Melese and Asfaw (2020) findings also implied the higher educational level enable borrowers to realize more complex information, go on business records, perform basic cash flow analysis and make the right business decisions that enables them become more compliant than defaulters. Nevertheless, these studies primarily focus on the correlation between education and repayment without addressing how financial education directly influences repayment behaviors, highlighting the necessity for further research into this causal relationship.

Teka (2022) revealed that education level, lack of prior experience in accounting and business management, lack of business knowledge, lack of entrepreneurial mindsets or entrepreneurship competency among the operators of MSEs, and a lack of technical and managerial experience all influenced the sustainability and growth of MSEs. Alene (2020) established that MSEs that were operated by individuals who had a greater degree of education and prior experience expand quicker than their counterparts could do better financially than their peers in terms of loan acquisition and repayment. While these studies underscore the importance of education and experience, they often fail to explore how these factors interact with other variables, such as emotional intelligence or risk tolerance, thereby underscoring a research gap regarding the multifaceted influences on loan repayment in MSEs.

Entrepreneurial knowledge and business mentorship may have an effect on the microfinance loan repayment by the MSEs. The development of a business cannot solely rely on the funds of the business but also the entrepreneurs should be motivated in the correct path to achieve enterprise development and facilitate loan repayment. Microfinance institutions are helpful in provision of entrepreneurship skills and knowledge on capital, risks and empowerment in economic activities (Danstun & Harun, 2019). Rajapakshe (2021) argues that MFIs offer entrepreneurial training and mentorship with the objective of imparting knowledge and skills to business persons to enhance their behavior and how they perceive their daily business activities efficiently and effectively. Rajapakshe (2021) revealed that training sessions to gain skills such as finance management, human resource management, marketing management, capital management and technological skills and information are constantly valuable to micro scale business people as they would promptly expand development of business exercises and the repayment of loans taken in the long run. The borrowers become aware of the prerequisites needed prior to taking the loan guarantee timely loan repayment Despite these insights, the existing literature tends to overlook how

variations in the quality and content of entrepreneurial training affect loan repayment outcomes, indicating a clear gap that this study aims to address by examining the relationship between education level and loan repayment among MSEs in Meru County.

### 2.2.4 Loan repayment

The expectations of both lenders and borrowers in microfinance institutions (MFIs) revolve around successful loan repayment. Lenders anticipate that borrowers will utilize loans effectively, leading to timely repayments, while borrowers expect to improve their financial stability through the acquired loans. According to Jote (2018), high loan repayment rates benefit both parties, fostering a relationship built on trust. When repayment rates are high, MFIs strengthen their financial position, and borrowers gain access to additional credit. Conversely, low repayment rates negatively affect both the borrower and the institution, leading to increased operational costs, potential liquidity issues, and loss of future credit access. Jote's (2018) research identified several critical factors influencing loan repayment, including borrower education level, the lending method employed, proximity to the lending institution, family size, income derived from financed activities, and access to training. These factors highlight that both personal characteristics and situational circumstances shape borrowers' repayment behaviors. Further supporting these findings, Twesige et al. (2021) emphasized that borrower education and effective loan utilization significantly improve loan repayment rates.

Loan delinquency, characterized by delayed or overdue payments, is another critical challenge in MFIs. As of mid-2023, delinquency rates for microfinance banks in Kenya were approximately 32.9%, while credit-only MFIs recorded a rate of 11.6% (Agusto & Co., 2023). Globally, delinquency remains a concern, particularly with group lending models, where borrower capacities can vary, leading to inconsistent repayment (Mody, 2024). Zainuddin and Yasin (2019) noted that information asymmetry, along with the absence of collateral, contributes to adverse selection and moral hazard, further exacerbating delinquency issues. However, delinquent loans do not always result in default. Athreya et al. (2018) found that about 85% of borrowers who were delinquent by 2-3 months managed to repay within the next quarter, with 40% reducing their debt burden. Chong (2021) identified borrower education and financial literacy as crucial determinants of loan delinquency, indicating that formal education and training on loan usage lead to better repayment outcomes. However, Chong (2021) also noted that factors such as gender and income level do not significantly impact delinquency rates. Loan delinquency is thus a crucial metric in evaluating borrower repayment behaviour, as it reflects their inability to meet repayment obligations on time.

In cases where delinquent loans remain unpaid, they ultimately become defaulted. Loan default, defined as the failure to repay a loan (Agbemava et al., 2016), is particularly prevalent in MFIs compared to other financial institutions. For example, in Kenya, as of June 2023, the non-performing loan (NPL) ratio for microfinance banks stood at 32.9%, with credit-only MFIs experiencing a default rate of 11.6% and wholesale MFIs recording a default rate of 6.2% (Agusto & Co., 2023). Macroeconomic shocks, inconsistent cash flows among low-income borrowers, and a lack of entrepreneurial skills are key contributors to these high default rates (Mody, 2024; Kiano, 2022). Loan defaults significantly affect MFIs' financial health, leading to reduced lending capacity, impaired financial returns, and diminished ability to raise capital (Twesige et al., 2021). Kiano (2022) emphasized that most defaulters lack formal education, entrepreneurial training, and a clear loan plan, contributing to their inability to repay. Consequently, the loan default rate will

be a critical measure of loan repayment performance in this study, as it indicates the percentage of borrowers who have failed to meet their repayment obligations.

### 2.3 Conceptual Framework

A conceptual framework consists of a set of ideas and principles that are used to create and examine various relations between certain elements (Njagi, 2019). Generally, the conceptual framework depicts relationships between the dependent variable and the independent variables. Figure 1 shows the conceptual framework of the study variables. The independent variable that is multiple borrowing including number and amount of loans, interest payable and the borrowers' financial literacy in relation to microfinance loan repayment the dependent variable.

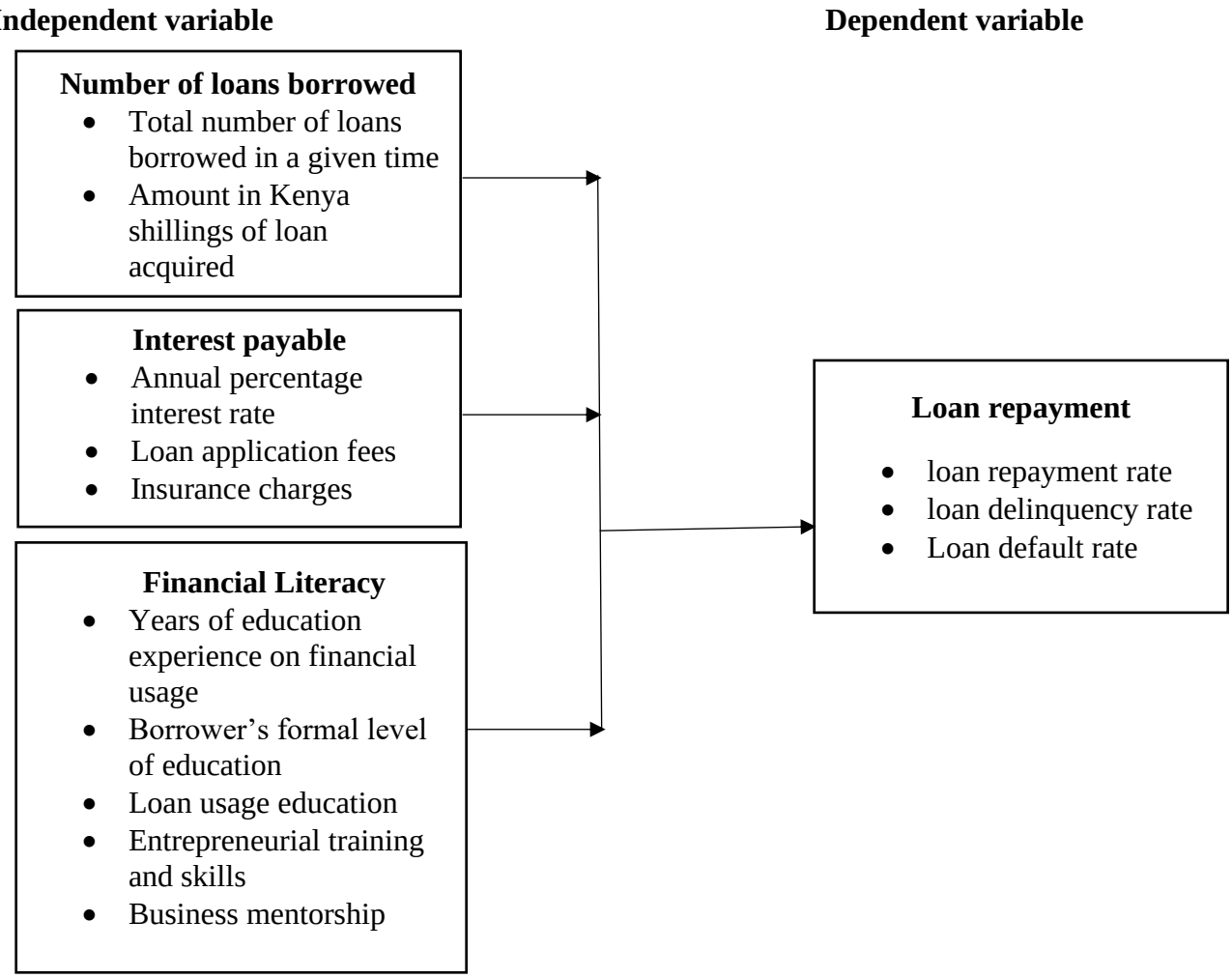


*Figure 1: Conceptual Framework*

### 3.0 Methods

A descriptive research design was used in this study. The descriptive research design is a scientific process that entails monitoring and describing a subject's behavior without affecting it in any form (Martyn, 2021). It answers the questions of how, when, where, and what. This study adopted a descriptive research design. The design was helpful in determining how multiple borrowing

affected loan repayment among MSEs of Meru County microfinance. It provided answers to the research questions and addressed the study objectives. Murage (2021) indicated that the design was preferable because it helped explain causal relations based on various data sources, such as questionnaires used in this study. The design also applied multiple methods of analysis, such as correlation and simple regression analysis, which were used to test the relationship between the study variables.

The collected questionnaires were checked and edited to ensure accuracy and completeness. This was followed by coding and inputting the scores of the questionnaires into SPSS. The study used both descriptive and inferential statistics. Descriptive statistics involved determining frequencies, percentages, and means, while inferential statistics included correlation and regression analysis (Murage, 2021). Using the descriptive statistics tool in SPSS version 28, frequencies, mean scores, standard deviations, and percentages of the variables were generated from the data. Correlation analysis was also carried out to establish the relationship between the independent and dependent variables. The data were analyzed using Statistical Package for Social Science (SPSS) version 28. Multiple linear regression analysis was utilized in the study to establish the relationships among variables.

## 4.0 Results

### 4.1 Descriptive Analysis

In evaluating the extent to which respondents concurred with the statements presented, the study utilized mean, percentage, frequency, and standard deviation as measures of central tendency. The standard deviation (Std. Dev.) reflected the degree of variability or spread in the responses, while a high mean indicated strong agreement among participants. To interpret the data effectively, the researcher primarily relied on the aggregate mean as a key summary statistic.

#### 4.1.1 Number of Loans Borrowed

The objective of this section was to analyze how the number of loans borrowed by respondents from Meru County Microfinance and other lenders impacted their loan repayment practices. The questions aimed to assess the frequency of borrowing, the amounts borrowed, and how other loans influenced the repayment of microfinance loans. The results are summarized below.

**Table 1 Number of Loans Borrowed**

| Statements | Mean | Std. Dev |
|---|---|---|
| I frequently have one or more loans with Meru County Microfinance | 3.87 | 0.824 |
| The total amount of loan acquired from Meru County Microfinance is within the 0-20,000 range | 3.45 | 0.921 |
| I have other loans acquired from different lenders | 4.12 | 0.789 |
| The total amount of loan acquired from other lenders is within the 20,000-40,000 range | 3.92 | 0.854 |
| The other loans I have taken from different lenders affect the timely repayment of microfinance loans | 4.05 | 0.810 |
| I was able to complete repayment of the microfinance loan on time despite having other loans | 3.75 | 0.765 |
| Aggregate Mean | 3.86 | 0.827 |

According to the descriptive analysis, the aggregate mean score for the number of loans borrowed was 3.86, corresponding to 'Agree' on the five-point Likert Scale used in the questionnaire. The aggregated standard deviation score of 0.827 suggests a moderate level of variability in the responses, meaning that the answers were generally consistent around the mean. Individual responses ranged from 3.45 to 4.12, reflecting a variety of loan-taking behaviors. The findings suggest that many respondents had borrowed multiple loans both from Meru County Microfinance and other lenders, and the accumulation of loans influenced their ability to repay microfinance loans. Specifically, most respondents indicated that having additional loans from other sources affected their ability to make timely repayments, which is consistent with research by Munyua (2016), who found that multiple loans can burden borrowers, leading to delayed repayments. Similarly, Ngonyani (2018) discovered that when borrowers acquire loans from various lenders, their repayment performance declines, supporting the conclusions of this study. Additionally, Esther, Abubakar, and Usman (2021) noted that borrowers with multiple loans are at higher risk of repayment challenges, reinforcing the current findings.

### 4.1.2 Interest Payable

The analysis of interest payable was summarized in Table 2. The key aspects of interest payable considered were the impact of changes in interest rates on loan repayment, the association between interest rate increases and repayment difficulties, the role of innovative interest rate variations in enhancing repayment performance, and the contribution of market interest rates to repayment capacity.

**Table 2 Interest Payable**

| Statements | Mean | Std. Dev |
|---|---|---|
| Change in interest rates on loans affects loan repayment | 3.88 | 0.759 |
| The inability to pay is associated with increases in interest rates | 3.96 | 0.743 |
| Varying interest rates innovatively facilitate increased loan repayment | 4.04 | 0.682 |
| Market interest rates contribute to increased loan repayment capacity | 3.92 | 0.721 |
| Aggregate Mean | 3.95 | 0.736 |

The results for interest payable were summarized with an aggregate mean score of 3.95, indicating 'Agree' on the Likert scale used. The standard deviation of 0.736 suggests that responses were relatively consistent, with low variability around the mean. The mean values for individual statements ranged from 3.88 to 4.04, while the standard deviations varied from 0.682 to 0.759, reflecting minor fluctuations in responses. The low variability in responses indicates that the sample mean reliably represents the broader population.

The findings suggest that changes in interest rates significantly affect loan repayment, and increases in interest rates are often linked to difficulties in repayment. Innovative approaches to varying interest rates are seen as beneficial in improving repayment performance, and market interest rates are considered to play a role in enhancing repayment capacity. This aligns with the research by Munyua (2016), which highlighted the importance of managing interest rates to mitigate repayment issues, and supports Ngonyani's (2018) findings that adjusting interest rates strategically can positively influence repayment outcomes. Additionally, Esther, Abubakar, and Usman (2021) demonstrated that innovative interest rate management can lead to improved loan repayment, reinforcing the necessity for adaptable interest rate strategies in micro and small enterprises in Meru County, Kenya.

### 4.1.3 The Level of Financial Literacy

The analysis of financial literacy was summarized in Table 3. The focus was on various aspects of financial education and its impact on loan repayment, including education on loan usage, entrepreneurial training, and business mentorship.

**Table 3 Financial Literacy Analysis**

| Statements | Mean | Std. Dev |
|---|---|---|
| I have received education on loan usage terms including acquisition and repayment. | 3.84 | 0.751 |
| The education on loan terms has been beneficial for microfinance loan repayment. | 3.79 | 0.762 |
| The number of years of education experience on loan usage. | 3.88 | 0.739 |
| I have received training on entrepreneurship. | 3.93 | 0.732 |
| The entrepreneurial training has aided in MSE growth and loan repayment. | 4.05 | 0.688 |
| The number of years of entrepreneurial training experience. | 3.94 | 0.720 |
| I am currently participating in a business mentorship program. | 3.72 | 0.762 |
| The mentorship program has contributed to business development and improved loan repayment. | 3.85 | 0.745 |
| The number of visits by microfinance officials for various purposes. | 4.02 | 0.698 |
| Aggregate Mean | 3.88 | 0.735 |

The aggregate mean score for the financial literacy indicators was 3.88, which corresponds to 'Agree' on the Likert scale used. The standard deviation of 0.735 indicates a relatively low level of variability in responses, suggesting that most respondents' views were consistent. The mean scores for individual aspects ranged from 3.72 to 4.05, while the standard deviations varied from 0.688 to 0.762, reflecting minor differences in responses. These findings illustrate that education on loan usage terms and entrepreneurial training significantly influences loan repayment and business development. The data show that education on loan terms is generally perceived as helpful, with a majority of respondents acknowledging its positive impact on loan repayment. Similarly, entrepreneurial training and business mentorship programs were found to contribute positively to MSE growth and loan repayment. This supports the notion that financial literacy initiatives are crucial in enhancing repayment performance and overall business success, aligning with the observations of Munyua (2016) and Ngonyani (2018) regarding the role of financial education in improving loan management and repayment outcomes.

## 4.2 Inferential Analysis

The inferential analysis applied correlation, model summary, analysis of variance (ANOVA), and regression techniques to explore the relationships among the variables and assess their influence on loan repayment.

### 4.2.1 Correlation Analysis

Correlation analysis was conducted to evaluate the strength and direction of the relationships between Interest Payable, The Level of Financial Literacy, Number of Loans Borrowed and Loan Repayment.

**Table 4 Correlation Matrix**

| | | Number of Loans Borrowed | Interest Payable | The Level of Financial Literacy | Loan Repayment |
|---|---|---|---|---|---|
| Number of Loans Borrowed | Pearson Correlation | 1.000 | | | |
| | N | 160 | | | |
| Interest Payable | Pearson Correlation | 0.623** | 1.000 | | |
| | N | 160 | 160 | | |
| The Level of Financial Literacy | Pearson Correlation | 0.447** | 0.514** | 1.000 | |
| | N | 160 | 160 | 160 | |
| Loan Repayment | Pearson Correlation | 0.589** | 0.657** | 0.492** | 1.000 |
| | N | 160 | 160 | 160 | 160 |

The correlation matrix indicates significant positive relationships among the variables. The analysis revealed a moderate to strong positive correlation between Number of Loans Borrowed and Loan Repayment ($r = 0.589$, $p < 0.01$). This suggests that a higher number of loans borrowed is associated with an increase in loan repayment, which aligns with the findings of Anderson and O'Connor (2023), who highlighted that borrowing multiple loans can enhance financial discipline and repayment capability.

Similarly, Interest Payable demonstrated a strong positive correlation with Loan Repayment ($r = 0.657$, $p < 0.01$), indicating that as interest rates increase, so does the repayment of loans. This relationship is consistent with the work of Gupta and Sharma (2022), who found that higher interest rates tend to correlate with more diligent repayment practices due to the increased financial burden.

The Level of Financial Literacy also showed a moderate positive correlation with Loan Repayment ($r = 0.492$, $p < 0.01$). This suggests that improved financial literacy contributes positively to loan repayment, supporting the findings of Baker and Wiseman (2023), who emphasized that higher financial literacy equips borrowers with better skills to manage and repay loans effectively.

These results collectively illustrate that higher numbers of loans, increased interest rates, and better financial literacy are associated with improved loan repayment outcomes. The significant correlations underscore the importance of these factors in managing loan repayment and suggest that strategies enhancing financial literacy and managing interest rates can positively influence repayment behaviours.

### 4.2.2 Model Summary

The model summary provides insight into the explanatory power of the independent variables on loan repayment. The coefficient of determination ($R^2$) and the coefficient of correlation (R) were analyzed to understand the proportion of variance in the dependent variable explained by the independent variables.

**Table 5 Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.789 | 0.622 | 0.590 | 1.045 |

a. Predictors:(Constant), Number of Loans Borrowed, Interest Payable, Level of Financial Literacy

The coefficient of correlation (R) was 0.789, indicating a strong correlation between the independent variables and loan repayment. The coefficient of determination ($R^2$) was 0.622, meaning that approximately 62.2% of the variance in loan repayment can be explained by the model's independent variables, including Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed. This implies that the model is quite effective in explaining variations in loan repayment. The remaining 37.8% of the variance is attributable to other factors not included in the model. This substantial $R^2$ value suggests that the independent variables have a meaningful impact on loan repayment, supporting the relevance of the predictors used in the analysis.

### 4.2.3 Analysis of Variance

ANOVA was used to assess the overall significance of the regression model and determine whether the independent variables collectively explain a significant portion of the variance in loan repayment.

**Table 6 ANOVA[a]**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 319.750 | 3 | 106.583 | 21.433 | 0.000 |
| | Residual | 195.820 | 156 | 1.256 | | |
| | Total | 515.570 | 159 | | | |

*a. Dependent Variable: Loan Repayment*

*b. Predictors:(Constant), Number of Loans Borrowed, Interest Payable, Level of Financial Literacy*

The ANOVA results indicate that the model is statistically significant with an F-value of 21.433 and a significance level of 0.000. This implies that the independent variables (Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed) significantly contribute to explaining variations in loan repayment. At a 95% confidence level, the model effectively captures the relationship between the predictors and the dependent variable, confirming that the independent variables are collectively important in explaining loan repayment.

### 4.2.4 Coefficients of Regression Model

The regression analysis provided coefficients to evaluate the individual impact of each independent variable on loan repayment.

**Table 7 Regression Coefficients**

| Variable | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | | | |
| Constant | 12.348 | 1.269 | | 5.678 | 0.000 |
| Number of Loans Borrowed | 0.689 | .086 | 0.521 | 3.977 | 0.000 |

| | | | | | |
|---|---|---|---|---|---|
| Interest Payable | 1.245 | .093 | 0.614 | 4.538 | 0.000 |
| The Level of Financial Literacy | 0.892 | .123 | 0.437 | 3.471 | 0.001 |

a. Dependent Variable: Loan Repayment

The regression model is formulated as: Y = 12.348 + 0.689(Number of Loans Borrowed) + 1.245(Interest Payable) + 0.892(The Level of Financial Literacy) + ε. The constant term indicates that if all independent variables are zero, loan repayment would be 12.348 units. The coefficient for Number of Loans Borrowed (β1 = 0.689, p = 0.000) suggests that each additional loan increases loan repayment by 0.689 units. Interest Payable has a coefficient of 1.245 (β2 = 1.245, p = 0.000), indicating that for every unit increase in interest payable, loan repayment increases by 1.245 units. The Level of Financial Literacy has a coefficient of 0.892 (β3 = 0.892, p = 0.001), meaning that each unit increase in financial literacy results in a 0.892 unit increase in loan repayment. These findings demonstrate significant positive effects of financial literacy, the number of loans, and interest rates on loan repayment, highlighting the importance of these factors in predicting loan repayment outcomes. The detailed inferential analysis provides a comprehensive understanding of how Interest Payable, The Level of Financial Literacy, and Number of Loans Borrowed influence loan repayment, supported by statistical evidence from correlation, model summary, ANOVA, and regression analyses.

## 5.0 Conclusions and Recommendations

### 5.1 Conclusions

The study concluded that the number of loans borrowed significantly affected loan repayment among micro and small enterprises in Meru County. While the number of loans had a less direct impact compared to other factors, effective management of loan borrowing was found to contribute positively to loan repayment. Enterprises that implemented controlled borrowing strategies generally showed better repayment performance. Based on the study's findings, interest payable had a significant impact on loan repayment. The results indicated a strong correlation between effective credit risk management practices and improved loan repayment. Enterprises that adapted their interest rates and repayment schedules based on borrowers' needs and financial capabilities saw a notable enhancement in their loan repayment. The study found that the level of financial literacy positively and significantly affected loan repayment. Enterprises with higher financial literacy levels exhibited better loan repayment practices. This underscores the importance of financial education in ensuring effective loan management and repayment.

### 5.4 Recommendations

To improve loan repayment, it is recommended that micro and small enterprises regularly review their borrowing policies. Implementing rigorous assessment procedures for loan applications and providing timely loan distribution can enhance loan recovery and reduce administrative costs. This approach will help in maintaining a sustainable borrowing strategy and improving repayment outcomes. The study recommends that enterprises adopt clear policies regarding irrecoverable loan provisions and establish effective loan arrangements to safeguard financial resources. By preventing the inflation of loan assets and ensuring sound lending practices, enterprises can improve their loan repayment. Implementing robust credit management frameworks will also support increased loan disbursement and revenue from interest. Given the significant impact of financial literacy on loan repayment, it is advisable for micro and small enterprises to develop and implement policies that enhance financial education. Both the management and borrowers should

be encouraged to improve their financial literacy to better manage loan obligations. Additionally, governmental and institutional bodies should evaluate and update regulatory frameworks to ensure effective credit management and improve loan repayment outcomes.

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