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Research Article

Factors Influencing Loan Repayment in Microfinance Institutions 'The Case of Microloan Foundation Malawi Limited'

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Abstract

This study investigated the impact of loan product design, client screening practices, and credit officers' competence on loan default rates at Microloan Foundation Malawi Limited. The institution has recently experienced increasing levels of loan default, posing significant threats to its profitability, operational efficiency, and long-term sustainability. While similar studies have been conducted in the broader microfinance sector, little empirical evidence exists on how these specific factors influence repayment performance in the context of Microloan Foundation Malawi.

A descriptive research design was employed, and data were collected through structured questionnaires administered to 44 credit officers across six branches. The analysis, conducted using Microsoft Excel, revealed that loan defaults are strongly associated with the competence of credit officers, particularly their work experience. Findings also suggest that well-structured loan products and rigorous client screening can play an important role in mitigating default risks.

The study concludes that strengthening credit officers' training and professional development, alongside refining loan design and client appraisal mechanisms, could significantly improve repayment outcomes. Practical recommendations are provided for institutional policy and practice, and areas for further research are proposed, including exploring borrower-related factors and the influence of external economic conditions on loan repayment behaviour.

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KEYWORDS: Microfinance, Loan Default, Malawi, Credit Officers, Client Screening, Loan Product Design.

1. INTRODUCTION

1.1 Background

Microfinance has emerged as a critical tool for promoting financial inclusion and reducing poverty, particularly in developing economies. It involves the provision of financial. Services such as credit, savings, and insurance are provided to low-income individuals and self-employed people who are typically excluded from the formal financial sector (Otero, 1999; Ledgerwood, 1999; Schreiner & Colombet, 2001). By offering small working capital loans, microfinance empowers individuals, especially women, to engage in income-generating activities, build assets, and enhance their resilience against economic shocks.

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In Malawi, microfinance institutions (MFIs) play a pivotal role in expanding access to finance. Since the country's democratic transition in 1993, the number of MFIs has increased significantly, supported by government initiatives, donor programs, and the formation of the Malawi Microfinance Network (MAMN). Despite these advances, loan defaults remain a persistent challenge, undermining the financial sustainability of MFIs and threatening their contribution to inclusive economic growth.

1.2 Evolution of the Microfinance Sector in Malawi

The Malawi Microfinance Network (MAMN) was formally established in 2001 as a not-for-profit, member-based organization to address the fragmentation of the sector. Before its establishment, microfinance activities operated independently, facing governance challenges, weak institutional capacity, and a lack of standardized practices. MAMN provided a unifying platform for coordination, advocacy, and technical support, aligning microfinance operations with the Reserve Bank of Malawi (RBM) and national financial inclusion strategies. Its objectives included strengthening institutional capacity, enhancing governance and transparency, promoting responsible financial service delivery, and representing Malawi's MFIs in regional and global forums.

Alongside MAMN, the RBM plays a central role in supervising and regulating financial institutions, including MFIs. Through the Microfinance and Capital Markets Supervision Department, RBM enforces prudential standards to ensure financial stability, consumer protection, and responsible lending. Several regulatory instruments guide the sector, including the Financial Services Act (2010), the Microfinance Act (2010), the Microfinance (Microcredit Agency) Directive (2018), and directives for both deposit-taking and non-deposit-taking MFIs. These frameworks collectively aim to safeguard clients while ensuring the sustainability and credibility of the sector.

1.3 Microloan Foundation Malawi Limited

Microloan Foundation Malawi, a non-deposit-taking microfinance institution, commenced operations in 2002 under the leadership of British entrepreneur Peter Ryan. Its mission is to empower rural communities, particularly women and the physically challenged, through access to financial and non-financial services. Operating 22 branches and 8 satellites nationwide, the institution provides loans, business development services, and financial literacy training to underserved populations. Given Malawi's ranking of 169 on the Human Development Index, Microloan Foundation's services are crucial for promoting livelihoods in rural areas, where farming remains the primary income source.

The institution relies on a group lending model**,** influenced by the Grameen Bank methodology, which emphasizes solidarity, peer monitoring, and joint liability. Clients, primarily women, form groups of around five members, undergo training, and access individual loans backed by group guarantees. Regular meetings reinforce repayment discipline while also serving as platforms for financial education, mentorship, and community empowerment. This approach has successfully expanded financial access and promoted women's empowerment. However, loan defaults have become a growing concern. Between 2018 and 2022, default rates increased from 9% to 22%, threatening profitability and sustainability.

1.4 Importance and Purpose of the Study

Loan repayment is central to the sustainability of microfinance institutions (MFIs) because loans constitute their primary revenue-generating assets. Persistent loan defaults undermine institutional liquidity, weaken profitability, and increase operational risks. For Microloan Foundation Malawi Limited, rising default rates from 9% in 2018 to 22% in 2022 pose a serious threat to its financial health and its ability to serve vulnerable rural populations.

The importance of this study lies in its focus on institution-specific factors that influence repayment performance, namely, loan product design, client screening practices, and the competence of credit officers. Unlike many existing studies that emphasize borrower-related characteristics or macroeconomic conditions, this research highlights internal institutional practices that are within managerial control. By doing so, it provides actionable insights for improving loan portfolio quality and safeguarding institutional sustainability.

The purpose of the study is therefore twofold:

1. To generate empirical evidence on how loan design, client screening, and officer competence shape repayment performance at Microloan Foundation Malawi.
2. To provide practical recommendations that can guide management decisions, strengthen policy frameworks, and contribute to the wider microfinance literature in Malawi and Sub-Saharan Africa.

By addressing these aims, the study not only supports Microloan Foundation Malawi in improving its operations but also informs policymakers, regulators, and practitioners committed to enhancing financial inclusion and reducing poverty through microfinance.

1.5 OBJECTIVE OF THE STUDY

The general objective of this study is to examine and identify the major causes of loan defaults in Microloan Foundation Malawi Limited.

The study is guided by the following specific objectives:

a) To assess the extent to which credit officers' job competence influences the loan default rate at Microloan Foundation Malawi.
b) To evaluate the effect of loan product design on the loan default rate among clients of Microloan Foundation Malawi.
c) To examine how client screening practices impact the loan default rate at Microloan Foundation Malawi.

1.6 Scope of the Study

This study is confined to the operations of Microloan Foundation Malawi Limited, with a particular focus on selected

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branches located in Balaka, Mangochi, Machinga, Zomba, Mulanje, and Chikwawa districts. These branches were purposively selected on the basis of their relatively high loan default rates and their longstanding operational history within the institution. The study covers the assessment period from 2018 to 2022, which was deemed appropriate for capturing historical data and trends that reflect the persistent challenges faced by the organization in managing loan repayment defaults.

2.0 LITERATURE REVIEW

2.1 Empirical Review

2.1.1 Group Lending and Social Cohesion

Group lending has been widely used in microfinance to mitigate information asymmetry and reduce default risk. Wenner (1995) and Zeller (2008) emphasize that social cohesion, peer monitoring, and collective responsibility increase repayment discipline in group-based credit. Field and Pande (2008) found that structured group meetings enhanced compliance with repayment schedules, while McIntosh (2008) noted that stronger group ties positively influenced repayment outcomes. However, Giné and Karlan (2014) challenge the universality of group liability, demonstrating that shifting clients from group to individual contracts in the Philippines did not significantly affect repayment rates. This suggests that while group cohesion remains an important factor, it may not be the sole determinant of repayment performance.

2.1.2 Agricultural Credit and Rural Lending

Loan repayment challenges are often more pronounced in agricultural settings due to seasonality and external shocks. Chirwa (1997) found that in Malawi, borrower income levels, loan amounts, and input costs significantly affected repayment among smallholder farmers. Similarly, Sharma and Zeller (1997) emphasized that aligning repayment schedules with agricultural cycles reduced defaults. Onyeagocha and Chidebelu (2010) confirmed that large loan sizes relative to borrowers' repayment capacity increased default risk, particularly in rural contexts. These findings underscore the importance of tailoring credit design to the cash flow realities of agricultural households.

2.1.3 Loan Size and Product Design

The structure of loan products, including size, interest rates, and repayment frequency, has direct implications for repayment performance. Karlan and Zinman (2006) demonstrated that loan features such as grace periods and interest rate adjustments influence client behaviour. Sharma and Zeller (1997) found that high repayment frequency may strain borrowers, while Onyeagocha and Chidebelu (2010) highlighted that larger loan sizes, without adequate capacity assessment, often increase delinquency. Collectively, these studies indicate that product design should balance accessibility with repayment feasibility.

2.1.4 Client Screening and Credit Policies

Effective screening mechanisms are essential for loan portfolio quality. Padmanabhan (1988) and Rose (1992) argue that poor appraisal procedures and weak credit policies directly contribute to defaults. Asefa et al. (2013) emphasized that inadequate business assessments often result in mismatched loans. Jack et al. (2006) similarly found that weaknesses in screening processes undermine repayment performance. These findings suggest that credit policies must incorporate both character-based and capacity-based assessments to reduce lending risks.

2.1.5 Loan Officer Competence and Incentives

The competence and incentives of loan officers significantly shape repayment outcomes. Agarwal and Ben-David (2018) observed that misaligned incentives can lead to excessive risk-taking, increasing defaults. Cole et al. (2015) and Goedde-Menke and Ingermann (2024) emphasize the role of officer experience and skills in effective loan appraisal. Enoch et al. (2014) found that inadequate training contributed to poor credit decisions, while Van den Berg et al. (2015) highlight the need for ongoing professional development. Together, these studies show that loan officers' expertise and motivation are central to loan portfolio performance.

2.1.6 Training, Monitoring, and Non-Financial Services

Beyond financial services, non-financial support strengthens repayment discipline. Agbeko et al. (2017) demonstrated that financial literacy training improves repayment outcomes, while Valdivia (2015) found that business training enhanced clients' ability to manage loans effectively. Yang et al. (2019) further argue that continuous monitoring and mentoring reduce default risk by promoting better financial practices among borrowers. This suggests that repayment performance is not solely a financial issue but also depends on knowledge and behavioral support.

2.1.7 External Shocks and Supervision

Loan repayment is also influenced by external shocks and supervisory mechanisms. Ngonyani and Mapesa (2013) highlight that poor supervision and monitoring weaken repayment performance in MFIs. Czura et al. (2021) found that COVID-19 disrupted repayment cycles, increasing delinquency in several countries. These findings suggest that effective supervision and resilience mechanisms are vital for managing default risk in volatile environments.

2.2 Theoretical Framework

Understanding loan default in microfinance requires drawing on several theoretical perspectives that explain borrower behavior, institutional practices, and social dynamics. This study is grounded in the following theories:

2.2.1 Liquidity Preference Theory

Keynes' Liquidity Preference Theory posits that individuals prefer holding liquid assets for security and flexibility in times of uncertainty. In microfinance, rural borrowers with irregular incomes often prioritize liquidity for emergencies (food, health, or social obligations) over loan repayment. Defaults may thus

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reflect rational choices to preserve short-term security. This theory underscores the importance of aligning repayment schedules with income cycles and offering flexible credit products to reduce default risk.

2.2.2 Information Asymmetry Theory

Information asymmetry creates two core challenges: adverse selection and moral hazard. MFIs may inadvertently lend to high-risk borrowers (adverse selection) and, after disbursement, struggle to monitor loan use (moral hazard). Inadequate screening and weak monitoring heighten default risk. The theory highlights the importance of rigorous client assessment, continuous follow-up, and the use of tools such as credit bureaus and digital scoring to reduce information gaps.

2.2.3 Grameen Solidarity Group Theory

Derived from Yunus' Grameen Bank model, this theory explains how joint liability, peer monitoring, and social pressure enhance repayment. Group members select and supervise each other, creating social collateral that substitutes for physical collateral. However, group lending can fail if cohesion is weak or members face common shocks. This theory is especially relevant for MFIs like Microloan Foundation Malawi, which target rural communities where social networks are strong.

2.2.4 Credit Assessment and Screening Theory

This theory stresses that rigorous appraisal (verification of income, analysis of cash flows, and character assessment) reduces the risk of lending to unsuitable clients. Weak screening practices lead to higher default rates, while continuous supervision post-disbursement helps detect repayment challenges early. For MFIs, strengthening credit policies directly improves portfolio quality and sustainability.

2.2.5 Loan Officer Monitoring Theory

Loan officers serve as the critical link between MFIs and clients. Their supervision, screening, and continuous engagement with borrowers influence repayment behavior. Regular visits, portfolio tracking, and financial guidance reduce defaults. Conversely, poorly trained or overstretched officers are less effective. This theory directly connects to the study variable of credit officer competence.

2.2.6 Social Capital and Peer Pressure Theory

Social networks, trust, and reputation within borrower groups play a major role in repayment. Peer monitoring and accountability discourage default, while mutual support helps struggling members meet obligations. However, this mechanism depends on strong group cohesion and cultural norms. The theory highlights the non-financial incentives (shame, reputation, and trust) that complement institutional enforcement.

2.2.7 Behavioral Economics Theory

Behavioral economics shows that borrowers' repayment decisions are shaped by biases such as present bias, overconfidence, and limited financial literacy. Defaults may arise not only from inability but also from behavioral tendencies that prioritize immediate consumption or mismanage funds. Behavioral interventions (nudges, reminders, financial literacy, and aligned repayment cycles) can reduce these risks.

3.0 MAIN CONTENT/DISCUSSION

3.1 Explanation of key concepts

This study focuses on three interrelated constructs that shape loan repayment performance in microfinance institutions: loan product design, client screening practices, and credit officers' competence**.**

Loan Product Design

The structure and features of loan products directly influence repayment outcomes. Appropriately tailored loans enable productive investments and improve repayment capacity, while mismatched designs often increase financial stress and default risk (Ledgerwood, 1999; Armendáriz & Morduch, 2010). Key dimensions include loan size, repayment schedule, interest rates, and security measures. Evidence shows that loans aligned with borrowers' cash flow patterns, such as seasonal repayment schedules in agricultural contexts, reduce delinquency rates (Giné & Karlan, 2014). Similarly, affordable interest charges and feasible collateral requirements promote both client loyalty and institutional sustainability (Cull, Demirgüç-Kunt, & Morduch, 2009).

Client Screening Practices

Screening remains a critical mechanism for minimizing credit risk and information asymmetry in microfinance. Effective approaches combine character-based assessments (evaluating honesty and community reputation) with capacity-based assessments, which examine income generation and business viability (Churchill & Frankiewicz, 2006). Studies indicate that weak screening processes often result in lending to high-risk clients, thereby increasing default rates (Schreiner, 2003). Conversely, rigorous screening practices enhance portfolio quality and institutional resilience (Ahlin & Townsend, 2007).

Credit Officers' Competence

As frontline agents, credit officers are instrumental in loan appraisal, disbursement, monitoring, and repayment enforcement. Their competence (shaped by experience, training, and relational skills) has been consistently linked to repayment performance (Holtmann & Grammling, 2005; Goedde-Menke & Ingermann, 2024). Experienced officers can better identify early warning signals of delinquency, while continuous training enhances credit appraisal and recovery strategies. Moreover, effective client relationship management fosters accountability, which in turn strengthens repayment discipline (Wright & Geroy, 2001).

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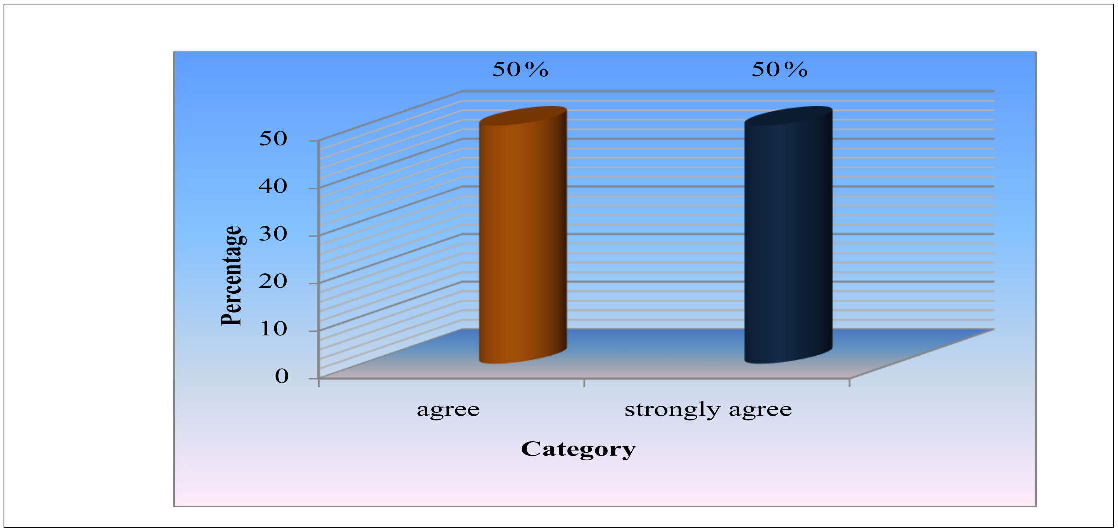
3.2 Analysis with supporting evidence

3.2.1 Loan product design

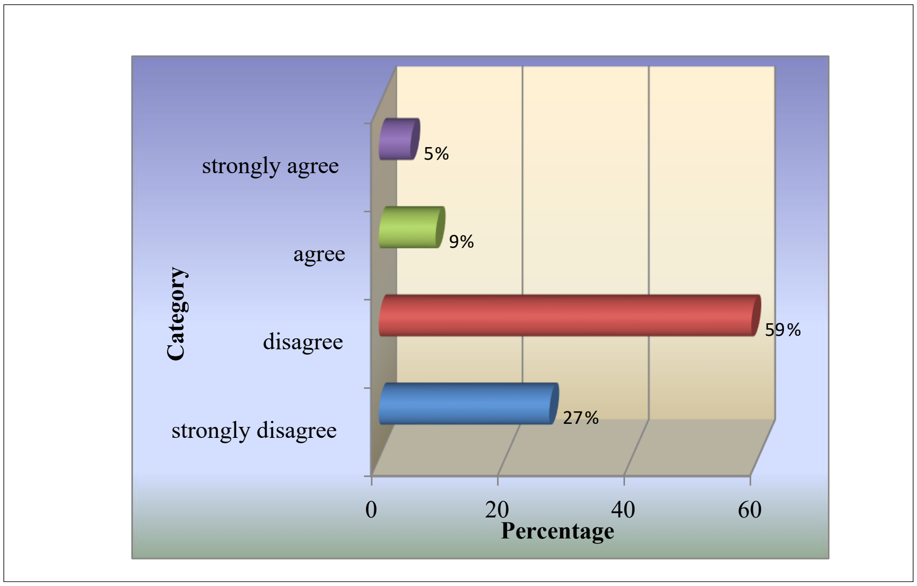
Loan applicants meeting the eligibility criteria



Source: Compiled by the Author on MS Excel results, 2016

The findings reveal that all respondents either agreed (50%) or strongly agreed (50%) that loans were granted only to clients who met the eligibility criteria. This consensus indicates that the institution maintained rigorous screening mechanisms in its loan allocation process. Such practices are consistent with Churchill and Frankiewicz (2006), who argue that adherence to eligibility criteria enhances portfolio quality and reduces moral hazard. By ensuring that only qualified clients access credit, the institution mitigates default risks arising from inappropriate borrower selection.

Higher interest rates and fees are charged to riskier clients.



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Contrary to common risk-based pricing models, a majority of respondents (59% disagreeing and 27% strongly disagreeing) reported that higher interest rates and fees were not charged to riskier clients. This suggests that the institution applies a uniform policy. Pricing structure regardless of risk profile. While this may enhance equity and transparency in lending, it may also reduce the incentive for borrowers to maintain low-risk profiles. Cull, Demirgüç-Kunt, and Morduch (2009) caution that uniform pricing can cross-subsidize risky borrowers at the expense of safer ones, potentially weakening repayment incentives.

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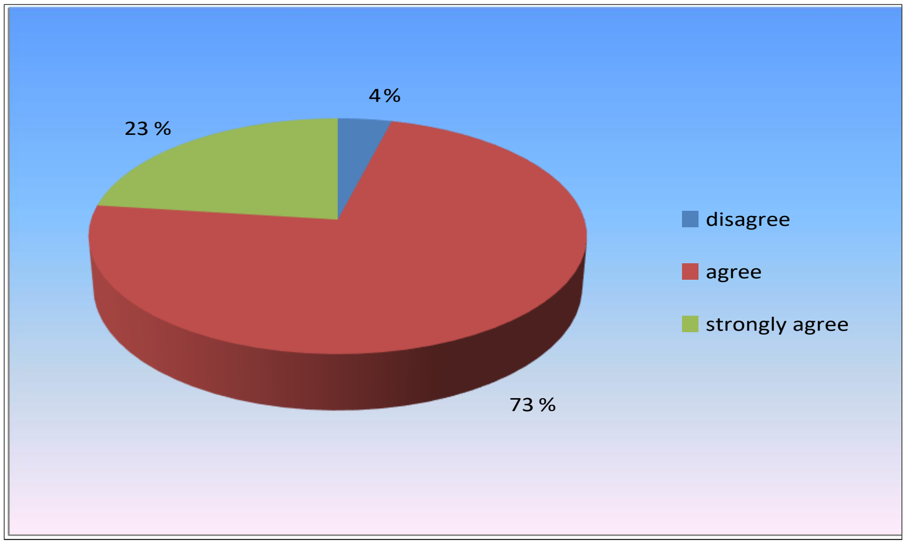
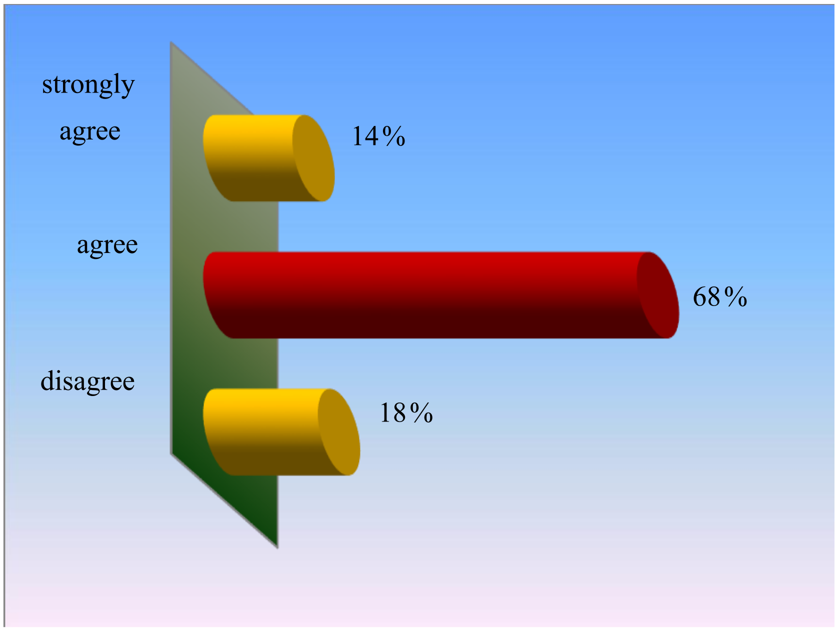
Loan Period and Sizes



Source: Compiled by the Author on MS Excel results, 2016

Results show strong agreement (73% agree, 23% strongly agree) that short-term loans were perceived as less risky than long-term ones. This perception aligns with empirical evidence that short-term credit reduces exposure to income shocks and default risk (Armendáriz & Morduch, 2010). However, over-reliance on short-term lending may constrain clients' ability to finance larger, long-term investments, potentially limiting business growth (Ledgerwood, 1999). Thus, while short-term loans enhance institutional security, they may inadvertently undermine client development objectives.

Repayments Structure



Source: Compiled by the Author on MS Excel results, 2016

Most respondents (68%) agreed that repayment schedules were aligned with clients' cash flows, though a minority (18%) disagreed. Flexible repayment structures are widely recognized as essential for clients engaged in seasonal or irregular income. Activities, such as agriculture (Giné & Karlan, 2014). The presence of dissenting views may indicate that while general alignment exists, repayment rigidity remains a challenge for some borrowers, possibly contributing to stress and eventual delinquency.

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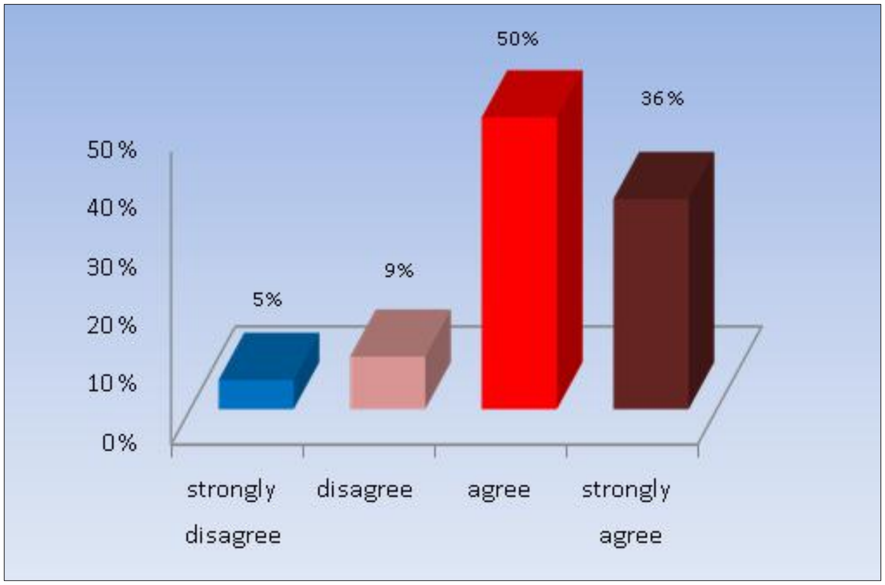
Loan Security Measures

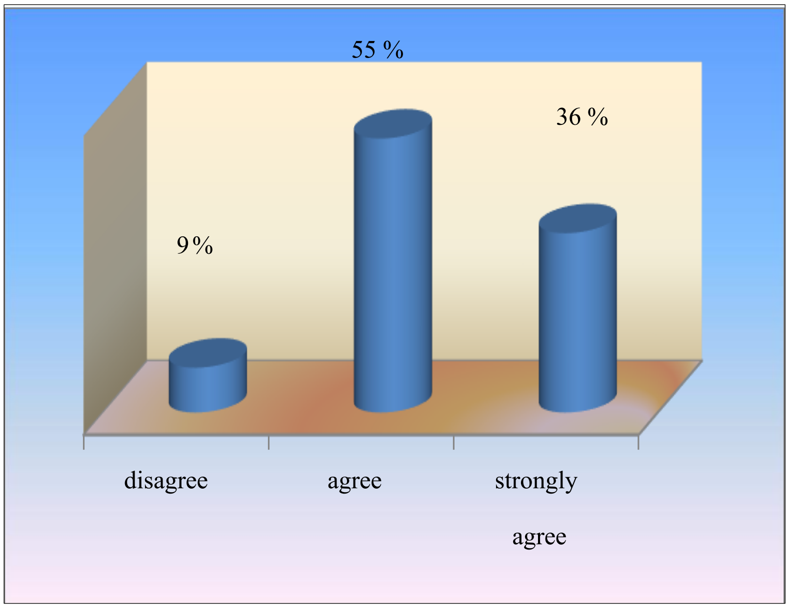


Source: Compiled by the Author on MS Excel results, 2016

An overwhelming majority (86%) considered loan security mechanisms adequate, reflecting strong institutional emphasis on risk mitigation. Collateral requirements (whether physical, group-based, or social) have been shown to improve repayment. By fostering borrower accountability (Besley & Coate, 1995). The positive perception among respondents suggests that the The institution's reliance on security measures effectively complements other risk management tools.

3.2.2 Client Screening Practices

Character Assessment



Source: Compiled by the Author on MS Excel results, 2016

Character emerged as the most critical screening criterion, with 91% of respondents emphasizing its importance over collateral. This finding reflects the microfinance sector's reliance on social reputation and trustworthiness as proxies for repayment willingness. Previous studies confirm that character-Based screening reduces information asymmetry and moral hazard by leveraging community knowledge about borrowers (Armendáriz & Morduch, 2010; Churchill & Frankiewicz, 2006). In contexts such as Malawi, where formal credit histories are often absent, character serves as a vital indicator of repayment reliability.

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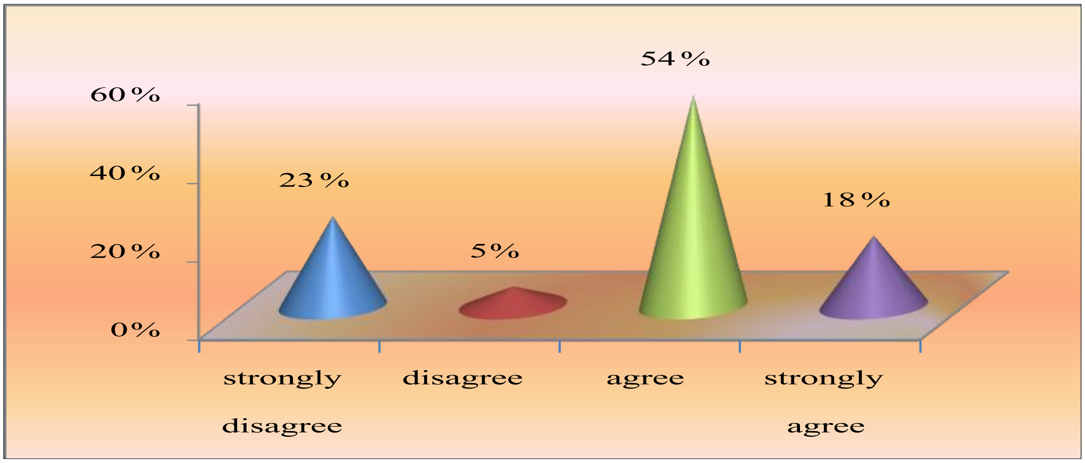
Business Viability.

Information on the capacity of the business in line with the loan repayment



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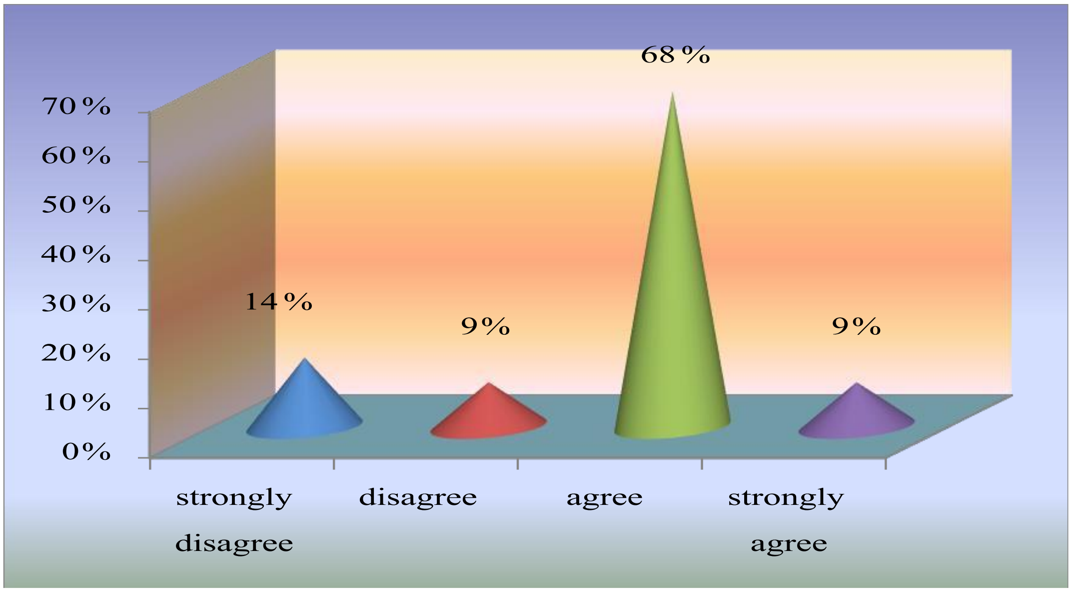
Over half of the respondents (54%) considered business capacity when evaluating repayment ability, underscoring the significance of cash flow analysis in client screening. This result aligns with Ahlin and Townsend (2007), who argue that capacity-based screening ensures that loans are matched to Enterprises with sufficient and stable income-generating potential. However, the relatively modest emphasis compared to character suggests that institutional practices may still prioritize social trust over technical assessments, which could expose MFIs to business-related risks, especially in volatile markets.

Collateral Requirements

Information on collateral requirements for Microloan



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Collateral remained an integral part of screening, with 68% of respondents agreeing that it effectively mitigates default risk. This supports findings by Besley and Coate (1995), who show that collateral—whether physical, social, or group-based—strengthens borrower commitment and repayment discipline. However, 9% of respondents highlighted the challenges. Collateral poses for low-income clients, who may lack sufficient assets. This tension reflects a broader debate in microfinance: while collateral requirements protect institutional sustainability, they risk excluding the most vulnerable borrowers, thereby limiting outreach (Cull, Demirgüç-Kunt, & Morduch, 2009).

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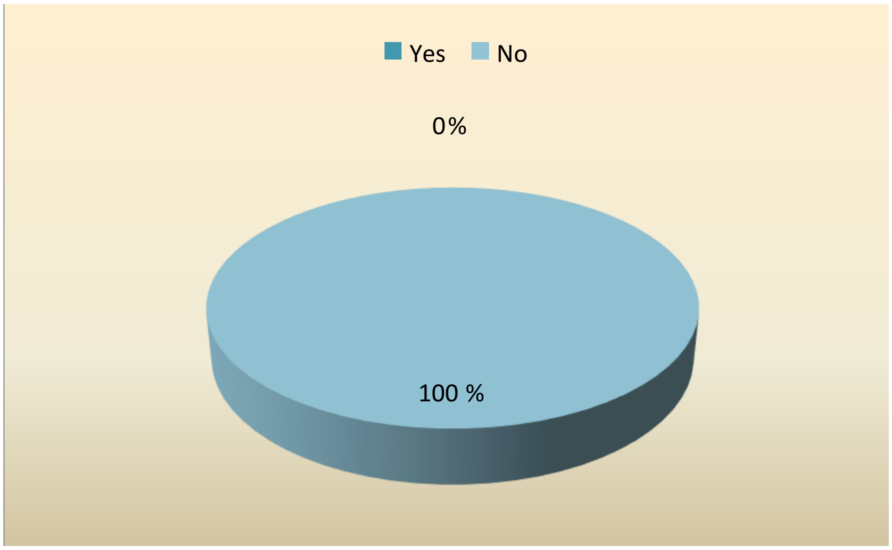
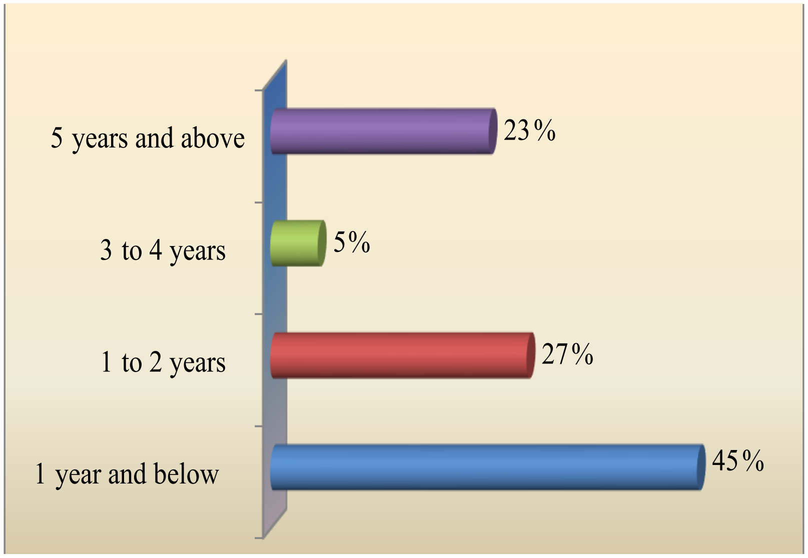
3.2.3 Credit Officers' Competence
Training and Development



Source: Compiled by the Author on MS Excel results, 2016

None of the respondents reported having attended refresher training, pointing to a critical gap in capacity-building. This lack of continuous professional development undermines staff effectiveness in loan appraisal and delinquency management. Wright and Geroy (2001) emphasize that ongoing training enhances staff adaptability, motivation, and performance. The absence of refresher training may explain weaknesses in repayment follow-up and risk assessment, highlighting the importance of institutional investment in human capital.

Work ExperienceWork Experience



Source: Compiled by the Author on MS Excel results, 2016

The majority of respondents (45%) had worked for Microloan Foundation for one year or less, while only 23% had more than five years of tenure. This distribution suggests a workforce skewed toward less experienced officers. Holtmann and Grammling (2005) argue that experience is crucial for detecting early warning signs of default and applying effective recovery strategies. The predominance of short-tenure officers may therefore weaken institutional capacity to manage loan portfolios, leading to higher default risks.

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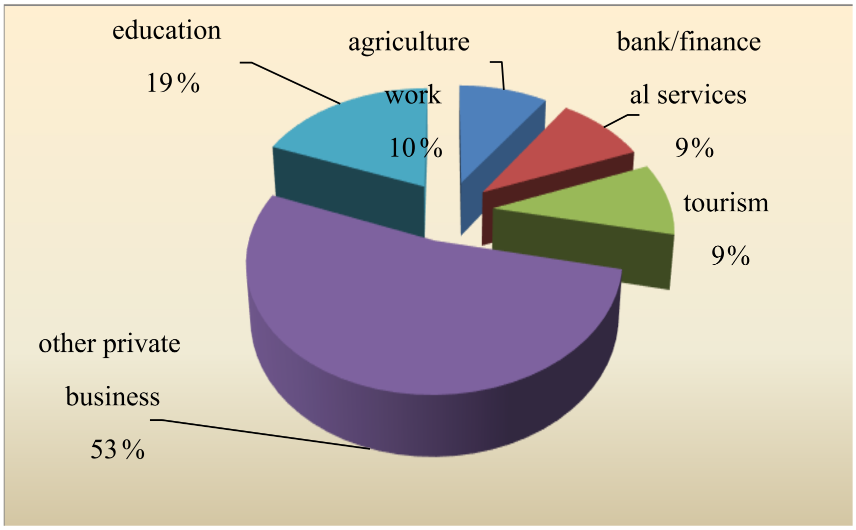
Other Work-Related Experience

Information on the previous job before joining Microloan



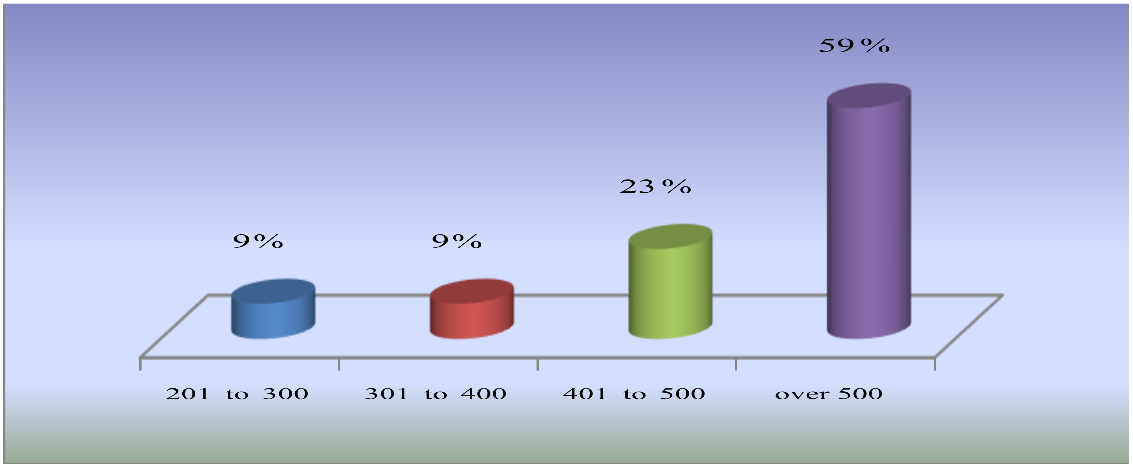
Source: Compiled by the Author on MS Excel results, 2016

Respondents reported diverse prior employment backgrounds, with 53% coming from private business, 19% joining directly after education, and smaller proportions from agriculture (10%), tourism (9%), and banking/financial services (9%). While such diversity may provide broad perspectives, the lack of concentrated experience in financial services suggests that many. Officers may require substantial training to meet the technical demands of credit management. Goedde-Menke and Ingerman (2024) highlight that sector-specific expertise enhances loan assessment quality and portfolio performance, suggesting that institutions relying on generalist recruitment must compensate through structured training programs.

3.2.4 The Status of the Current Loans

The researcher sought to determine the current number of outstanding loans (number of clients) as well as the number of clients with overdue balances of two or more instalments.

Number of clients with loan outstanding



Source: Compiled by the Author on MS Excel results, 2016

Findings show that most credit officers managed portfolios exceeding 500 clients, reflecting high caseloads per officer. While large portfolios may indicate outreach success, they also place heavy administrative and monitoring demands on staff. Ledgerwood (1999) cautions that excessive client loads often occur. Compromise loan follow-up and repayment enforcement. Similarly, Hermes, Lensink, and Meesters (2011) argue that overstretched officers may struggle to balance outreach with quality control, potentially undermining repayment performance.

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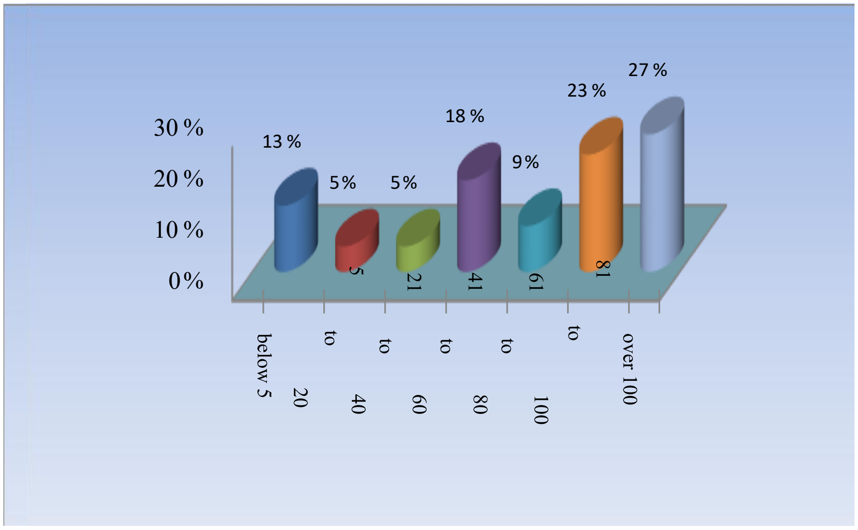
Overdue Loans



Source: Compiled by the Author on MS Excel results, 2016

Approximately 27% of officers reported managing over 100 clients with overdue balances of two or more instalments. This level of delinquency signals a significant repayment challenge within the institution. Previous studies highlight that high levels of arrears not only reduce institutional liquidity but also erode staff morale and client discipline (CGAP, 2004; Schreiner, 2003). The coexistence of large caseloads and high delinquency suggests that monitoring mechanisms may be insufficient, particularly given the earlier finding of limited officer training and experience.

4.0 FINDINGS

4.1 Key insights derived from the discussion

4.1.1 Loan Product Design

Loan product design was found to significantly influence repayment performance. Elements such as loan size, repayment period, and collateral shaped borrowers' capacity to meet obligations. Properly structured loan products enhanced repayment by aligning loan terms with clients' financial realities.

4.1.1.1 Loan Size and Period

The majority of respondents (73%) considered repayment periods appropriate, while 59% viewed loan sizes as adequate. This indicates that most borrowers found the terms manageable and supportive of income-generating activities. Literature similarly stresses that overly short repayment periods constrain business growth and increase default risk (Woolcock, 2008), while excessively large loans heighten financial vulnerability (Sharma & Zeller, 1997). Striking a balance in loan sizing and duration is therefore essential for both borrower success and institutional stability.

4.1.1.2 Repayment Structure

Repayment schedules matched to borrowers' cash flow cycles were reported to improve repayment. Respondents noted that flexibility reduced financial stress, particularly in agriculture and seasonal businesses. Rhyne (1998) cautioned that rigid repayment systems elevate default risk, while Field and Pande (2008) found that aligning installments with income cycles significantly enhanced repayment performance. These findings affirm that flexible repayment structures strengthen repayment reliability and long-term client–lender relationships.

4.1.1.3 Loan Security Measures

Eighty-six percent of respondents confirmed the effectiveness of collateral in minimizing default. Collateral provided accountability and incentivized borrowers to prioritize repayment. This aligns with Rose and Hudgins (2005), who noted that collateral mitigates credit risk, and Wenner (1995), who emphasized its behavioral role in encouraging responsible borrowing. Security measures, therefore, enhance repayment discipline and institutional sustainability.

4.1.2 Client Screening Practices

Client screening was identified as a critical safeguard against default. Assessments of character, collateral, and business capacity ensured that credit was extended to borrowers with both willingness and ability to repay.

4.1.2.1 Character-Based Screening

Ninety-one percent of respondents emphasized character assessment as more important than collateral. This reflects the Grameen model, which relies on social trust and accountability. Research confirms that traits such as honesty and reliability strongly predict repayment behavior (Wenner, 1995; Karlan & Zinman, 2009). However, reliance on character alone was noted as insufficient, highlighting the need for complementary measures.

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4.1.2.2 Collateral Requirements
Collateral was supported by 68% of respondents, though its affordability remained a challenge for low-income borrowers. Scholars argue that strict collateral demands can restrict access to the poor (Yunus, 1999), suggesting the need for balanced requirements that protect institutions without excluding vulnerable clients.

4.1.2.3 Business Capacity Assessment
More than half of respondents (54%) highlighted cash flow analysis as essential in screening. Evaluating business viability reduces repayment risk and strengthens portfolio quality. This finding is consistent with Chirwa (1997) and Armendáriz and Morduch (2010), who emphasize business capacity assessment as central to sustainable microfinance.

4.1.3 Credit Officers' Competence
Credit officer competence emerged as the strongest determinant of repayment outcomes. Their judgment, monitoring skills, and client engagement were directly linked to loan performance.

4.1.3.1 Work Experience
The study found a strong negative correlation (-0.632) between officers' experience and default rates. Experienced officers demonstrated greater ability to appraise clients, detect risks, and support repayment. Similar evidence shows that field experience enhances loan assessment and monitoring effectiveness (Holtmann & Grammling, 2005; Goedde-Menke & Ingermann, 2024).

4.1.3.2 Training and Development
None of the respondents reported receiving refresher training, highlighting a major institutional gap. Continuous training is widely recognized to improve credit officers' skills and reduce portfolio risk (Wright & Geroy, 2001; Yaron et al., 1997). Recent studies confirm that professional development strengthens monitoring practices and institutional resilience (Yang et al., 2021). The absence of such programs may therefore weaken repayment performance.

4.2 Statistical Analysis
Spearman Correlation Analysis

To assess the relationship between credit officers' work experience and loan repayment performance, Spearman's rank correlation was employed. This method is appropriate as it measures the strength and direction of monotonic relationships between ranked variables.

Work Experience

			Number of customers with over two instalments due but not paid	How many years have you been working with Microloan?
Spearman's rho	number of customers with over two instalments due but not paid	Correlation Coefficient	1	-.632**
		Sig. (2-tailed)		0.002
		N	44	44
	How many years have you been working with Microloan?	Correlation Coefficient	-.632**	1
		Sig. (2-tailed)	0.002	
		N	44	44

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

The analysis revealed a strong negative correlation ($\rho = -0.632$, $p = 0.002$) between credit officers' work experience and the number of clients with overdue payments. This finding indicates that as credit officers accumulate more years of service, loan delinquency within their portfolios decreases. In practical terms, experienced officers are more effective in screening clients, monitoring loans, and managing repayment, thereby contributing to improved portfolio quality. The relationship was statistically significant, underscoring the importance of work experience as a determinant of loan repayment performance.

5.0 CONCLUSION AND RECOMMENDATIONS
5.1 Suggestions and Recommendations
Based on the study's findings, several recommendations are proposed to strengthen loan repayment performance. These are directed towards improving loan product design, enhancing client screening, building credit officer competence, and reinforcing portfolio management.

5.1.1 Loan Product Design
The design of loan products should carefully balance borrower needs with institutional sustainability. Loan sizes must be calibrated to clients' business capacities to avoid over-indebtedness. Flexible repayment schedules, particularly for agricultural and seasonal clients, should be maintained to align obligations with income flows. Additionally, alternative security mechanisms (such as group guarantees, social collateral, or movable asset financing) should be adopted to broaden access for low-income borrowers who may lack conventional collateral.

5.1.2 Client Screening Practices
Client screening should be strengthened to ensure credit is extended to borrowers with both capacity and willingness to repay. Character assessment should move beyond subjective

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judgment by incorporating multiple indicators such as past credit history, references, and community reputation. Lending decisions must emphasize repayment capacity through detailed cash flow and business viability assessments. Furthermore, collateral policies should be innovative and inclusive, considering substitutes such as group guarantees or household assets to balance risk management with financial inclusion.

5.1.3 Credit Officers' Competence

The competence of credit officers is central to portfolio quality. Institutions should introduce regular refresher training on loan appraisal, risk management, and delinquency control to equip officers with updated skills. Recruitment strategies should prioritize experienced candidates, while mentorship programs can facilitate skills transfer to recruits. In addition, performance-based incentives tied to repayment outcomes and portfolio quality can motivate officers to maintain diligence and accountability.

5.1.4 Portfolio Management

Strengthening portfolio monitoring is critical for early detection of repayment challenges. Regular reviews, supported by digital tracking systems where feasible, enable timely interventions before arrears escalate. Accountability mechanisms should also be reinforced by linking credit officers' performance evaluations to portfolio quality. Such measures reduce moral hazard, enhance responsibility, and contribute to sustainable institutional performance.

5.2 CONCLUSION

This study examined the factors influencing loan defaults at Microloan Foundation Malawi, focusing on loan product design, client screening practices, and the competence of credit officers. The findings confirm that loan repayment performance is shaped by a combination of institutional policies, borrower characteristics, and staff capacity, underscoring its multifaceted nature.

With regard to loan product design, appropriate repayment periods, flexible repayment structures, and security measures were found to support repayment, while mismatches in loan size and duration heightened default risks, particularly among financially vulnerable borrowers. Client screening practices such as character assessment and business viability analysis contributed to improved repayment, though reliance on character alone proved insufficient. Collateral requirements, while mitigating risk, also restricted access for low-income clients, highlighting the tension between inclusion and sustainability. The competence of credit officers emerged as a decisive factor: officers with greater experience and training demonstrated stronger portfolio performance, whereas the lack of refresher training and reliance on inexperienced staff increased delinquency risks.

Overall, the study concludes that improving repayment performance requires a comprehensive, integrated approach. Refining loan product design, strengthening client screening, and investing in the continuous professional development of credit officers are mutually reinforcing strategies that can reduce loan defaults and enhance institutional sustainability. For microfinance institutions in Malawi, such measures are essential to balancing financial viability with the broader goal of financial inclusion.

5.3 Suggestions for Future Research

While this study has provided valuable insights into factors influencing loan defaults at Microloan Foundation Malawi, several areas remain open for further investigation.

First, staff retention warrants closer examination. High turnover rates among credit officers can disrupt client relationships, weaken monitoring systems, and negatively affect loan performance. Future research should therefore investigate the underlying causes of staff attrition in microfinance institutions and assess its implications for institutional sustainability and service delivery.

Second, the role of government influence requires further exploration. Policies, regulations, and broader macroeconomic frameworks shape borrower behavior and institutional practices. Understanding how the policy environment in Malawi affects repayment dynamics would shed light on the interaction between external governance structures and microfinance performance.

Finally, the client perspective on loan defaults deserves more attention. While this study primarily emphasized institutional factors, future research should examine borrower-side challenges such as household financial pressures, business risks, and social obligations. Integrating client experiences would provide a more holistic understanding of repayment difficulties and help design interventions that balance institutional requirements with client realities.

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