# Factors affecting group based loan repayment performance: (The case of Oromia Credit and Saving Share Company, Jimma Branch)

By:

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A Thesis Submitted to the School of Graduate Studies of Jimma University for Partial Fulfillment of the Award of the Degree of Master of Science (MSc) in Banking and Finance

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING AND FINANCE

July, 2020

JIMMA, ETHIOPIA

# Factors affecting group based loan repayment performance: The case of Oromia Credit and Saving Share Company, Jimma Branch

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*The main objective of this study was to investigate the factors affecting the group based loan repayment performance in OCSSCO Jimma town. This study was conducted using the descriptive and explanatory types of the research design that was also applied the mixed approach of the study .This study was primarily conducted on the customers , employees and managers of the OCSSCO Jimma town .Therefore, from the total 1589 customers that were taken from the last four consecutive years , the study was conducted on 150 participants of the study .The collected data was analyzed and interpreted using SPSS version and standard deviation ( frequency , value percent , and cumulative ) .The finding of this study show that Borrowers related factors , business factors ,institutional factors and purposes of the borrowed money were taken as the factors affecting the group based loan repayment performance . To mention some of the factors from all direction numbers of children can customers have, failure to pay the loan, the way group leaders monitor loan utilization , group liability and among financial Institution (OCSSCO) , the time loan issued by the lender , the loan size given by OCSSCO , the frequency of collection offered by OCSSCO, the repayment time set by the organization , interest rate set for the credit , lack of the proper follow up of the loan officers, weak legal enforcement for the defaulters , and lack of training given to customers on credit and saving by the organization .The types of business borrowers engaged on, how long the borrowers experiences on doing business, lack of the market study conducted before starting business, and lack of the access information. Finally , the researcher recommended that , the OCSSCO has to be follow up the borrowers , training on the credit and saving has to be given for the borrowers , the time of the repayment has to be modified , the interest rate has also be revised as per the income of the borrowers .*

Key Words *: loan . group based loan , repayment performance , borrowers , lenders*

DECLARATION

I, FantahunAsfawGabissa , declare that, this thesis is my original work and that; it has not been presented and will not be presented to any other university for a similar or any other degree award.

_____________________________

Name of student signature Date

This research has been submitted or examination with my approval as a university advisor

| Name of advisor | Signature | Date |
|---|---|---|
| ________________ | ______________________ | _____ |

| Name of co-advisor | Signature | Date |
|---|---|---|
| ________________ | ____________ | _____ |

CERTIFICATE

*This is to certify that this thesis entities "Factors affecting group based loan repayment performance: (The case of Oromia Credit and Saving Share Company, Jimma Branch), Submitted to Jimma University for the award of the Degree of Master of Science (MSc) in Banking and Finance, and is a record of bona fide research work carried out by Mr. FentahunAsfawGabissa, under my guidance and supervision.*

*Therefore, I hereby declare that no part of this thesis has been submitted to any other university or institutions for the award of any degree or diploma.*

| *Co-Advisor's Name* | *Date* | *Signature* |
|---|---|---|
| ________________________ | ________________ | ___________________ |

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## List of abbreviation and acronyms

| | |
|---|---|
| ACSI: | Addis credit and saving institution |
| ADB: | Asian development bank |
| MIFIS: | Micro finance institutions |
| NBE: | National bank of Ethiopia |
| NGO: | None –governmental organization |
| OCSSCO: | Oromia credit and saving Share Company |
| OSHO: | Oromo self –help organization |

# CHAPTER ONE

# INTRODUCTION

This study included background of the study, statement of the problem. Basic research questions, objectives , significance , scope of the study, limitation of the study , and organization

## 1.1. Background of the Study

Microfinance is a category of financial services targeted at individuals and small businesses that lack access to conventional banking and related services. Microfinance includes microcredit, the provision of small loans to poor clients; savings and checking accounts; micro insurance; and payment systems.

Micro institution (MFIS ) were established to fill the gap in the financial services sector by providing funds to the lower-income group which are usually involved in small and micro business activities. The MFIs provide funds for start-up business or for working capital purpose such as to buy raw materials, machine and business equipment. Majorities of MFIs are from semi-formal institutions and informal institutions that are not profit-orientedorganization.Usuallytheyreceivefundsfromgovernment,localgovernmentanddonorstoruntheir activities. Therefore, many of MFIs are not sustainable and too dependent on subsidies. However, MFIs should be sustainableandviabletomakesuretheycancontinuallyprovidefinancingtosmallandmicroentrepreneurswithout depending on donors and government. Financial sustainability is a prerequisite for making micro financial services permanent as well as widely available (ICC,2001). The repayment performance is important to make sure that the MFIs are operated in a sustainable basis.

In Ethiopia, microfinance institutions are governed by National Bank of Ethiopia (NBE) .There are 32 licensed Micro finance institutions in the country. All are aimed to poverty alleviation through targeting specific groups.

Oromia Credit and Saving Share Company was originally established as Oromo Self Help Organization (OSHO) in 1996 to deliver credit and mobilize savings in rural Oromia regional state. Soon it was transformed into OCSSCO and got registered in 1997 as per proclamation No 40/1996.

However, the general objective of OCSSCO is to alleviate poverty and promote economic development through provision of credit and saving services.

It is therefore, the objective of this paper is to determine the factors affecting group based loan repayment performance inmicrofinance(OCSSOC) inJimmatown. The specific objectives of OCSSCO include achieving household level food security in Oromia, increasing household income, and improving the overall economic and social conditions of rural households.

Sixteen MFIs have been licensed by the NBE and started delivering micro finance services since the issuance of this proclamation. These MFIs aim at poverty alleviation through targeting specific groups (reaching the poor) and group based lending. In a short period of time the MFIs have managed to reach a sizable portion of the rural and urban poor, and in so doing have gained significant experience (MFDR, 2000). One of the MFI so established is Oromia Credit and Saving Share Co. (OCSSCO for short) which is operating in the Oromia Regional State of Ethiopia. It was originally established as Oromo Self Help Organization (OSHO) in 1996 to deliver credit and mobilize savings in rural Oromia. Soon it was transformed into OCSSCO and got registered in 1997 as per proclamation No40/1996.

The general objective of OCSSCO is to alleviate poverty and promote economic development through provision of credit and saving services. The specific objectives of OCSSCO include: - achieving household level food security in Oromia, increasing household income, and improving the overall economic and social conditions of rural households.

Regarding the program norms, OCSSCO's average loan size for the first loan is Birr 1000. A client obtains the next higher loan after the successful repayment of the first loan. Loan terms of OCSSCO are established at different levels for different activities with a maximum loan period of one year. To ensure the viability and sustainability of its operations OCSSCO charges 12.5% per annum on its loan amount and interest will be paid on declining balance. On the other hand OCSSCO pays 8% interest on the amount saved by its clients.

OCSSCO is currently operational only in 29 districts of Oromia. Yet, the entire region has, 180 districts. This indicates OCSSCO is at its infant stage, requiring tremendous expansion of its activities to reach the rural poor (MFDR, 2000).
OCSSCO is confined in areas where the majority of small-scale poor farmers live. According to a report in MFDR (2000), the organization has disbursed a loan amount of Birr 25,315,078 to about 30,000 clients as of June 2000. The amount of savings mobilized has reached Birr 3.1 million during the same period, while the repayment rate has shown a decline (has fallen to 97% in the year 2000).

## 1.2Statement of the Problem

Most studies show that repayment performance of MFIs focused on group-based lending or group liability because the group-based lending is a synonym with microfinance activities such as Ghatak&Guinnane (1999), Godquin (2004), Sharma & Zeller (1997), Zeller, (1998), Besley& Coates (1995), and Silwal (2003). Much theorizing has been done to show the advantages of group loan in minimizing the default rate compared to an individual loan (Ghatak, 2000; Ghatak&Guinnane, 1999; Besley&Coate, 1995; Maata, 2004). Much of the study emphasized the role of joint liability in group lending, such as peer selection (Ghatak, 1999), peer monitoring

(Stiglitz, 1990; Varian, 1990; Banerjee et al., 1994), and peer enforcement (Besley& Coates, 1995). It proved that through group lending, it could mitigate moral hazard, adverse selection and information asymmetries faced by the MFIs.

Microfinance programs that used peer selection, peer monitoring, dynamic incentives, regular repayment schedules, and social collateral help maintains high repayment rates (Silwal, 2003). However, little study has been conducted on the issue of the credit worthiness of the individual lending design applied by microfinance institutions. Research on the determinants of loan repayment defaults in individual-based lending schemes can be found only for rural banks or semi-formal financial institutions (SurayaHanimMokhtar, 2011).

However, in the recent studies, the results have been shifted. Armendariz de Aghion&Morduch (2000) argue that direct monitoring, regular repayment schedules, and the uses of non-refinancing threats are the elements to generate high repayment rates from low income borrowers without requiring collateral and without using group lending contracts that feature joint liability. Chowdhury (2005) theoretically shows that without sequential financing, group lending may suffer from under-monitoring with borrowers investing in risk.

The most important factor inciting lending groups to repay is the relative value they attach to access to future credit (Diagne et al., 2000). Mersland& Strom (2008) find that MFI tends to choose group lending when its main market is rural, when it prefers female borrowers, and when the average loan amount is small. The studies show that group-based lending approach cannot ensure high repayment rate in MFIs. There are several reasons behind high default rates such as the borrowers unwilling or unable to repay the loan (Greenbaum&Thakor, 1995; Coyle, 2000). Sterns (1995)arguedthatthecauseofhighlevelofnon-repaymentratesisthelenderitselfnottheborrower.Shealsonoted the importance of uncontrollable factors such as natural disasters and personal crises affecting the abilityto repay a loan.

According to Awoke (2004), cited in Ahmed et al., (2012) most of the default arose from poor management procedures, loan diversion and unwillingness to repay loans. For this reason, the lenders must give various institutional methods that targeted to reduce the risk of loan default. In order to maintain sustainability of MFIs, one important thing is to identify the socio-economic and institutional factors which significantly affect the loan repayment performance from both borrowers and lender side. An overwhelming majority of the world's poor live in the third world countries.Many are now of the opinion that allowing the poor to have command over resources through credit can contribute towards poverty alleviation. Gibbons, (1992) argues that the best way to do something about poverty is to let the people do their own thing. Nobody will have more motivation to change his situation than the sufferer himself. It is generally accepted that credit, which is put to productive use, results in good returns. But credit provision is such a risky business that, in addition to other reasons of varied nature, it may involve fraudulent and opportunistic behavior.

As the local study conducted by (Abraham, 2002) around Ziway, private borrowers, the loan repayment and its determinants in small scale enterprises financing are investigated and evaluated .The estimation result employed to be model. His result reveals that
having other source of income, education level, work experience in related economic activity before the loan and engaging on economic activities other than agriculture are enhancing loan repayment (Abraham,2002).

Factors that influence micro finance and loan repayment performance were studied with particular reference to the Oromia Credit and Savings Share Company (OCSSCO) in Kuyu, through the application of descriptive statistics and the prohibit model, shows that education, income, loan supervision, suitability of repayment period, and availability of other credit sources are important and significant factors that enhance the loan repayment performance (Jemal, 2003).

The determinants of loan repayment performance were studied with the specific reference of Addis Credit and Saving Institution, Addis Ababa, Ethiopia (Fikirte, 2011). She applied, on repayment performance of borrowers, the weighted logit model. Her result reveals that age was found to be statistically significant i.e as age increased; the probability of being defaulter is decreased.

The lender in the formal financial system is at a disadvantage of information on the burrower's behavior. As study by ( Mengistu ,1997) group based micro financing system that involves peer pressure and joint liability has evolved to counter the problems of a conventional bank that provides a collateral backed credit alienating the poor as one that its implementation is still bad . For such MFIs to be successful, they should be sustainable both financially as well as institutionally.

In addition, local study by (Girma2002) stated that group based loan repayment is influenced with both internal and external problems so as the issue of the borrowers background has to studied and the institution has to strictly follow their customers .

Even though local studies that are mentioned earlier were conducted on the major factors affecting the group based loan repayment performance of OCSSCO in Jimma branch, there is still areas which are not include in the previous studies . Therefore, this study also aims to fill the existing gap by investigating major socio-economic factors affecting the group based loan repayment performance of OCSSCO in Jimma branch in the town.

## 1.3. Basic Research Questions

These researches tried to answer the following questions:

1. What are the major factors that affect group based loan repayment performance of borrowers in OCSSCO?

2. To what extent the borrowers are influenced by the factors affecting group based loan repayment performance

3. What are the major challenges faced by OCSSO Jimma branch in collecting the group based loan?

## 1. 4. Objectives of the Study

### 1.4.1. General objective

The general objective of the study would be to analyze the factors that affect the group based loan repayment performance of OCSSCO in Jimma town.

### 1.4. 1. Specific Objectives

- To identify the major factors that affect group based loan repayment performance of borrowers in OCSSCO?
- To examine the extent the borrowers are influenced by the factors affecting group based loan repayment performance
- To identify the major challenges faced by OCSSCO Jimma branch in collecting the group based loan

## 1.5. Significance of the Study

The purpose of the study would be to examine the factors affecting the loan repayment performance of OCSSCO, Jimma branch. Accordingly findings from this study may give more
insights for further investigation concerning the loan repayment activity. The results of the study may provide OCSSCO how to rectify problems and provide better service and hence satisfy their customers.

Thus, it is the student researcher's belief that the outcome of this study may help the render more
insights and fills out the knowledge gaps of the research in general and the master of B anking and Finance field in particular. Further this study may also input for the policy makers concerning how micro finance institution are going to serve the society as well as the it may help the borrowers and the micro finance institution on how they need to follow up their customers to effective .

## 1.6. Scope of the Study

The study would be conducted in Jimma town. The scope of this study would be restricted to analyze determinants of microfinance loan repayment performance and

socio demographic
factors that affect loan repayment performance of OCSSCO borrowers. This study was also delimited on the independent variable (borrowers, financial institution, and purposes of borrowed money) and the dependent variables is (group based loan repayment performance) which primarily focused on the customers of the OCSSOC Jimma town.

## 1.7.Limitation of the Study

In conducting this research, the most and significant constraint were limited literature's available on group based loan repayment performance. The next most significant challenge was unavailability of secondary data that can be easily accessed for the purpose. The other significant challenge was the willingness of the respondent to fill the questioner due time outbreak of COVID 19. In this regard, some of the respondents also seemed sensitive about revealing confidential cooperative information, which increased the difficulty of doing this research. The study also didn’t comprehend the effect of the integration on the overall group based repayment performance. In addition, the study was conducted only one organization case. So, further study should be conducted to show the effect and fill the gap of this study.

## 1.8. Organization of the study

This thesis consists of five chapters. The first chapter contains background, statement of the problem, objectives, research questions, significance and limitations of the study. The second chapter consists of literature review, the third chapter consists of methodology of the study, the fourth chapter consists of research findings and the fifth chapter consists of conclusion and recommendations.

# CHAPTER TWO

# REVIEW OF RELATED LITERATURES

## 2.1. Review of Theoretical Literature

### 2.1. The concept of Microfinance

Microfinance is the provision of a broad range of financial services such as deposits, loans repayment services, money transfers, and insurance to poor and low-income households. Microfinance is the provision of broad range of financial services such as deposits, loans, and, their microenterprises. Microfinance services are provided by three types of sources:

- formal institutions, such as rural banks and cooperatives;

• semiformal institutions, such as nongovernment organizations; and

• informal sources such as money lenders and shopkeepers.

Institutional microfinance is defined to include microfinance services provided by both formal and semiformal institutions. Microfinance institutions are defined as institutions whose
major business is the provision of microfinance services (Asian Dev't bank Finance for the Poor:
Microfinance Development Strategy )

Microfinance can be defined as financial instruments, such as loans, savings, insurance and other financial products that are tailored only to the poor. Microfinance is created in the economy for the economic benefit of the poor and to alleviate poverty. Microcredit is the lending side of microfinance. Microcredit loans help the poor to be involved in income generating activities that allow them to accumulate capital and improve their standard of living (Mokhtar, NarteaandGan, )

Microfinance: Banking and/or financial services targeted to low-and-moderate income businesses or households, including the provision of credit. Microfinance is part of the financial sector. (Microfinance policy and strategy for the bank group).

Microfinance Institution: A financial institution - can be a nonprofit organization, regulated financial institution or commercial bank - that provides microfinance products and services to low-income clients (Microfinance policy and strategy for the bank group)

Microfinance institutions are found among the institutions which provide different financial service for the poor who are out of the conventional banking system particularly in developing countries. Microfinance Institutions (MFIs) provide financial services to poor clients who in most cases have no access to formal financial institutions. During the last three decades, microfinance has captured the interest of both academics and policy makers. This is, among other things, due to the success of the industry (Muluken A and Mesfin,L(2014 )

## 2.2 The need of Microfinance

The formal financial institutions played little role in financing development efforts in the rural areas. This is because they are clustered in urban areas, concentrate on funding large enterprises and are inaccessible to the rural poor especially in terms of distance. In addition the rural poor can't fulfill banking requirement to get loans. The requirements for collateral and intrinsic banking procedures are in most cases very difficult for the poor to deal with. The volume of loan demanded by small farmers is not appealing to banks. Such loans are difficult to manage and their processing not financially feasible (Jemal, 2006).

MFIs are important for poverty reduction and creating employment opportunity especially in developing countries like Ethiopia. One of the key factors for profitability and sustainability of MFIs is the presence of good loan repayment rates. (Fikirte,2019)

The main aim of micro finance is to provide funds for investment in micro businesses that is expected to increase income to investor households and hence improve their livelihood. It has been observed that most borrowers use micro credit finances on food, shelter and clothing to meet their basic needs rather than investment.

## 2.3. Emergency of Microfinance

According to Lidgerwood (1999), microfinance arose in the 1980s as a response to doubts and research findings about state delivery of subsidized credit to poor farmers. In the 1970s government agencies were the predominant methods of providing productive credit to those with no previous access to credit facilities—people who had been forced to pay usurious interest rates or were subject to rent seeking behavior Ladgerwood (1999). At the same time, local NGOs began to look for a more long-term approach than the unsustainable income generation approaches to community development. In Asia Dr. Mohammed Yunus of Bangladesh led the way with a pilot group lending scheme for landless people. This later became the Germen Bank, which now serves more than 2.4 million clients (94 percent of them women) and is a model for many countries Ladgerwood (1999). This writer also mentioned that in Latin America ACCION International supported the development of solidarity group lending to urban vendors, and Foundation developed a successful credit and training system for individual micro entrepreneurs Since the 1980s the field of microfinance has grown substantially. The same source indicated also donors' active support and encouragement of microfinance activities, focusing on MFIs that are committed to achieving substantial outreach and financial sustainability.

## 2.4 Ethiopian Microfinance History

According to Gebrhiwot(2002) a key component of Ethiopia's development strategy is the establishment of sustainable microfinance institutions serving large numbers of poor
people. While non-governmental organization (NGO) credit schemes and informal sources of finance have existed in Ethiopia for many years, the government instituted a legal and policy framework for MFIs in 1996 through Proclamation 40/1996 (Gebrehiwot, 2002). Since then, 32MFIs have registered with the National Bank of Ethiopia and operate
under the auspices of this Proclamation.

Similar to microfinance approaches in many other parts of the world, MFIs in Ethiopia focus on group-based lending and promote compulsory and voluntary savings. They use joint liability, social pressure, and compulsory savings as alternatives to conventional forms of collateral. Currently, the Proclamation requires MFIs to provide credit through group based lending methodologies (background documents country strategy, 2003–2007).

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The main aim of micro finance is to provide funds for investment in micro businesses that is expected to increase income to investor households and hence improve their livelihood. It has been observed that most borrowers use micro credit finances on food, shelter and clothing to meet their basic needs rather than investment.(Munene, Nguta and Huka, )

According to Eyarusalem K,(2014), MFIs in Ethiopia governed by NBE and AEMFI facilitate their activities and issue consolidated information. The first regulatory frame work (proclamation NO. 40/1996) were developed and put in place in 1996 and amended in different years to meet timely needs. As per micro-financing business proclamation No. 626 /2009 the purpose and activity of MFIs in Ethiopia are to collect deposits and extend credit to rural and urban farmers and people engaged in other similar activities as well as micro and small scale rural and urban entrepreneurs.

## 2.5. OCSSCO Microfinance

There are 32 MFIs have been licensed by the NBE and started delivering micro finance services since the issuance of this proclamation. These MFIs aim at poverty alleviation through targeting specific groups (reaching the poor) and group based lending. In a short period of time the MFIs have managed to reach a sizable portion of the rural and urban poor, and in so doing have gained significant experience (MFDR, 2000). One of the MFI so established is Oromia Credit and Saving Share Co. (OCSSCO for short) which is operating in the Oromia Regional State of Ethiopia. It was originally established as Oromo Self Help Organization (OSHO) in 1996 to deliver credit and mobilize savings in rural Oromia. Soon it was transformed into OCSSCO and got registered in 1997 as per proclamation No 40/1996. The general objective of OCSSCO is to alleviate poverty and promote economic development through provision of credit and saving services. The specific objectives of OCSSCO include: - achieving household level food security in Oromia, increasing household income, and improving the overall economic and social conditions of rural households.

## 2.6 Factors affecting loan repayment

The factors affecting repayment performance of MFIs can be divided into four factors namely individual/borrowers factors, firm factors, loan factors and institutional/lender factors. Several studies (Greenbaum et al., 1991; Hoque, 2000; Colye, 2000; Ozdemir and Boran, 2004) show that when a loan is not repaid, it may be a result of the borrowers' unwillingness and/or inability to repay. (Stiglitz and Weiss, 1981) recommend that the banks should screen the borrowers and select the "good" borrowers from the "bad" borrowers and monitor the borrowers to make sure that they use the loans for the intended purpose. This is important to make sure the borrowers can pay back their loans. Greenbaum and Thakor (1995), suggest to look at a borrower's past record and economic prospects to determine whether the borrower is likely to repay or not.

### 2.7 Repayment Performance in GroupLending

Since the 1970s, group-lending programs have been promoted in many developing countries. A common characteristic of group lending is that the group obtains the loan under joint liability, so each member is made responsible for repayment of loans of his or her peers. Joint liability, but possibly more so, the threat of loosing access to future credit, incites members to perform various functions, including screening of loan applicants, monitoring the individual borrower's efforts, fortunes and shocks, and enforcing repayment of their peers' loan. (Zeller, 1996).

The existing theoretical models of peer monitoring deduce that repayment performance in group lending programs is positively related to the homogeneity of members with respect to the riskiness of their projects (Stiglitz, 1993; Besley and Coate, 1995). In group-lending programs, the functions of screening, monitoring and the enforcement of repayment are to a large extent, transferred from bank to group members. The financial intermediary reduces recurrent lending transaction costs by replacing a multiple of small loans to individuals with a larger group loan (Adams, 1988 as cited in Zellar, 1996). This reduction in transaction costs enables financial intermediaries to bank with poor, who demand small loans and who would not receive any credit under an individual loan contract because of excessive unit transaction costs of tinyloans.

Zeller (1996) argues that probably the most important rationale for group lending is the information and monitoring advantages that group-based financial institutions at the community level have, compared to individual contracts between a bank and borrower. Group members get important information like reputation, indebtedness and asset ownership of the loan applicants at a lower cost. They can also easily monitor individual efforts made towards ensuringrepayment.

In addition, groups may also have a comparative advantage in enforcement of loan repayment. Group members can potentially employ social sanctions or even seize physical collateral from the defaulter (Besley and Coate, 1995). Moreover, group members appear to be in a better position to assess the reason for default and to offer insurance services to members who are experiencing shock that are beyond their control. (Zeller, 1996)

Despite all the above-mentioned benefits, group lending is not without its problems. There are several factors that may undermine the repayment performance in group lending. Zeller (1996) discusses that since the risk of loan default by an individual is shared by his or her peers, a member may choose a riskier project compared to that in the case of individual contract, and may count on other members to repay his or her loan (i.e. adverse selection of risky projects). He further notes that repayment incentives for a good borrower will vanish under joint liability, when he or she expects that significant number of peers willdefault.

Individuals select those whom they thrust to form a group with, that is they want those who can make regular repayments, have a good concern about the possible loss they face in case of non- repayment, ultimately leading to the exclusion of the poorest of the poor.

Reikne (1996) assessed the factors that lead to the failure of group based lending system in urban areas and went on to the extent that he recommended an individual credit system for a better loan repayment. According to him presence of high geographical mobility, low attachment to specific neighborhoods and peer groups consisting of competitors are the factors that frustrate the solidarity of groups in urban areas, and hence group lending is more applicable to the rural environment than to urban society.

## 2. 8. Empirical studies of other countries

Eze and Ibekwe (2007) reveal that amount of loan received, age of beneficiaries, house hold size, educational attainment, and occupation can influence loan repayment. Determinants of loan repayment performance of fishermen, Ghana employed multiple regression analysis in their study. Their results revealed that low level of education, lack of alternative income generating activity, cumbersome loan processing procedures, they are likely to have high loan default.

The study identified fishing income, amount borrowed and size of loan invested into fishing as

significant predictors of loan repayment (Acquah and Addo, 2011).

## 2.9. Empirical Studies on Loan Repayment Performance in other Countries

Godquin (2004) tested the explanatory power of models that attribute the performances of MFIs in terms of repayment rate to the use of group lending, social intermediation and dynamic incentives. Age, loan size, and duration showed a significant negative impact on the repayment rate but social ties and professional training of the borrower have expected positive impact on the repayment performance. According to the theory of dynamic incentives, repayment performance increased as loan size increases. The size of the loan showed expected negative sign and is significant in the specifications as in the study by Sharma and Zeller (1997).This negative

sign is theoretically explained by the fact that the loan size increases the gain associated with ex-ante and ex-post moral hazard.

The negative sign of the loan size of the loan could also be linked to the borrower's difficulty in repaying a larger amount over a given period (usually one year). It could be that, for a given duration, large loans do not meet the borrower's needs and are not suited to the local economy. This statement is related to the positive and significant sign of the duration of the loan throughout the specifications. Social ties inside the group had a significant and unexpected negative impact on the repayment rate. The coefficient of the age of the borrowing group at the due date has a positive and significant coefficient but female borrowers did not prove to have a significantly better repayment performance.

Even though the coefficient is positive, it is not significant. It is indeed expected that the social ties and other benefits of the group, such as information-sharing, increase with the age of the group. As previously mentioned, however, the age of the group has a negative impact on

repayment performance. If MFIs want to allocate larger loans to group members with whom they have an established relationship, they should also develop specific incentives for their experienced borrowers to have a better repayment performance.

Natukunda (2010) described micro finance credit lending terms and repayment performance and stated the loan sizes in most cases affect the nature of business and type of investment for the borrowers. The small loan size is often advanced by the micro finance institutions as a way of minimizing risks. However, when the clients are not given adequate funds to cater for their business needs, they tend to resort to multiple borrowing.

This in turn affects their repayment and increases the risks of the loan. The respondents were divided as to whether Brac Uganda is giving them enough credit to cater for their business needs with some indicating that it was enough while others indicated that it was not. This is in line with the findings by George (2008) who indicated that sometimes the loans issued by MFIs are too small to make an impact on women's businesses.

The perception of the respondents as to whether the loan period given by Brac Uganda is appropriate to their business needs indicated that members were satisfied with the loan period of five months. This concurs with Woolcock (2008), who argued that a long loan period may make the client to be extravagant and end up failing to pay back the loan. Clients taking small loans should not be given very long repayment period. From the research findings since the majority of the clients were dealing in small businesses and taking small loans, they need a short loan period for regular recapitalization. Zeller (1996) analyzed the determinants of repayment performance of credit groups in Madagascar. His finding is groups with higher level of social cohesion have a better repayment rate.

Moreover, the programs that provide saving service to their members have a significantly higher repayment rate. This result emphasizes the role of saving services for improving the performance of group credit programs. He also identified that with larger group size, the repayment performance improves. This result is in line with the hypothesized economies of scale, scope, and risk. However, it is to be noted that groups will have increasing costs of coordination, moral hazard, and free-rider problems when group size surpasses manageable levels. The optimal group size will vary with respect to socioeconomic and agro ecological conditions of the participating communities and with program.

Although the performance of the MFIs in Ethiopia has been impressive since their establishment, they are not free of default problems as can be observed in the following table. Hunte (1996) argued that default problems destroy lending capacity as the flow of repayment declines, transforming lenders into welfare agencies, instead of a viable financial institution. Loan default may also deny new applicants access to credit as the microfinance institutions management problems augment in direct proportion to the increasing default problem. One indicator of effective MFIs is the loan performance of the borrowers (Sengupta and Aubuchin, 2008).

High repayment rates are associated with the benefits for both MFIs and borrowers (Godquin, 2004). If there is high repayment rate, the relationship between the MFIs and their clients will be good (Bond &Rai, 2009). In contrast, if there is low repayment rate, both the borrowers and MFIs will be adversely affected. So if the MFIs are not viable because of default problem, borrowers will not have access to loan and suffer from poverty, as a result affects the development of the country as whole.

## 2.10. Empirical Studies on Loan Repayment Performance in Ethiopia

Retta (2000) has examined loan repayment performance of group borrowers in Addis Ababa. His finding was frequency of loan, supervision, suitability of repayment period and other income sources are found to encourage repayment hence reduce the probability of loan default.
Abreham (2002) carried a study on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia around Zeway area.

His finding was education and work experience related economic activities before the loan are enhancing loan repayment. While extended loan repayment period influence the repayment performance negatively. In terms of gender composition 12.7% are females while the rest 87.3% are male borrowers. The mean loan-rationing ratio is larger for males while the mean loan recovery rate is less than female borrowers. The proportion of defaulters is 61.5% for females and 69.7% for males. Female borrowers are better payers relative to males. This supports the hypothesis that females feel more responsibility for their family than males.

Jemal (2003) analyzed the microfinance repayment performance of Oromia Credit and

Saving
Institution (OCSI) in Kuyu, Ethiopia. According to his finding, gender, loan size and number of dependents are negatively related to loan repayment. On the other hand, age was found to be positive. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes. Berhanu (2005) studied the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. His finding revealed that experience and numbers of contacts were found to significantly influence the repayment performance. But, loan amount was found to have insignificant effect on loan repayment performance.

Fikirte (2011) conducted a study on the determinants of loan repayment performance in Addis Credit and Saving Institution (ACSI). She found that age has significant positive effect on the loan repayment performance which means as age increased; the probability of being defaulter is decreased. This implies that the borrowers are more aware on financial management and they feel responsibility as they get elder but education and business experiences had no significant effect on the probability of being defaulter. In the group lending female borrowers have performed worse loan repayment performance than male.

Moreover, the percentage of female defaulters was higher than non-defaulter.
Zelalem, Hassen, and Jemal (2013) studied the determinants of loan repayment performance
considering 14 explanatory variables. Among these, business experience was found to significantly influence the probability of being non-defaulter. The remaining variables like age, loan size and educational level were found to have no significant effect on the loan recovery rate.
Million, Nyikal, and Wania (2012) conducted a study on the factors affecting loan repayment
performance. They found that education is an important determinant of loan repayment.

An educated client is able to use modern technologies, perform farming activities based on cropping calendar, and manage resources properly. All these factors boost production, which improves loan repayment.

To summarize, training, repayment period experience and loan size are found to have positive impact on repayment performance, but some studies commented that repayment period and loan size have negative effect on the repayment rate, and other studies contended that loan size and experience have no significant effect on loan repayment performance. These show that the empirical evidences portrayed differences in their findings.

2.11 Conceptual frame work

Here are the model relationship between the independent and dependent variables

Independent variables

Factors affectinggroup based loan

- Borrowers
- Financial institution
- Environmental
- business engaged by borrowers

Dependent variable

group based loan performance

Ability to pay on time

Full payment

Defaulters
None-defaulters

# CHAPTER THREE

# METHODOLOGY OF THE STUDY

## 3.1 Description of the Study Area

Jimma is the largest city in south-western Ethiopia. It is a special zone of the Oromia Region and is surrounded by Jimma Zone. It has a latitude and longitude of 7°40'N36°50'E. The town was the capital of Kaffa Province until the province was dissolved. Prior to the 2007 census, Jimma was reorganized administratively as a special Zone.

Based on the 2007 Census conducted by the Central Statistical Agency of Ethiopia (CSA), this Zone has a total population of 120,960, of whom 60,824 are men and 60,136 women. With an area of 50.52 square kilometers, Jimma has a population density of 2,394.30 all are urban inhabitants. A total of 32,191 households were counted in this Zone, which results in an average of 3.76 persons to a household, and 30,016 housing units. The three largest ethnic groups reported in Jimma were the Oromo (46.71%), the Amhara (17.14%) and the Dawro(10.05%); all other ethnic groups made up 26.1% of the population. Amharic was spoken as a first language by 41.58% and 39.96% spoke Afan Oromo; the remaining 18.46% spoke all other primary languages reported. The majority of the inhabitants said they practiced Ethiopian orthodox, with 46.84% of the population reporting they observed this belief, while 39.03% of the population was Muslim and 13.06% were Protestant.

## 3.2 Research Design

As stated by Kothari (2004), designing research is making a road map to study which leads all function and steps undertaken. As the conceptual structure with in which research is conducted, it consists the blue print for the collection, measurement and analysis of data. It is also strategy of describing procedures about sample size, data source, means of data collection and methods of data processing, analyzing and presenting based on available time and recourse. In this study, the researcher used the research design of descriptive particularly survey type of research.

Research design is categorized in to different types depending on the nature of the study, the researcher employed quantitative research design and descriptive survey designs were used. Moreover, this method is relevant in expressing what is happening currently and finding detailed information. In this study, the researcher usedboth qualitative and quantitative research approach.

## 3.3. Source of Data

Primary data were collected through self-administered questionnaire and structured interview. Then the secondary data would be conducted. The rationale behind for choosing self-administered questionnaire would be due to the strength and weaknesses of the type of data collection type. Second the costs associated with this type of data collection forms. The rationale for selecting a structured interview would be, it is easy to make clarification, probing and prompting with respondent directly. Secondary data would be collected from the microfinance where consulted to have a prior understanding about the subject matter.

## 3.4. Sampling techniques and sample size

Non-probability sampling procedure would be used in this study. Because,a major advantage with non-probability sampling is that compared to probability sampling it's very cost- and time-effective. It's also easy to use and can also be used when it's impossible to conduct probability sampling (e.g. when we have a very small population to work with). The sample population were taken from the OCSSCO of Jimma town of the three consecutive years .The numbers of group based loan for the last three years were 1589 (*Sources: OCSSOC ,Jimma town )*

Here in the study, to determine the sample size, the researcher got 93% of confidence level and an estimation of $\pm$7% level of precision; because it is easier to manage sample size; so that the researcher can control systematic error easily. Although the sample size, determination table can provide the size of the sample, the researcher needs to calculate the necessary sample size by combining the desired precision and confidence of level to increase its reliability and validity. Different authors use different formula to determine the sample size of the study for quantitative. Accordingly, in this study, the following formula set by Kothari (2004), in the case of definite population, used to calculate sample size of the study.

$$n = \frac{Z^2 (p)^2 (q)^2 (N)}{d^2 (N-1) + (Z)^2 (P)^2 (q)^2}$$

*Where*:

n is the desired sample size; N is total population of micro and small enterprises operators in the study area; Z is 1.81 that is z-value for 93% of confidence level; p is an estimation of variance (0.5); q is (1-p) which is equal to 0.5; and e is an estimation of sampling error which is $\pm$7%=0.7. Hence

$$n = \frac{(1.81)^2 (0.5)\,(0.5)\,(1589)}{0.07)^2(1589-1) + (1.81)^2(0.5)\,(0.5)} \qquad \frac{0.819025(1589)}{7.7812 + 0.819025} \quad = \frac{1301.43}{8.6} = \underline{\underline{151}}$$

Therefore, the desired sample of customers in the study was 151 of which the sample size of the size of the study would proportionally calculated as follows:

$$\frac{Xi\,(n)}{N} = \frac{xi\,(151)}{1589}$$

Where, xi is the number of population in OCSSOC.

## 3.5. Methods of Data Collection

The primary data were collected from both employees and customers of OCSSCO Microfinance Jimma branch. Thus, in order to obtain the reliable and sufficient information the research evidence was gathered through a survey was conducted by using detailed close-ended and open-ended questionnaires to client of microfinance. The number indicated in the questionnaire to provide the factors affecting loan repayment and to generate data suitable for quantitative analysis. To generalize the findings through secondary data or documents was reviewed by referring most recent information from authorized documents and different reports.

### Questionnaire

Both open ended and cloth ended questionnaire was be prepared and distributed to 150 customers of the OCSSCO Jimma town. The questionnaire would be contain two sections, the first section is contain about demographic characteristics of the participants .the second section is included questions that address about factors that affecting the group based loan repayment performance, which focused on the factors affecting such on the borrowers related factors, financial institution related factors and borrowers purposes of borrowing money and other related factors of questions were include. The questionnaire was prepared with five Likert Scale of disagree, strongly disagree, neutral , agree and strongly agree The question distributed for sample respondents and translated to the local language (Afan Oromo) to understand easily as much as possible.

### Interview

The researcher used semi-structured interviews contain the components of both, structured and unstructured interviews. In semi-structured interviews, interviewer prepares a set of same questions to answer by all interviewees. Moreover, in this type of primary data collection researcher has direct control over the flow of process and she has a chance to clarify certain issues during the process. Interview were conducted with10 respondents who are purposively select from office heads by assume they have direct contact with the issue of good governance. All interviews are done by allocating time 30 min to each respondent. The qualitative data were presented by using narration and both the data obtained from both instrument triangulated to make finding was be meaning full.

### Focus group discussion

Focus group discussions held with one group only. The participants of focus groups discussion were from groups per arranged for the employee of the OCSSCO of Jimma town.

## 3.6. Method of Data Analysis

Data collected through questionnaires reorganized in to five main categories based on main factors that affect the group based loan repayment performance used in the study and analyzed descriptively. In analyzing the data, SPSS software version 20 was used for simple averages and frequency. Information obtained from interviews of managers support the analysis of data collected directly from employee and service user respondents. The data, both quantitative and qualitative, gathered through each tool is organized, analyzed and interpreted to meet the objectives of the study. For data analysis, combinations of quantitative and qualitative methods are used. The quantitative data collect through questionnaire organized and analyzed in a way that first the responses for the close-ended questions are editing, code and fed to computer by applying appropriate software. Then descriptive statistics mainly frequency, percentage, and cross tabulation was computed for analysis purpose.

On the other hand the qualitative data collect using open ended questions of the survey questionnaire; interviews held with managers and FGD conducted by the employee and using informal discussions with the user communities is organized and analyzed qualitatively through content analysis. For this, first, the note from the informal discussion transcribed and translated from the local language (Afan Oromo) to English. Second, by reading through all of the qualitative data, it is reviewed and organized to develop a general understanding of the data set and short memos are prepared which was best help in organizing and categorizing the data in to concepts either by question or by case. Then, through narrative description the results of the entire qualitative data is analyzed and interpreted. Lastly, the analysis and interpretation of qualitative and quantitative data integrated to handle the research problem.

## 3.7. Validity and Reliability Checks

Cronbach's alpha method was used to determine reliability of the scales where it measures the average of measurable items and its correlation and if the result is generally above 0.5 (or 50%), it is considered to be reliable Peighambari (2007). Regarding validity, this would be defined as extent to which the measurement measures what is intended to measure. The instrument would be designed by taking in to consideration the basic questions and all items would be included in the questionnaires consistent with the objective of the study that is during the construction of the instrument for gathering data, the researcher would be check all questions in the questionnaires with the advisors repeatedly and this would be able to have well prepared and constructed items to collect data.

## 3.8 Ethical Consideration

Participants of the study informed about the objectives of the study emphasizing that the data used only for the intended academic purpose. The data collected by employing various techniques with the consent of the participants of the study. Careful attention has been given regarding respecting the rights, needs, and values of the study subject and maintaining confidentiality of the data and acknowledging sources information.

# CHAPTER FOUR

# 4. PRESENTATION, ANALYSIS AND INTERPRETATION

## 4.1 Introduction

This section includes presentation, analysis and interpretation the data that would be obtained from quantitative and qualitative data. The researcher designed 35 questions for the 150 of the sample size of the study , and one was not responded .The interview was carried out with the managers of OCSSCO , and there were also interview and FGD analysis. The data obtained from the respondents were analyzed concurrently in which the result from both data were analyzed and interpreted parallel, and intermingle described the result.

## 4.2. DEMOGRAPHIC INFORMATION OF THE RESPONDENTS

Table 4.1: Demographic Characteristics of Respondents

| No | | Characteristics | Frequency (N=150) | Percentage (%) |
|---|---|---|---|---|
| 1 | Sex of respondents | Male | 108 | 72 |
| | | Female | 42 | 28 |
| | | Total | 150 | 100 |
| 2 | Age of respondents | 20-30 | 43 | 29 |
| | | 31-45 | 95 | 63 |
| | | 46-55 | 11 | 7 |
| | | Above 56 | 1 | 1 |
| | | Total | 150 | 100 |
| 3 | Educational Level of respondents | None educated | - | - |
| | | Write and read | - | - |
| | | Primary level | - | - |
| | | Secondary school | 5 | 3 |
| | | Certificate | 8 | 5 |
| | | Diploma | 37 | 24 |
| | | Degree | 98 | 65 |
| | | Postgraduate | 2 | 1 |
| | | Total | 150 | 100 |
| 4 | Marital status of respondent | Married | 130 | 87 |
| | | Single | 18 | 12 |
| | | Divorced | 1 | 1 |
| | | Widowed | 1 | 1 |
| | | Total | 150 | 100 |

Sources: Own survey, 2020

Regarding the socio demographic features of the respondents, 108(72%) of the respondents were male, and the rest 42(28%) of them were female. This implies that as male exceeded the women in the experience of the borrowing the money from the OCSSCO. Next , majority 95(63%) of the participants were found between 31-45 age level, 43( 29%) of them were found between 20-30 age level, 11( 7%) of them were found between 46-55, minority 1( 1%) of them were above 56 . Therefore, this implies that majority of the participants were young, who were mature enough to borrow money from the indicated micro finance. Regarding , the educational background of the respondents, majority 98( 65%) of them were degree holders, 37( 24%) of them were diploma holders ,8( 5%) of them were certificate holders, 5( 3%) of them were secondary school , and very minority 2(1%) were post graduate employee . This implies that the borrowers are easily implementing the group based loan payment. Concerning, the marital status, majority 130(87%) of the participants were married, 18(12%) of the participants were single, 1(1%) of them were divorced, and widowed respectively, so, this implies that as most of the participants were responsible and capable in leading their family which has also better understanding and experience in how group based loan performance payment is affected by money factors

## 4.2. Analysis of the Quantitative Data

### 4.2.1. Factors affecting group based on repayment performance.

Table 4.1 Borrower's related factors

| Statements | Strongly disagree | Agree | Neutral | Disagree | Strongly agree | Mean | SD |
|---|---|---|---|---|---|---|---|
| The number of children you have affected your group based loan performance at the household level | 19(12.7%) | 78(52.0%) | 32(21.3%) | 15(10.0%) | 5(3.3%) | 2.22 | .92 |
| The similarity between business and residence place is highly influential | 13(8.7%) | 78(52.0%) | 35(23.3%) | 5(3.33%) | 1(7%) | 2.19 | .88 |
| The distance between your residence place and OCSSCO microfinance institution can be taken as one main factors . | 15(10%) | 87(58.0%) | 30(20.0%) | 16(10.7%) | 2(1.3%) | 2.32 | .93 |
| The distance between your business area and OCSSCO Micro finance is refers as basic impacts of group loan performance | 17(11.3%) | 77(51.3%) | 37(24.7%) | 2(1.3%) | 2(1.3%) | 2.29 | .90 |
| The sources of income you daily or monthly obtained has direct impact on your group based loan performance | 17(11.3%) | 84(56.0%) | 32(21.3%) | 14(9.3%) | 3(2.0%) | 3.53 | 1.22 |
| The numbers of the borrowers in each group is really affecting the group based loan performance | 19(12.7%) | 76(50.7%) | 37(24.7%) | 14(9.3%) | 4(2.7%) | 2.39 | .89 |
| How detail the group members know each other is responsible for the failures of group based loan performance | 20(13.3%) | 77(51.3%) | 35(23.3%) | 13(8.7%) | 5(3.3%) | 2.29 | .64 |
| How the particular group members are responsible for other group members is a big factors for group based loan performance | 20(13.3%) | 83(55.3%) | 30(20.0%) | 3(2.0%) | 1(7.0%) | 2.34 | .72 |
| The prior and the post feeling each members adapt to sued failure to pay the loan | 19(12.7%) | 81(54.0%) | 34(22.7%) | 5(3.3%) | 1(7%) | 2.33 | .83 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| The prior and the post feeling each members adapt to sued failure to pay the loan | 17(11.3%) | 69(46.0%) | 48(32.0%) | 15(10.0%) | 1(7%) | 2.32 | .84 |
| The way your group leaders monitor the loan utilization has impact on the group based loan performance | 15(10.0%) | 78(52.0%) | 35(23.3%) | 17(11.3%) | 5(3.3%) | 2.32 | .84 |
| The group liability in which all group members are coming together is the fore most factors that hinder the group based loan performance . | 16(10.7%) | 76(50.7%) | 40(26.7%) | 2(1.3%) | 1(7%) | 2.54 | .71 |
| The loan size and conflict among the borrowers is the other important factors influencing group based loan performance | 17(11.3%) | 74(49.3%) | 45(30.0%) | 11(7.3%) | 3(2.0%) | 2.22 | .73 |
| The living standards of the borrower's direct influence the group based loan performance. | 22(14.7%) | 76(50.7%) | 41(27.3%) | 7(4.7%) | 4(2.7%) | 2.34 | .82 |
| The environmental condition in which the lenders and borrowers are living can harm the performance of loan payments | 21(14.0%) | 74(49.3%) | 41(27.3%) | 13(8.7%) | 1(7%) | 2.24 | .73 |
| Lack of awareness and being informed is the most factors affecting the group based loan payment performance | 22(14.7%) | 76(50.7%) | 41(27.3%) | 7(4.7%) | 4(2.7%) | 2.45 | .84 |

Sources: Own Survey, 2020

As table 4.1 portrayed that majority (65%) of the participants agree, (25%) of them said neutral, and the rest (4%) of them said disagree. This shows that the number of children borrows affecting the group based loan performance at household level. On the same table 4.1 participants were also asked about similarity between business and residence place influence, majority (61%) of them disagree (23%) of them were neutral and the rest (4%) agreed. Therefore, this indicated that the business and residence place has no influence on group based loan performance of the borrowers.

Regarding the distance between borrowers and OCSSCO, majority (68%) of them disagree, (20%) of them were remain neutral and the rest (12%) of them said agree. This portrayed that as the distance between borrows residence place and OCSSCO has not taken as factors of group based loan performance.

In addition , participants were also asked about the distance between business area OCSSCO microfinance , majority (63%) of them disagree,(25%) of them neutral,(12%) of them were agree. This indicated that area of business OCSSCO has no effect on group based loan payment performance regarding the sources of income that borrowers monthly obtained has impacts group based on loan performance, majority (67%) of them were agree, (21%) of them were being neutral and the rest (11%) of them were disagree .This indicated that the sources of income of the borrowers has impact on group based loan performance of the borrowers.

Participants were also asked about how numbers of borrowers in each group affecting group based loan performance, majority (63%) of them were agree, (25%) of them were being neutral, and the rest (12%) of them were disagree. This indicated that the numbers of the borrowers in each group is really affecting the group based loan payment performance.

As table 4.1also indicated that majority (64%) of their replied that agree,(23%) of them were replied that neutral, (12%) of the them were replied that disagree. This revealed that how the detail the group members know each other is responsible for the failure of group based loan repayment performances.

Participant were also asked about how particular group members are responsible for other group members, majority (68%) of the participants were replied agree, (20%) of them were being neutral, (12%) of them were said disagree. This indicated that how particular group members are responsible for the other group members is big factors for group based loan payment performance.

Regarding, the prior & the past feeling each members adapt to sued failure to pay the loan, majority (66%) of then were said that agree,(22%) of them were being neutral,(11%) of the participants said that disagree. this show that the prior & the post feeling each members adapt to sued failure to pay to loan has impact on the group based loan performance.

Participants were also asked about how the way group leaders monitor the loan utilization has impact on the group based loan performance, majority (62%) of the participant were said that agree, (23%) of then were neutral, (15%) of them were disagree. This show that the way group member monitors the loan utilization has impacts on group based loan repayment performance.

Concerning the group liability in with all group members are coming together is the fore most factors that hinder the group based loan performance, majority (61%) of them said agree, (27%) of them were being neutral (12%) of them said disagree. This indicated that as the group liability of each group members is the fore most factors that affecting the group based loan performance.

Regarding the loan size and conflict among the borrowers, majority (60%) of the participants were said agree, (30%) of them were being disagree so, this portrayed that the loan size & conflict among the borrowers is the another factors affecting group based loan performance.

In addition, participants were also asked about how living standard of the borrowers influence the group based loan performance, majority (65%) of them replied that agree,(27%) of the participants were said neutral, and (7%) of the participants replied that disagree. These confirm that the living standard of the borrowers is directly influence the group based loan performance.

Participants were also asked about how environmental condition that leaders borrowers are living affect the group based loan performance, majority (63%) of them were disagree, (27%) of them were being neutral, and  the rest (9%) of them were agree This indicated that, environmental conditions in w/c leaders & borrowers are living is not affecting the group based loan payment performances.

Finally, respondents were also asked about how lack of awareness is the most factors affecting group based loan payment performance, majority (65%) of them replied agree (27%) of the respondents said that neutral, and the rest (7%) of them were disagree about it. so, this revealed that, lack of awareness of the borrowers are affecting the group based loan payment performance.

## 4.2. Analysis on financial institution

### Table. 4.2. Financial institution related factors

| Statements | Strongly disagree | Agree | Neutral | Disagree | Strongly agree | Mean | SD |
|---|---|---|---|---|---|---|---|
| The time loan issued by the lender organization | 13(8.7%) | 82(54.7%) | 41(27.3%) | 12(8.0%) | 2(1.3%) | 2.22 | .92 |
| The loan size given by the organization. | 19(12.7%) | 77(51.3%) | 10(6.7%) | 2(1.3%) | 1(7%) | 2.19 | .88 |
| The frequency of collection offered by the OCSSOC. | 15(10.0%) | 82(54.7%) | 36(24.0%) | 16(10.7%) | 1(7%) | 2.32 | .93 |
| The repayment time set by the OCSSCO micro finance | 13(8.7%) | 85(56.7%) | 36(24.0%) | 15(10.0%) | 1(7%) | 2.29 | .90 |
| The repayment scheme of the OCSSCO set by micro finance | 12(8.0%) | 88(58.7%) | 41(27.3%) | 8(5.3%) | 1(7%) | 3.53 | 1.22 |
| Interest rate for credit set by OCSSCO microfinance | 15(10.0%) | 90(60.0%) | 32(21.3%) | 12(8.0%) | 1(7%) | 2.39 | .89 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Lack of proper follow up of the loan officers | 15(10.0%) | 93(62.0%) | 29(19.3%) | 12(8.0%) | 1(7%) | 2.37 | .97 |
| Weak legal enforcement for defaulters | 18(12.0%) | 85(56.7%) | 32(21.3%) | 12(8.0%) | 3(2.0%) | 2.32 | .84 |
| Improper use of the loan | 19(12.7%) | 87(58.0%) | 27(18.0%) | 14(9.3%) | 3(2.0%) | 2.2 | .82 |
| Lack of interest for doing business | 16(10.7%) | 87(58.0%) | 33(22.0%) | 11(7.3%) | 3(2.0%) | 2.32 | .75 |
| Lack of training on different microfinance service (credit, saving, insurance, loan and others ) given by micro finance | 17(11.3%) | 92(61.3%) | 26(17.3%) | 14(9.3%) | 1(7%) | 2.41 | .83 |
| The status of loan officers to check the status of the loan repayments | 10(6.7%) | 89(59.3%) | 35(23.3%) | 15(10.0%) | 1(7%) | 2.23 | .82 |

Sources: Own Survey, 2020

In addition to borrower's related factors, respondents were also asked about financial institution factors that affecting the group based loan payment performance of OCSSCO, which are analyzed and interpreted as follow.

As table 4.2 indicated that, majority (63%) of the participants replied that disagree, (27%) of the participant to were replied neutral, and the rest (9%) of the participants replied agree. This show that the time loan issued by the leader of the organization is not influencing the group based loan payment performance.

Participants were also asked about how the loan size given by the organization affecting group based loan payment performance,& majority (64%) of them said agree, (27%) of them were being neutral,(9%) of them said that disagree. This indicated that the loan size given by the organization.

Regarding the frequency of collection offered by the OCSSCO, majority (65%) of the participants replied that agree, (24%) of them are neutral, and others (11%) of them replied disagree. this indicated that the frequency of collection offered by the OCSSCO is the among the factors that affecting group based loan payment performance.

Concerning the payment time set by the OCSSCO micro finance majority (65%) of the participants replied that agree,(24%) of the participant neutral and (11%) of them said that disagree. so. this confirm that the repayment time set by the OCSSCO micro finance.

Participants were also asked about repayment scheme of the OCSSCO set by the micro finance majority (67%) of the participants were said agree, (27%) of them were neutral and the rest (6%) of them said disagree this indicated that, the repayment scheme of the OCSSCO set by micro finance .

Participants were also asked about interest rate for credit set by OCSSCO micro finance. majority (70%) of them were agree, (21%) of the participants were being neutral , and the rest (9%) of them were disagree. this portrayed that interest rate for credit set by OCSSCO of the micro finance is affecting the group based loan repayment performance .

Regarding the lack of proper follow up on the loan officers majority (72%) of the participants said agree, (19%) of the respondents replied neutral, and the rest (9%) of the participants said that disagree. this portrayed that lack of proper follow up of the loan officers has impacts on group based loan repayment performance.

Participants were also asked about how weak legal enforcement for defaulters, majority (69%) of them were agree, (21%) of them were being neutral, and the rest (10%) of the participants were disagree. This show that the weak legal enforcement for defaulters is considered as the main factors for group based loan repayment performance.

In addition improper use of the loan is also one factor that affecting group based loan repayment performance, by that majority (71%) of the participant said agree, (18%) of them are neutral and (11%) of them were disagree. Lack of training on different micro finance service (credit, saving, insurance, loan and others) given by micro finance, majority (73%) of the participants replied that agree, (17%) of them were neutral, of (10%) of the participants were disagree. This portrayed that lack of training on different micro finance services that is given on credit, saving, insurance loan and others.

Finally, participants were also asked about the status of loan officers to check the status of the loan repayment, majority (66%) of the participants replied that agree , (23%) of them were being neutral, and the rest (11%) of them were disagree . These confirm that the status of loan officers to check the status of the loan repayment is the factors that affecting the group based loan repayment performance in OCSSCO

## 4. 3. Analysis on business related

Table .4.3. Business Related factors

| Statements | Strongly disagree | Agree | Neutral | Disagree | Strongly agree | Mean | SD |
|---|---|---|---|---|---|---|---|
| The types of the business borrowers engaged on is big factors of the group based loan repayment performance | 49(32.7%) | 67(44.7%) | 10(6.7%) | 14(9.3%) | 10(6.7%) | 2.39 | 0.95 |
| How long the borrowers experience the business | 36(24%) | 79(52.7%) | 12(8.0%) | 16(10.7%) | 7(4.7%) | 2.35 | 0.85 |
| Lack of the market study conducted before starting the business | 49(32.7%) | 72(48%) | 11(7.3%) | 10(6.7%) | 8(5.3%) | 2.39 | 0.87 |
| Lack of access business information on the engaged | 54(36.0%) | 62(41.3%) | 14(9.3%) | 11(7.3%) | 9(6.0%) | 2.35 | 0.87 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| business | | | | | | | |
| The uncomfortable of the site of the business | 55(36.7%) | 61(40.7%) | 11(7.3%) | 15(10.0%) | 8(5.3%) | 2.39 | 0.92 |

Sources: Own Survey, 2020

Here are the analysis of the data that primarily deal about factors related with business, so participants were asked about how the types of business borrowers engaged on his impacts on group based loan payment performance, majority (77%) of them said agree (7%) of them replied neutral and the rest (16%) of them said disagree . This revealed that as the types of the business borrowers engaged on has impact on the group based loan payment performance.

In addition, participants were replied that as how long the borrowers experiences in the business has impact on the group based loan payment performance by that majority (77%) of the participants replied that agree, (8%) of them were being neutral, and (15%) of the participants were replied disagree

Further participants were also asked about how lack of market study conducted before starting the business has impact, on group based loan payment performance, majority (81%) of them were agree (7%) of them were remain neutral & (10% ) of them said disagree

Participants were also asked about how lack of access business information on the engaged business majority (77%) of the participant said agree, (9%) of them were being neutral (13%) of them were said disagree . This also confirm that lack of access business information on the engaged business has impacts on group based loan payment performance.

Finally, participants were also confirm by majority (77%) dis agree ,(7%) of them were neutral, and (15%) of them were agree that the uncomfortable of the site of the business has no effects on group based loan payment performance of the customers of OCSSOC

## 4. 4. Analysis on purpose of the borrowing money

Table 4.4: Factors related to the purposes of borrowed money.

| Statements | Strongly disagree | Agree | Neutral | Disagree | Strongly agree | Mean | SD |
|---|---|---|---|---|---|---|---|
| Most of the customers are borrowed to pay their debt to improve their new business | 11(7.3%) | 87(58.0%) | 34(22.7%) | 17(22.7%) | 1(11.3%) | 2.39 | 0.81 |
| Borrowers are taken money to expand their business in which they are engaging on. | 11(73.%) | 84(56.0%) | 37(24.7%) | 15(10%) | 3(2.0%) | 2.33 | 0.83 |
| Most of the customers are borrows to pay school fee for their sons and daughters | 17(11.3%) | 77(51.3%) | 43(28.7%) | 11(7.3%) | 2(1.3%) | 2.37 | 0.83 |
| A few of the customers borrowed to purchase agricultural inputs and qualities of the existing products. | 14(9.3%) | 79(52.7%) | 43(28.7%) | 14(9.3%) | | 2.37 | 0.81 |
| Most loans are borrowed to solve the daily life of the people | 10(6.7%) | 10(6.7%) | 85(56.7%) | 44(29.3%) | 1(7%) | 2.32 | 0.73 |
| The borrowers are borrowed loan aiming to improve their living standards | 1(7%) | 5(3.3%) | 17(11.3%) | 88(58.7%) | 39(26%) | 2.29 | 0.78 |
| The borrowers are borrowed for the purpose of leisure and joyful of their life | 2(1.3%) | 4(2.7%) | 19(12.7%) | 78(52.0%) | 46(30.7%) | 2.27 | 0.78 |
| Most customers are borrowed to cultivate their harvesting | 4(2.7%) | 20(13.3%) | 77(51.3%) | 48(32.%) | 1(7%) | 2.23 | 0.75 |
| The borrowers utilized the money for the purpose of horticulture , that included bearing livestock like sheep an oxen and cows | 8(5.3%) | 15(10.0%) | 74(49.3%) | 53(35.3%) | | 2.3 | 0.92 |
| The borrowers are taken loan to improve to ensure modern agricultural products | 1(7%) | 4(2.7%) | 18(12.0%) | 76(50.7%) | 51(34.0%) | 2.2 | 0.82 |
| Most money are spend on the construction of living house | 2(1.3%) | 4(2.7%) | 13(8.7%) | 78(52.0%) | 53(35.3%) | 2.24 | 0.76 |

Sources: Own survey, 2020

As it can be on shown table 4.4 majority (65%) of the participants replied that disagree, (23%) of them said neutral and the rest, (12%) of the participants replied agree. This revealed that as customers of OCSSCO do not borrowed money to pay their debt to improve their new business.

Participants were also asked about how borrowers are taken money to expand their business, majority (63%) of them  agree ,(25%) of the participants were being neutral, and the rest(12%) of then were replied disagree. This show that most borrowed are taken money to expand their business in w/c they engaged on

Regarding the how borrowers are borrowed money to pay school fee for their sons of daughters, majority (63%) of the participants were replied that disagree (29%) of the participants were remain neutral & (8%) of them were agree. This confirm that borrowers has not borrowed money for school fees of their sons & daughters, so, school fees that has paid by parents for their so as & daughters are not factors that affecting the group based loan repayment performance of the borrowers.

Participants were also asked about how a few customers borrowed to purchase agricultural inputs and qualities of the existing products, majority (62%) of the participants were replied disagree,(29%) of them were neutral, and the rest (9%) of them were agree. This confirm that customers are not borrowed money to purchase agricultural inputs qualities of the existing products

Regarding how most loans are borrowed to solve the daily life of the people most (86%) of the participants were replied agree, (1%) of them were being neutral and the rest (13%) of the participants were disagree. This implied that most loans are borrowed to solve the daily life of the people

As majority (85%) of the participants agree that borrowers are borrowed loan aiming  to improve their living standards, (11%) of them said neutral, & the rest (4%) replied disagree.

In addition borrowers were asked about how borrowers are borrowed for the purposes of leisure and joyful of their life, majority (83%) of them were disagree,(13%) of them were neutral, & (4%) of them were agree. This portrayed that borrowers are not borrowed for the purposes of leisure’s and joyful of their life

Participants were also asked about how they are borrowed to cultivate their harvesting , majority (83%) of the participants were disagree (1%) of them were being neutral, about (16%) of them were agree .This revealed that , customers  were  borrowed money from

OCSSCO  are not for the purposes of  cultivate their harvesting.

Regarding how the borrowed money is invested on horticulture that includes beaning livestock oxen and sheep, majority (85%) of them were  disagree and (15%) of them were said agree. this confirm that , customers are not engaged on horticulture that includes bearing of livestock like sheep, cows & oxen.

In addition participants were also asked about whether borrows are taken loan to improve to ensure modern agricultural product, majority (85%) of the participants said that disagree, (12%) of them were replied neutral, and the rest (3%) of the respondents were said agree. so this implied that, customers are not borrowed loan to ensure their agricultural products.

Finally, participants were also asked about how the borrowed money is spend on construction of living house majority (87%) of the participants were agree, (9%) of then were neutral, and the (4%) of them replied disagree. This indicated that some borrowers are spend their money on constructing their own living houses.

## 4.6. Discussion of the finding

Government regulation/political legal factor had positive impact to performance of loan repayment performance. The results of the key informant or the concerning stakeholder like micro finance also described problem about trade licensing and registration bureaucracy and government doesn’t recognize the tax exemption, initiating by supporting finance  and working capital. The main headache of the enterprise is corruption that occurs during formation of member without rule and regulation by professionals. The last hindrance of the government regulation system are the institutional structure or system that makes the people feel boring to get the service of government to legalize or other service of their business.

While working place like shade working premise study revealed place that are proximity to the center, shading, working premise affect to  great extent, these study also supported by issue of land provision and the land lease system has greatly constrained the chances of  micro finance who aspire to startup businesses. This variable has a statically strong relation with performance of manufacturing. When there accessible working place, shade and reasonable house rent there were a great significance increment in group based loan repayment performance .

The result of key informant like micro finance said that the enterprise face problem like shading, working place.by these prominent factor the enterprise dispersed in different un marketable place which were not favorable for market, as result the enterprise ended up within short period of time. Due to lack of working place and shading, the people are rent working place in high cost so they can't repay their debt easily. To minimize this problem, we are doing now working shade and working place which are near to proximity to market.

The study sought that about technological factor like lack of information and unreachability of proper tools and material, lack of skill and knowledge to handle new technology, expensiveness or lack of capital to acquire new technology and un able to select proper technology are impacted a great extent loan repayment performance. Study supported choice of technology and innovative capacity is another important factor determining growth of micro finance.

It also focuses on incremental choice and suitability of available technologies to the production and market environment of micro finance so operating in environment of unskilled and large labor market, low income consumer market, and low quality inputs. Choice of technology and innovative capacity is another important factor determining growth of loan repayment performance.

Study result in technological factor such adequate of technological input, knowledge to utilize different machine and technological product and diffusion of technology have great impact on performance of one particular business especially in manufacturing that were capital intensive.

The point out those low technological capabilities hinders and discourages micro finance from fully reaching their potential. This variable has a statically strong relation with performance of manufacturing. According to key informant, in adequate of technological input, lack of knowledge to utilize different machine and technological product and in availability of technology have great impact on performance of one particular business especially in loan repayment performance that were capitals intensive.

As the interviewee found that the perspective of basic infrastructure interruption of electric power, lack of water, energy inadequate transportation and other working condition are the major obstacle of enterprise development in this town. The study also established that in availability of managerial skills and experience that results poor organization and lack of communication, lack of low cost and accessible training facility, lack of well-trained and educated manager and owner, improper human financial and material management affects the group based loan repayment as a great extent in OCSSCO .

In most of the studies done the commonly cited cause of small businesses failure is poor management and the overall effects of management factor on performance of manufacturing challenges or regret buck as a great extent. This implied that lack of managerial skill, experience, poor organization structure and in adequate training are the major bottle neck problems of group based loan repayment performance.

The key informant or stake holder like small and micro enterprise result of the enterprise has or assigns manager in all types of enterprise, but they don't have adequate managerial skill or role. More of are not take the course or displace of management, but they try lead or coordinate the overall activity of the business by rule of thumb. So we have doing now give different training and skill to the manager and the employee with our stake holders of technique and vocational institution by kaizen, interpersonal skill.

The study also identified entrepreneurial factor that lack of tolerance to work hard, lack of readiness to learn to improve to change, lack of creativity flexibility and adaptability to new idea and lack of entrepreneurship training challenging the loan repayment performance as a great extent or they regret buck or bottle neck of manufacturing development in OCSSCO . In addition to these the overall effects of entrepreneurial factor affects a great extent of manufacturing enterprise. These indicated that creativity, flexibility, adaptability and lack of entrepreneurial workshop or training are hanged the loan repayment performance. And result are still now there is no the trend of creating new thing as habit and there is no work shop center of for innovation and invention new things in these town. The members due to have lack of knowledge preparing business plan, their business effectiveness and productivity are not clearly visible and within short period of time become closed.

The key informant or stake holders like micro finance and technical and vocational training result also showed that, there is no the trend of creating new thing as habit and there is no work shop center of for innovation and invention new things in these town. The members due to have lack of knowledge preparing business plan, their business effectiveness and productivity are not clearly visible and within short period of time become closed.

The study sought about finance since distinguished in chapter two, an organized financial institution permits the enterprise specifically micro finance to have right to use to financial service (loan or credit provision) as well as non-financial services (provision of different training), which they are often denied .

The promotion of this sector is acceptable on the bases that improving expansion with equity, creating long-term jobs, providing the basis for micro finance. The industrial growth plan places a means to support the micro finance institution such as, infrastructure, financial facilities, supply of raw materials, and training. Secondly, apart from financial services, microfinance institutions also offered nonfinancial services to loan performance. The major non-financial services supplied by microfinance institutions and technique/vocational training institution were setting up business plan and monitoring and supervising, book keeping, entrepreneurial training, skill training and production training. Finally, the delivery of microfinance institutions products and services had transaction cost results in order to have larger outreach. Microfinance institutions visit their customers instead of them to approach to the institution thus declining the cost that customers may experience from, the study also reveal that the return or the repayment period of the loan is too short is the major problem of enterprise to sustain liquidity strength and capital accumulation. Limited access to finance means that the entrepreneurs may not be in a position to take on opportunities as and when they arise.

According to key informant result the enterprise mainly gain fund or borrow from Oromia credit and saving institution by fulfilling their criteria like collateral and compulsory/20percent pre-loan saving methods. Collateral criteria were used by the institutions to finance micro and small enterprises first the firms formed by the group and provided business plan after that each firm member make his /her collateral then the micro finance bring the loan repayment effectively

When there is market chain, use different promotional technique and linkage between different stake holders there were significance increment in loan repayment performance. The study established that marketing factor those are market linkage, promotional technique, customer handling and awareness creation about patronage or local product affect the performance of manufacturing as a great extent. Poor awareness about marketing tool, promotional technique absence of market linkage hinders the performance of manufacturing.

General questions to interview or key informant regarding to what are other problem(s) did you faced regarding the overall the factors affecting the group based loan repayment performance. Based on this question the respondents stated that there is lack of moral in operator, lack of attitude towards business, political instability, competition, education, and lack of regular follow up of performance evaluation from concerning body.

Generally performance of group based loan repayment performance in Jimma town obstructed as great extent by political-legal or government regulation factor , Entrepreneurship factor , marketing factor , accessibility of basic infrastructure , financial factor , working place factor , Technological factor and management factor , ranked according to their potential to affect the performance of group based loan repayment performance.

# Chapter Five

# 5. Major Finding, Conclusion and Recommendation

## 5.1 Major Finding

Base on the result that obtained from both quantitative and qualitative data, the following major finding were drawn and the major finding of the study was in line with basic research questions, What are the major factors that affect loan repayment performance of borrowers in OCSSCO?. To what extent the borrowers are influenced by the factors affecting their repayment performance. What are the major challenges faced by OCSSCOJimma branch in the collection process related?

As majority (65%) of the participants were agree this show that the number of children borrows affecting the group based loan repayment performance at house level. Participants were also asked about similarity between business and residence place influence, majority (61%) of them replied disagree this confirm that as the business and residence place has no influence on group based loan repayment performance of the borrowers.

Regarding the distance between borrowers and OCSSCO, majority (68%) of them disagree and this portrayed that as the distance between borrows residence place and OCSSCO has not taken as factors of group based loan performance.

Participants were also asked about the distance between business area OCSSCO microfinance, majority (63%) of them disagree, this indicated that area of business OCSSCO has no effect on group based loan repayment performance .Regarding the sources of income that borrowers monthly obtained has impacts group based on loan performance, majority (67%) of them were agree and this revealed that the sources of income of the borrowers has impact on group based loan performance of the borrowers .

Participants were also asked about how numbers of borrowers in each group affecting group based loan performance, majority (63%) of them were agree and this confirm that the numbers of the borrowers in each group is really affecting the group based loan repayment performance.

As majority (64%) agree that how the detail the group members know each other is responsible for the failure of group based loan repayment performances.

Participant were also asked about how particular group members are responsible for other group members, majority (68%) of the participants were agree that how particular group members are responsible for the other group members is one factors for inefficient group based loan repayment performance.

Regarding, the prior and the past feeling each members adapt to sued failure to pay the loan, majority(66%) of then were agree that the prior and the post feeling each members adapt to sued failure to pay to loan has impact on the group based loan performance.

Participants were also asked about how the way group leaders monitor the loan utilization has impact on the group based loan performance, majority (62%) of the participant were agree that the way group members monitors the loan utilization has impacts on group based loan repayment performance.

Concerning the group liability in with all group members are coming together is the fore most factors that hinder the group based loan repayment performance, majority (61%) of them agree this indicated that as the group liability of each group members is the fore most factors that affecting the group based loan repayment performance.

Regarding the loan size and conflict among the borrowers, majority (60%) of the participants were agree and this portrayed that the loan size & conflict among the borrowers is the another factors affecting group based loan performance.

In addition, participants were also asked about how living standard of the borrowers influence the group based loan performance, majority (65%) of them agree , which also confirm that the living standards of the borrowers is directly influence the group based loan repayment performance.

Participants were also asked about how environmental condition that leaders borrowers are living affect the group based loan performance, majority (63%) of them were disagree which indicated that, environmental conditions in which leaders and borrowers are living is not affecting the group based loan repayment payment performances.

Respondents were also asked about how lack of awareness is the most factors affecting group based loan payment performance, majority (65%) of them agree and this revealed that, lack of awareness of the borrowers are affecting the group based loan repayment performance. .

As majority (63%) of the participants disagree that show that the time loan issued by the leader of the organization is not influencing the group based loan repayment performance.

Participants were also asked about how the loan size given by the organization affecting group based loan repayment performance, and majority (64%) of them agree, this indicated that the loan size given by the organization has one of the factors affecting the group based loan repayment performance

Regarding the frequency of collection offered by the OCSSCO, majority (65%) of the participants agree, this indicated that the frequency of collection offered by the OCSSCO is the among the factors that affecting group based loan repayment performance.

Concerning the repayment time set by the OCSSCO micro finance majority (65%) of the participants agree and this confirm that the repayment time set by the OCSSCO micro finance.

Participants were also asked about repayment scheme of the OCSSCO set by the micro finance majority (67%) of the participants were agree, which in turn indicated that the repayment scheme of the OCSSCO set by micro finance is also among the factors affecting the group based loan repayment performance.

Participants were also asked about interest rate for credit set by OCSSCO micro finance. Majorities (70%) of them were agree, and this portrayed that interest rate for credit set by OCSSCO of the micro finance is affecting the group based loan repayment performance.

Regarding the lack of proper follow up on the loan officers majority (72%) of the participants agree and this portrayed that lack of proper follow up of the loan officers has impacts on group based loan repayment performance.

Participants were also asked about how weak legal enforcement for defaulters, majority (69%) of them were agree ,this show that the weak legal enforcement for defaulters is considered as the main factors for group based loan repayment performance.

In addition improper use of the loan is also one factor that affecting group based loan repayment performance, by that majority (71%) of the participant said agree so as lack of training on different micro finance service (credit, saving, insurance, loan and others) given by micro finance, majority (73%) of the participants agree and this portrayed that lack of training on different micro finance services that is given on credit, saving, insurance loan and others.

Participants were also asked about the status of loan officers to check the status of the loan repayment, majority (66%) of the participants agree and this also tell us that the status of loan officers to check the status of the loan repayment is the factors that affecting the group based loan repayment performance in OCSSCO.

As majority (77%) of them said agree (7%) of them replied neutral and the rest (16%) of them disagree that revealed that as the types of the business borrowers engaged on has impact on the group based loan repayment performance.

Concerning how long the borrower's experiences in the business have impact on the group based loan repayment performances by that majority (77%) of the participants agree on the raised issue.

As majority (81%) of the participants confirm that how lack of market study conducted before starting the business has impact, on group based loan repayment performance.

Participants were also asked about how lack of access business information on the engaged business majority (77%) of the participant agree and this also confirm that lack of access business information on the engaged business has impacts on group based loan repayment performance.

## 5.2 Conclusion

Based on the major finding, the researcher forwarded the following conclusion .As the basic research questions and objectives of this study were about the factors affecting the group based loan repayment performance. The finding of this study revealed and attempted to identified about four major challenges or factors affecting group based loan repayment performance in OCSSCO in Jimma town, these were borrowers related factors, institutional (OCSSCO) related factors, business related factors and the purposes of the borrowed money were identified as they were affecting the group based loan repayment performance of this institution.

Therefore , as the final result of this study confirm that , the group based loan repayment performance of OCSSCO of micro finance of Jimma town is weak , inefficient which is more of discrepancy that did not lead the customers to profitability and being successful in their business , due the following summarized major factors :

- Borrowers related factors ( numbers of children can customers have, failure to pay the loan, the way group leaders monitor loan utilization , group liability )
- Financial Institution (OCSSCO) Related factors ( the time loan issued by the lender , the loan size given by OCSSCO , the frequency of collection offered by OCSSCO, the repayment time set by the organization , interest rate set for the credit , lack of the proper follow up of the loan officers, weak legal enforcement for the defaulters , and lack of training given to customers on credit and saving by the organization )
- Business Related factors (the types of business borrowers engaged on, how long the borrowers experiences on doing business, lack of the market study conducted before starting business, and lack of the access information).
- Purposes of borrowed money Related factors ( most customers were borrowed money to improve their daily living condition and attempt to live standard life , rather than engaged on the further business)

## 5.3. Recommendation

Based on the major finding and conclusion of this study, the researcher forwards the following recommendation: As it is already identified that factors affecting the group based loan repayment performance in OCSSCO was relied on the borrowed, business, institutional and purpose of the borrowed money .Therefore, having saying this, the researcher would like to give the following recommendation based on the finding of the study:

- The OCSSCO has to be follow up the borrowers, training on the credit and saving has to be given for the borrowers
- The time of the repayment has to be modified; the interest rate has also be revised as per the income of the borrowers.
- The OCSSCO has to consider factors affecting the group based loan repayment performance before lending money to customers.
- The micro finance institution (OCSSCO) has to give some awareness about how the credit and saving share company is performing as well as its ground rules for the group members.
- The OCSSCO also make sure that how each and every group members has known each other and make study on their back ground before lending money to them.
- The business area in which the borrowers has to engage on also has to be studied and need progressive follow up by the OCSSCO.
- The loan officers has to be check the status of loan repayment performance
- Frequency of collection offered by the OCSSCO also needs modification because the customers were un able to repay loan within allocated time.
- The group liability of the members has to be evaluated seriously, because some group were come from different area, that has its own impacts on the group based loan repayment.

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APPENDIXES A

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OFBANKING AND FINANCE

QUESTIONNAIRE TO BE FILLED BY OCSSOC EMPLOYEE

*DEAR RESPONDENTS!*

The main objective of this study is *to assess the factors that affecting group based loan repayment performance: The case of OCSSCO*, Micro finance , in Jimma branch . Your responses have high value for my research and it is intended only for academic purpose authorized by Jimma University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised has paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. The quality and quantity of information you provide determines the ultimate reliability of the study. To assure you that all verbal and written response are confidential or not exposed to anyone. For genuinely doing so by devoting your time and exerting efforts, I am really very grateful to you.

Thank you very much in advance for your cooperation and for sacrificing your invaluable time!!!

FantahunAsfaw (Masters Candidate)

Mobile No:0913304819

E-mail address:

Jimma University

Ethiopia

NB.

You don't need to write your name

Where ever you see vague question, you frankly inform to the researcher.

General Instruction: Read the following items and respond to each question by putting a tick mark /√/to your choice; please don't leave questions without answering.

Part one: Background Information

Put "√" marks in box given for your choice

1. Sex: - Male ☐ Female ☐

2. Marital status A. Married☐ B. Single☐

3. Age

A) 22 -25 ☐

B) 26 -30 ☐

C) 31 -40 ☐

D) 41 and above☐

4. Qualification

A) Diploma ☐

B) 1st degree ☐

C) 2nd degree and abov☐

5. Service year in your career functioning

A. 01-05 ☐

B. 06- 10 ☐

C. 11-15 ☐

D.16 and above ☐

Part Two: Instruction on how questions can be filled

The following questions are designed with 5 alternatives which encompass the indicators of the factors that affecting the group based loan performance. Therefore, you are kindly requested to identify the factors that affecting your group based loan performance is currently looking for and put a tick mark /√/for all questions. The numbers in the top of the tables indicates how you measure the indictors, so you have to use the numbers that represent the scale as follow. Please state your Please state your Agreements and Disagreements for the following statements on the factors that affecting the group based loan repayment performance.

KEY: 5 = strongly agree, 4 = agree, 3 = Neutral, 2 = disagree, 1= strongly disagree

| | Items | 5 | 4 | 3 | 2 | 1 |
|---|---|---|---|---|---|---|
| 1 | Questions related to factors affecting the group based loan repayment performance | | | | | |
| 1 | *Borrower Related Factors* | | | | | |
| 1.1 | The number of children you have is affect your group based loan performance at the household level | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | | | |
| 1.2 | The similarity between business and residence place is highly influential | | | | | |
| 1.3 | The distance between your residence place and OCSSCO microfinance institution can be taken as one main factors . | | | | | |
| 1.4 | The distance between your business area and OCSSOC Micro finance is refers as basic impacts of group loan performance | | | | | |
| 1.5 | The sources of income you daily or monthly obtained has direct impact on your group based loan performance | | | | | |
| 1.6 | The numbers of the borrowers in each group is really affecting the group based loan performance | | | | | |
| 1.7 | How detail the group members know each other is responsible for the failures of group based loan performance | | | | | |
| 1.8 | How the particular group members are responsible for other group members is a big factors for group based loan performance | | | | | |
| 1.9 | The prior and the post feeling each members adapt to sued failure to pay the loan | | | | | |
| 1.10 | The way your group leaders monitor the loan utilization has impact on the group based loan performance | | | | | |

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| 1.11 | The group liability in which all group members are coming together is the fore most factors that hinder the group based loan performance . | | | | | |
| 1.12 | The loan size and conflict among the borrowers is the other important factors influencing group based loan performance | | | | | |
| 1.13 | The living standards of the borrowers direct influence the group based loan performance . | | | | | |
| 1.14 | The environmental condition in which the lenders and borrowers are living can harm the performance of loan payments . | | | | | |
| 1.15 | Lack of awareness and being informed is the most factors affecting the group based loan payment performance | | | | | |

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| *2.* | *Factors related with financial institution (*OCSSCO*)* | | | | | |
| *2.1* | The time loan issued by the lender organization | | | | | |
| *2.2* | The loan size given by the organization | | | | | |
| 2.3 | The frequency of collection offered by the OCSSCO | | | | | |
| 2.4 | The repayment time set by the OCSSCO micro finance | | | | | |
| 2.5 | The repayment scheme of the OCSSCO set by micro finance | | | | | |
| 2.5 | Interest rate for credit set by OCSSCO microfinance | | | | | |
| 2.6 | Lack of proper follow up of the loan officers | | | | | |
| 27 | Weak legal enforcement for defaultersImproper use of the loan | | | | | |
| 28 | Lack of interest for doing business | | | | | |
| 29 | Lack of training on different microfinance service (credit, saving, insurance, loan and others ) given by micro finance | | | | | |
| 30 | The status of loan officers to check the status of the loan repayments | | | | | |
| 31 | The manner the employee and loan officers give services for the borrowers | | | | | |
| 3 | **Factors related with business related** | | | | | |
| 3.1. | The types of the business borrowers engaged on is | | | | | |

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| | big factors of the group based loan repayment performance | | | | | |
| 3.2. | How long the borrowers experience the business | | | | | |
| 3.3. | Lack of the market study conducted before starting the business | | | | | |
| 3.4. | Lack of access business information on the engaged business | | | | | |
| 3.5. | The uncomfortable of the site of the business | | | | | |

| 4 | **Questions Related to the purposes of borrowing money** | | | | | |
|---|---|---|---|---|---|---|
| 1 | Most of the customers are borrowed to pay their debt to improve their new business | | | | | |
| 2 | Borrowers are taken money to expand their business in which they are engaging on . | | | | | |
| 3 | Most of the customers are borrows to pay school fee for their sons and daughters | | | | | |
| 4 | A few of the customers borrowed to purchase agricultural inputs and qualities of the existing products | | | | | |
| 5 | Most loans are borrowed to solve the daily life of the people | | | | | |
| 6 | The borrowers are borrowed loan aiming to | | | | | |

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| | improve their living standards | | | | | |
| 7 | The borrowers are borrowed for the purpose of leisure and joyful of their life | | | | | |
| 8 | Most customers are borrowed to cultivate their harvesting | | | | | |
| 10 | The borrowers utilized the money for the purpose of horticulture , that included bearing livestock like sheep a, oxen and cows | | | | | |
| 11 | The borrowers are taken loan to improve to ensure modern agricultural products | | | | | |
| 12 | Most money are spend on the construction of living house | | | | | |

<u>Open ended questions</u>

1. Suggest your own general comment on borrowers factors that affect group based loan repayment performance?

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2. Comment on the factors that related with micro finance institution and add other factors on this regards?

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3. Give your further response on the factors related with business related factors, specify?

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4. Suggest your feedback on the purpose of the customers need to borrow loan?

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# APPENDIXES B

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING AND FINANCE

QUESTIONNAIRE TO BE FILLED BY OCSSOC EMPLOYEES

INTERVIEW QUESTIONS FOR THE MANAGER OF OCSSOC MICRO FINANCE

The main objective of this study is to assess the factors that affecting group based loan repayment performance. The case of OCSSCO , Micro finance , in Jimma branch . Your responses have high value for my research and it is intended only for academic purpose authorized by Jimma University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised has paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. The quality and quantity of information you provide determines the ultimate reliability of the study. To assure you that all verbal and written response are confidential or not exposed to anyone.  For genuinely doing so by devoting your time and exerting efforts, I am really very grateful to you.

Thank you very much in advance for your cooperation and for sacrificing your invaluable time!!!

FantahunAsfaw  (Masters Candidate)

Mobile No:0913304819

E-mail address:

Jimma University

Ethiopia

1. What are the challenges that your branch of OCSSCO micro finance?

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2. What are the most important opportunities has OCSSCO contributes for the community?

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3. What are the factors that affect the group based loan performance in your branch?

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4. What attempts you are doing to minimize the challenges and factors affecting the loan performance of the borrowers?

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5. As the branch manager of this micro finance, have you facilitated pre condition for the customers?

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APPENDIXES C

JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING AND FINANCE

QUESTIONNAIRE TO BE FILLED BY OCSSCO EMPLOYEE

Focus group discussion for the employee of OCSSCO Micro finance

The main objective of this study is to assess the factors that affecting group based loan repayment performance .The case of OCSSCO , Micro finance , in Jimma branch . Your responses have high value for my research and it is intended only for academic purpose authorized by Jimma University. Thus, your ideas and comments are highly honored and kept confidential.

Your frank response and valuable support in responding to the questions raised has paramount importance to the success of the study. Hence, I request you to fill the questionnaire carefully and at your best knowledge in all regard. The quality and quantity of information you provide determines the ultimate reliability of the study. To assure you that all verbal and written response are confidential or not exposed to anyone. For genuinely doing so by devoting your time and exerting efforts, I am really very grateful to you.

Thank you very much in advance for your cooperation and for sacrificing your invaluable time!!!

FantahunAsfaw (Masters Candidate)

Mobile No:0913304819

E-mail address:

Jimma University

Ethiopia

1. As employee of the OCSSCO micro finance , what are major problems you ever facing to give services for customers ?. If you say yes ,elaborate the problems

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2. Have you treat and give satisfactory services for the customers ?.if not , explain the challenges ?

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3.Do you think that borrowers are satisfied with your services ? .Explain in both yes or no responses ?

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4.Do you think that loan based loan performance is the only problems of the micro finance ?  if you say , no explain other factors you think as the factors that hinder the effectiveness of the borrowers ?

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5.Do you think that , customers are effectively use the money borrowed from OCSSOC?. If you say no , explain and discuss the difficulties ?

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