FACTORS AFFECTING LOAN REPAYMENT PERFORMANCE OF MICROFINANCE INSTITUTIONS: A STUDY ON MFIS OPERATING IN JIMMA TOWN

A THESIS SUBMITTED TO DEPARTMENT OF ACCOUNTING AND FINANCE AS A PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR MSC DEGREE IN ACCOUNTING AND FINANCE

By:

NETSANET ESHETU

JIMMA UNIVERSITY

COLLEGE OF BUSINESS & ECONOMICS

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NOVEMBER, 2019

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Under the Guidance of

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DECLARATION

I hereby declare that this thesis entitled "Factors Affecting Loan Repayment Performance of Microfinance Institutions: A study on Mfis Operating in Jimma Town", has been Carried out by me under the guidance and supervision of Dr. Arega Seyoum.

The thesis is original and has not been submitted for the award of degree of diploma any university or instructions.

Researcher's Name	Date	Signature
____________________	____________________	__________

CERTIFICATE

This is to certify that the thesis entities "Factors Affecting Loan Repayment Performance of Microfinance Institutions: A study on Mfis Operating in Jimma Town", Submitted to Jimma University for the award of the Degree of Master of Accounting and Finance (MSC) and is a record of Valuable research work carried out by Miss. Netsanet Eshetu , under our guidance and supervision

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

Main Adviser's Name	*Date*	*signature*
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Abstract

This study was conducted with the aim of assess the factors that affecting loan repayment performance of MFI in Jimma town the case of three Microfinance Institutions, Eshet MFI, Oromia credit and saving Share Company and Harbu MFI. In this study, a structured questionnaire was used to collect the primary data and for qualitative study 10 in-depth interviews were held with loan officers and management of the institutions. The study analyzed the socio-demographic factors that affect the borrowers' loan repayment performance and a sample of 390 borrowers was fixed from the three MFIs using the convenience sampling technique. The Result of the binary logistics regression analysis revealed that the level of education, loan amount and loan category have insignificant effect on the probability of the SMCP loan repayment. On the other hand age, gender, type of business and credit experience are significant determinants where age and type of business have negative relationship and gender and credit experience have positive relationship with the loan repayment probability.

Key Words: Loan Repayment, Microfinance, micro financing institution

Acknowledgments

Firstly, I praise the Almighty GOD for his inexpressible help, protection and have always been stand all through the difficult times that I have had while undertaking this project. My foremost appreciation and thanks go to my main advisor Dr. Arega Seyoum for his valuable and constructive comment, suggestions and overall assistance from the early stage to the completion of the study. I will extend my thanks to Jimma University for sponsoring this thesis project. My appreciations also go to all staff members of microfinance for their unreserved support throughout data collection and finally I will thank my study participant to give me honest response.

Finally, I would like to extend my thanks to all who in one way or another have contributed to the successful completion of my thesis including Mr. Dereje Mekonnen and Miss. Marta Tessema.

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List of Abbreviations

LR	Loan Repayment
MF	Microfinance
MFIs	Micro Finance Institution
HMFI	Harbu Micro Finance Institution
EMFI	Eshet Micro Finance Institution
OCSSC	Oromia Credit and Saving Share Company
SPSS	Statistical Package for Social Scientists
AfDB	African Development Bank

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Microfinance has been recognized as an essential socio-economic and financial mechanism for poverty alleviation, promoting entrepreneurial development and increasing the profile of disadvantaged people in numerous countries throughout the world (Hossain et al., 2012). Microfinance targets to poor people because these people usually lack of collateral, no steady employment and verifiable credit history, which therefore, cannot even meet the most minimal qualifications to gain access to normal banking. Besides, it can avoid poor people lend with illegal banking such as moneylender or loan shark that charge unreasonable interest rate (Binti et al., 2013).

Each MFI tries to maximize its repayment performance, whether or not it is profit oriented. It also argued that high repayment rates reflect the adequacy of MFIs services to client's needs (Godquin, 2004). Repayment performance refers to the total loans paid on time as stated in the loan agreement contract (Nawai, 2012). The typical repayment schedule offered by an MFI consists of weekly repayment starting one to two weeks after loan disbursement. Weekly collection of repayment installments is one of the key features of micro-finance that is believed to reduce default risk in the absence of collateral and make lending to the poor viable (Vogelgesang, 2003).

According to (Godquin, 2004), The first best level of repayment performance is perfect (100%) on-time repayment. if the maximum repayment rate the MFI lower than the targeted 100%, the microfinance will use second level strategies to increase its loan repayment performance such strategies include the allocation of loans to borrowers with lower default probability and attempt to reduce the delay repayment. the MFI will develop incentive mechanism so as to meet these objectives. A delayed installment is said to be delinquent and a repayment that has not been made is said to be in default. If one group member defaults the other group members makes up for the re-payment amount (Munene et al., 2013).

In developing countries, including Ethiopia, therefore, micro financing institutions (MFIs) have been emerged with a unique opportunity to serve poor people who do not have access to commercial banks. Microfinance service is relatively new to Ethiopia and came to existence since 1994-95 with the government's licensing and supervision of microfinance institution proclamation (AfDB, 2012). Then after, the main objectives of these institutions are to deliver micro-loans, micro-savings, micro-insurance, money transfer, leasing, etc. to a large number of productive resource poor people in the country in a cost-effective and sustainable way (Bayeh, 2012). There are three MFIs currently operating in the Oromia regional state jimma town. These are Oromia Credit and Saving Share Company (OCSSCO), Harbu Microfinance Institution (HMFI) and Eshet Microfinance Institution (EMFI). Eshet MFI was established (legally registered) by the National bank of Ethiopia, according to proclamation No 40/1996. Based on commercial code of Ethiopia and proclamation No 40/1996 Eshet microfinance established in March 2000 E.C Total number of branch is five. Total number of client was 7119 out of which 2098 are urban and 5021 rural clients. Eshet Microfinance has total number of client 24116 and 40,588,029 amount or capital. Harbu Microfinance Share Company was established in November 2005 Harbu Microfinance has 17984 numbers of the client and 23,808751capital. Oromia Credit and Saving Share Company (OCSSCO) have got its legal licence and began its formal operational activities on August 4, 1997 under National Bank of Ethiopia's proclamation No. 40/96. OCSSCO is a share company and was established with total capital of 60 million Ethiopian Birr (MF Transparency Transparent Pricing Initiative 2011). The Study was conducted in three of them.

Microfinance institutions contribute significantly to the national economy of Ethiopia meeting the target objectives of effective poverty reduction strategy by access financial services to the financial needs of un-served or underserved individuals through create employment opportunities, develop existing business or diversify their activities through empowering women or other disadvantaged groups, and encourage the development of new business for local individuals and increases their income and consumption. However one of the key development challenges of the institution is loan repayment performance problems. Therefore, to alleviate the aforementioned problems the researcher intended to study factors affecting loan repayment performance of MFIs in case of Jimma town three (Oromia credit and saving share company, Harbu and Eshet MFIs) by tries to identify the determinant factors. The study focused on Jimma town microfinance institutions because several studies conducted research on factors affecting loan repayment performance of MFIs in Ethiopia different area However to the researcher knowledge few researchers are conducted in Jimma focused on loan repayment performance related with urban borrowers.

1.2. Statement of Problem

Lending is a risky enterprise because repayment of loans can seldom be fully guaranteed (Bonnie, 2000). The major goal of microfinance is the provision of micro loans to the low-income and the poor households. The chance that a microfinance institution (MFI) may not receive its money back from borrowers (plus interest) is the most common and often the most serious vulnerability in a microfinance institution. Since most microloans are unsecured, delinquency can quickly spread from a handful of loans to a significant portion of the portfolio. This contagious effect is exacerbated by the fact that microfinance portfolios often have a high concentration in certain business sectors. International organizations are coming to the realization that MFIs are veritable and effective channels to ensure programme implementation effectiveness, particularly in poverty alleviation projects and firsthand knowledge of the needs and interest of the poor (CGAP, 1999).

One way to tackle the loan repayment problem is to investigate the factors which affect the loan repayment of MFIs (Onyeagocha ,2012) though loan repayment is determined by willingness, ability and other characteristics of the borrowers, businesses characteristics and characteristics of the lending institutions including product designs and suitability of their products to borrowers. Regarding the characteristics of borrowers, repayment of loans depends on the willingness and ability of the borrowers to repay. Therefore, individual borrowers can either repay their loans or choose to default. It is also true that the factors influencing loan repayment capacity among borrowers are not only likely to differ by programs but also differ from country to country depending on the domestic business and economic environment (Tundui and Tundui, 2013).

Harbu Microfinance instruction, Eshet Microfinance instruction and Oromia Credit and Saving Share Company (OCSSCo) are major micro financing institutions of jimma working to provide credit and saving services to urban and rural poor who do not have access to financial services from formal banks in jimma area. However, to outreach large number of poor and lift themselves out from poverty, the numbers of defaulters have been challenging the institution's social as well as financial objectives by retaining large amount of loan, as a result this hinder it not to combat to ward poverty reduction strategy and its realization of sustainability by diminishing loan repayment rate.

Studies on loan repayment are not a new research area. In fact, various researches have conducted in loan repayment performance in different time, but the results of findings are still debatable among different researchers. The findings show there is inconsistency of result regarding the determinant factor variables. Some variables such as sex, education level, method of lending and loan size have debatable results. For instance; Bhatta and Tang [17] and [51] found sex has significant impact on repayment rate, whereas [24] opposes this result. Regarding loan size, [59] found as loan size have positive impact on loan repayment. Whether default is Hence, this study aims to fill the above-mentioned gaps by assess the factors affecting of loan repayment in MFIs in Jimma town three MFIs.

Research questions

The study tries to answer the following basic research questions:

1. What are the factors that affect loan repayment performance of MFIs operating in Jimma town?

2. What are the borrower characteristics that affect loan repayment performance of mfis in jimma town?

3. What are the institutional characteristics that affect loan repayment performance of mfis in jimma town?

4. Which of the demographic factors most determine the repayment performance of MFIs borrowers in Jimma town?

1.3. Objective of the Study

1.3.1. General Objective

The main objective of the study is to assess factors affecting loan repayment performance of MFIs operating in Jimma town south west Ethiopia 2019.

1.3.2. Specific Objectives

- To Identify the borrower characteristics that affect loan repayment performance of mfis in jimma town
- To examine the institutional characteristics that affect loan repayment performance of MFIs in Jimma town
- To evaluate the demographic factors that affect loan repayment performance of borrowers in Jimma town MFIs.

1.4. Significance of the Study

The importance of this study may be to enhance the competitive position of Harbu, Oromia and Eshet micro finances by finding ways that improve the credit management system of the institutions. Also it would provide additional knowledge to credit managers in designing new credit management and for planning and controlling procedures in credit activities and it would also help the clients of the institutions by informing necessity of paying credit according to agreements, in preventing unnecessary payments and additional illegal charges. Finally, the results of this may serve as an important reference material for further investigations to be made on similar or related topics.

1.5. Scope of the study

The scope of this study was restricted to factors that affect loan repayment performance of microfinance institutions in Jimma town; However, the institutions perform the financial activities both urban and rural areas to make the study manageable and evaluate the problem in detail, the researcher is forced the study is delimited to the identification of factors that affecting loan repayment performance of three MFIs currently operating in Jimma town and excluded borrowers of MFIs in the rural area.

1.6 Limitations of the Study

This research was carefully prepared, but still aware of its limitations and shortcomings. First of all, the research was conducted using only primary data both quantitative and qualitative data analysis techniques because the researcher cannot get secondary data due to institutions are not interested to give secondary data The other limitation of the study is respondents Because of the sensitivity of micro finance information some respondents were expected to give biased information to conceal sensitive data and lack of experience and skill in conducting a research on part of the researcher was also another limitation.

1.6. Organization of the Paper

This research paper consists of five chapters. The first chapter comprises background of the study, statement of the problem, objectives of the study, significance of the study and scope and limitation of the study. Chapter 2 presents literature review with respect to the theoretical perspective and empirical studies on microfinance. Chapter 3 provides the research design and method of data collection of the study, in addition includes the main principles of research methodology and the adopted research design for the study. Chapter 4 consists of finding and discussion. Finally, chapter 5 consists of summary of major findings, conclusions, and recommendations.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

2.1 Theoretical Literature

2.1.1. The concept of microfinance

The establishment of microfinance is related with the growth of non-governmental organizations that provide small credit service to the poor society. Around 1990s, rules and regulations began to appear that make microcredit providers to have formal management and make report to the concerned party. In addition to this other financial institutions like banks and credit unions start penetrating in the sector that made to be strongly monitored (SEEP, 2005). As claimed by Schreiner and Colombet (2001), Microfinance is the effort to create access to small deposits and loan for the poor society ignored by formal financial institutions like banks. As stated by Otero (1999) the objective of microfinance institution is not only creating access to get capital and combat poverty on an individual level, but also it plays a great role at an institutional level. It helps to establish an institution that gives financial service to the poor who has been denied access to financial service.

2.1.2. Ethiopian microfinance institutions

In 1996 (proclamation 40/96) the Ethiopian government issued its first microfinance legislation with the objective of providing microcredit service to poor. As of June 2007, there are about 27 microfinance institutions registered under National Bank of Ethiopia (AEMFI, 2008). According to Amha and Narayana (2000) cited from UNDP (1999), in Ethiopia the number of economically active poor who can potentially access financial service is about 6 million. From this amount, about 8.3% of the active poor have gained service from licensed MFIs. "Ethiopian microfinance has made remarkable progress over the past decade, reaching almost two million clients in a country of 77 million people. Nevertheless, financial services for the low-income population, poor farmers and MSMEs are still characterized by limited outreach, high transaction costs for clients, a generally weak institutional base, weak governance and a nominal ownership structure as well as dependence on government and mother NGOs."""" (Pfister et al., 2008). Similarly Amaha (2008) proved that the currently existed 27 MFIs meet only less than 20% of the demand for financial service of active poor. This indicates that there is significant unmet demand for microfinance service.

2.1.3 Ownership structure of microfinance institutions in Ethiopia

Formal commercial banking has been unable to provide access to poor rural and urban Ethiopians that comprise 45% of the overall 82 million populations. These people live below the national poverty line even more they live in absolute poverty not attaining the minimum calorie intake per day and of course are living witnesses of a structural and endemic poverty (AEMFI, 2012). The ownership structure of Ethiopian Micro-Finance Institutions is the direct effect of regulatory provisions (Degefe, 2009). According to the Proclamation No. 40/1996 of the Business of Micro Financing Institutions, micro-financing institution should be owned fully by Ethiopian nationals and/or organizations wholly owned by Ethiopian Nationals and registered under the laws of, and having its head office in, Ethiopia. This legislation excluded international NGOs and other overseas agencies not to own and run microfinance institutions in Ethiopia. In support of the various regional development plans and to address the social and economic problems of regions, the regional state governments own some shares in Micro finance institutions.

Oromia Credit & Savings Institution though their major share goes to the Associations and NGOs, the Regional Governments control quarter of the total ownership (Wolday 2008). Eshet MFI was established (legally registered) by the National bank of Ethiopia, according to proclamation No 40/1996. Based on commercial code of Ethiopia and proclamation No 40/1996 Eshet microfinance established in March 2000 E.C Total number of branch is five. Total number of client was 7119 out of which 2098 are urban and 5021 rural clients. Eshet Microfinance has total number of client 24116 and 40,588,029 amount or capital (MF Transparency Transparent Pricing Initiative, 2011). Harbu Microfinance Share Company was established in November 2005 has 17984 numbers of the client and 23,808751capital (MF Transparency Transparent Pricing Initiative 2011).

2.1.4 Methods of Loan Delivery

The method for executing the actual lending differs between organizations and globally, but two main approaches have been identified; the individual lending technique and the group-based lending technique. While the individual approach is similar to the traditional way of lending, facilitated through direct interaction between the lender and the borrower, the group-based approach relies upon groups of borrowers that facilitate some of the tasks that are normally carried out by the lender (Gine, 2006). Group-based lending usually implies that the group members have joint liability for repayment or that the other members are not granted to anymore loans if one member fails to repay the loan (Brau & Woller, 2004). This entails that the borrowers when forming a group are concerned with finding reliable group members and thus the group does some of the screening process that are traditionally carried out by the lending institution. According to Hermes and Lensink (2007) group-based lending make up a majority of all microfinance programs and Baydas et al., (1997) has found evidence that non-profit organizations use group-based lending to a greater extent than more business-driven organizations.

The microfinance clientele is diverse but constitutes mainly of self-employed women whom often run home-based businesses. The main reason for targeting women is that they are considered poorer and have less access to credits, why they are utilizing their loans in a sounder manner. As a social side-effect, especially in the developing world where women usually have a lower social standing than men, women are also considered to be empowered in the society and towards their men thanks to the loans (Bredberg and EkS, 2009).

2.1.5 Repayment performance of microcredit programs

The calculation of performance indicators is important for donors, practitioners, and consultants to determine the efficiency, viability, and outreach of Microcredit programs. Performance indicators collect and restate financial data to provide useful information about the financial performance of the microcredit institutions. The sustainability and viability of MFIs is important to make sure that MFIs can continually provide financing to MEs without depending on donors and government. Therefore, financial sustainability is a prerequisite for making micro financial services permanent as well as widely available (ICC, 2001). Llanto et al. (1996) argue that to continue providing financial services to the poor on a sustaining basis, the MFIs themselves must be viable and sustainable and the study shows that many of the MFIs are far from attaining these goals.

2.1.5 1 Definition of Loan Repayment

Loan is the thing that is lent, specially a sum of money. The action of lending something or the state of being lent For each lender a loan is an investment comparable to bonds, stocks or other assets, one the other hand, for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest (Ledger wood, 1999).

Loan: Members are encountered to save toward loans. Loans are the ratio based on members saving and share. Individuals who have established credit worthiness through regular savings in the form of loan (Pindyack, 1981).

Loan repayment (LP): It is an arrangement of in which a lender gives money or property to a borrower and borrower agree to return the property and repay the money, usually along with interest at some future time. Usually there is predetermined time for repaying a loan and generally the lender has to bear the risk that borrower may not repay a loan, generally it is a time that a borrower or debtor to repay his debt or loan at the right time. Borrowers who satisfy the entire loan contact conditions and repay their loan without any problem (Pindyack, 1981).

Defaults: Defaults is defined as failure to pay a debt loan at the right time or who did not repay the loan within due date (Ledgrewood, 1999).

Non defaults: non defaults are borrowers who has no loan repayment problem or who did repay the loan with in the due date (Ledgrewood, 1999).

2.1.6 Requirements to Grant Loan

2.1.6.1 The five "C" s of lending

Credit analysis serves the function of screening loan applications identifying risks, structuring an appropriate. Loan, Security quality asset when necessary and monitoring the loan is on a going basis (Rechard, 1984).

2.1.6.1.1 Capacity

Capacity is defined as the borrower's ability to satisfy debit obligations from predictable or consistent income sources. The principal to use to measure capacity is the debit to income ratio, a cash flow analysis of the borrower's total debt obligations compared to verifiable gorses monthly income.

2.1.6.1.2 Capital

The term capital relates to how well the borrower has managed his/her financial affairs. There are three conditions /dimensions to consider, net worth, liquidity and financial responsibilities. New worth is borrowers total assets minus his/her liabilities, naturally, an individually with scientifically net worth has a greater incentive to protect investment and repay obligations. Liquidity is the ability of borrower to meet his objections with cash necessary or to convert assets to cash quickly.

2.1.6.1.3 Character

The term "Character" related to willingness to pay or often sense of honor. Toward obligations and often used with integrity. The most direct evidence of this is the actual record of how debt payments have been hundred historically as revealed by credit report as well as checking with employers and creditors. The most significance aspect of the credit report is consistent good performance. A few isolated delinquencies may be insignificant if an overall pattern of prompt payment history exists. A reported delinquency with mortgage lender is significant and considered to be derogatory unless the borrower demonstrates other wise and it comes from evidence of stability and roots. Stability is residence and employments are positive factors. A career commitment can also create a sense of root since maintaining good reputation and credit standing are necessary to achievement of major career goals.

2.1.6.1.4 Conditions

Conditions refers to factors essentially beyond the borrowers control that could in pair or enhance his/her ability to meet communities. There are many risks to pay back that cannot be for seen even. With product credit analysis the likely college of an employer could be consideration even though that person's credit picture looks otherwise favorable to while it may be difficult to judge outside influences certain industries are more appropriate to these influences including medical, insurance and financial services.

2.1.6.1.5 Collateral

It is defined as the security or assets pledge by borrowers to the lender. Lender first try to reduce risk by sound experienced credit analysis. The value and quality or collateral is determined by the property appraisal. Since all the proceed factors required some elements judgment the function of collateral is to protect lenders from the imperfective of judgment as well as from the adverse impair of anticipated changes in condition.

2.1.7 Factors affecting repayment performance

The literature on factors influencing loan repayment performance among financial institutions targeting the poor is very sparse and limited mainly to microfinance experience in low-income countries (Derban et al., 2005; Silwal, 2003). The results of the studies show mixed result. Based on past literature, 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 & 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. Besides characters of the borrowers, collateral requirements, capacity or ability to repay and condition of the market should be considered before giving loans to the borrowers Theoretical models generally confirm that joint liability leads to higher repayment performance due to more and effective screening, monitoring and enforcement among group members. Most studies on this issue support this vies. Several authors have empirical investigated the prediction of high repayment performance of Grameen Bank and Bancosol. They focused on analyzing the evaluation of microenterprise loan repayment performance (Ledgrewood, 1999). Accordingly, a number of factors that systematically influence loan repayment have been raised. In line with this, looking at the major one's can serve the purpose of grasping what the literature offers on empirical work done so far.

1) Educational level of Borrower: This variable may have a mixed impact. Normally an educated borrower could be expected to make use of the loan proceeds in a better way than the uneducated one and hence can become an active payer. In general, the variable is expected to have a positive sign. But there is nothing that would stop the opposite from happening.

Educated individuals have better chance of securing which color jobs and they are very mobile. The tendency to more from place to place in search of better job opportunities implies that they are unlikely to have reputation within the community that can make them attractive to lender and social groups that are coming together for saving and credit purpose (Ledgrewood, 1999).

2) Sex of Borrower: There is usually a belief among many microenterprise financiers that women are better loan payers thinking that they are more entrepreneurial as a result of assuming more responsibilities in the domestic affairs of a house hold. Since some studies indicate that the opposite can happen, it is better not speculate beforehand. On the other hand, as it is the objective of the credit scheme to give priority to women borrowers, it is expected that these borrowers are less rationed than their male counterparts (Ibid).

3) Loan size (amount): is another factor that can affect loan repayment performance. Godquine, (2004) showed that loan size has negative sign and is significant in affecting loan repayment. This negative sign is theoretically explained by the fact that the loan size increases the gains associated with extant and exposit moral hazard. The negative sign of loan size of the loan could also be linked to borrowers' inability to repay a large amount over a given period (usually one year). It could be that, for a given duration large loans do not meet the borrowing needs and are not suited to the local economy. The small holder loan repayment performance, evidence from the Nigerian microfinance system, found out the loan size increases the probability of delinquency. It implies that loan size is negatively related to loan repayment Olomole (2000).

4) Age of Borrower: is another factor that may have impact on loan repayment performance. Lidgerwood (1999) questioning the impact of the characteristics of borrowers, showed that traditional prejudices against women, young borrowers or large families should not influence the determination of repayment ability. This means the age way not have impact on loan repayment performance

5) Availability of other sources of credit: if there are other sources of credit that the borrower can resort to in case of emergency (e.g. Failure of business), the borrower can use these sources to fulfill his/her microenterprise loan obligations to keep his /her name unblemished. Therefore, the variable is likely to have a positive sign. However, if the borrower is no more interested in the microenterprise loan, the interest in repaying the loan may fall (Ledgrewood, 1999).

6) Loan Diversion: If loan is diverted to non-intended and non-income generating purposes (such as consumption), it is likely that the sign of this variable will be negative. In other words, diverted funds not used productively reduce repayment capacity. If, however, the loan is diverted to non-intended but income generating purposes, the sign will be positive (van Pischke, 1991).

7) Supervision and advisory visits: This variable is supposed to be positively related with loan repayment. Tight supervision and advisory visits can improve the proper utilization of the loan with tight supervision; borrowers can be made to observe their credit obligations (ibid).

8) Household income: is another factor that is believed to influence microenterprise loan repayment positively or negatively. Olomola (2000) on his study of repayment performance of Grameen Bank borrowers in unzipped state found that the area of operated land, which could be proxies, for wealth of borrower, had a positive impact on repayment. The value of the productive asset of the household, the dummy for self - employment in agriculture and the number of landed relatives were used to control variables for wealth of the household and wealth of its social network. These variables showed a positive and significant impact on the repayment performance.

9. Follow up of loan: Manager should maintain contact with borrowers and as far as possible should keep watch full. Eye to ensure that loan one used for the purpose for which they are guaranteed. Any apparent deterioration on borrower's position should be immediately investigated and reported where appraiser. All outstanding loans should be reviewed by mangers at least once in a month to ensure that repayment are being made regulatory slackness in this respect only leads to more difficulties later if borrowers find that the manager over look non-payment of installments (Godiqine, 2004). Lack of systematic follow up procedures in securing principle and interest payment each month sometimes hampers collection. Borrowers are not always aware of when loan payment at due (Ledgrewood, 1999).

2.2. Review of Empirical Studies

2.2.1. Studies in Other Countries

Zeller and Sharma (1996) studied determinants of loan repayment performance empirical analysis evidence in Madagascar. By employed a Tobit model, the result shows that group size, loan size and social cohesion have positive and significant impact on loan repayment performance. In addition puts pressure on the borrower who do not pay credit reduce the loan default rate.

Nawai, Noor and Shariff (2012) studied on determine the factors affecting repayment performance in microfinance programs in Malaysia by using a multinomial logit regression model. The results of the study indicate that gender, formal religious education, distances to the loan disbursement lag have significantly affected borrowers" repayment performance. In addition the result also shows that no pressure from Microfinance Institutions to pay the loan may cause the clients delayed their payment or just pay at a minimum amount.

Mirpouriana, Caragliub, Di Maioc, Landonid, and Rusinà, (2016) analyzing Determinants of loan repayment performance among borrowers of microfinance institutions in India the study shows that the repayment rate improves as borrowers get closer to the loan limit, which is the maximum available loan. In other words, motivation for reaching the maximum loan level is positively associated to the repayment performance.

Park and Ren (2001) analyzing household survey data in micro finance with Chinese characteristic based on Grameen model, examined that high repayment frequency can be a burden to farmers without strong cash flow during off farm income.

Eze and Ibekwe (2007) in their study on determinants of loan repayment in Imo state in Nigeria identified loan size, age of beneficiaries, household size and number of years of formal education and occupation as the key predictors of loan repayment.

In studying the factors which Influence loan default among small scale farmers in North- West Province of South Africa, Akwasi and Idowu (2011) found that repayment problems decreased with education level, possession of financial management skills, timely disbursement of the requested loan and technical support received by the farmers, On the other hand borrowers were more likely to experience payment problems when faced with increased total monthly household expenditures, increasing size or number of loans and the use of the loan fund for purposes not applied.

Acquah and Addo (2010) investigated determinates of loan repayment among fishermen in Ghana. They found out that loan repayment increased with the fishing income, loan size and amount of investment made.

Godquin (2004) examined the microfinance repayment performance in Bangladesh. His result is female borrowers did not proven to have a significant better repayment performance. The size of loan and the age of the borrower showed the negative impact on the repayment performance.

A study titled "Influence of credit risk management practices on loan delinquency in savings and credit cooperative societies in Kenya", Justus, Dickson et al. (2016) revealed that there exist a strong relationship between credit risk controls, collection policy and loan delinquency.

2.2.2. Studies in Ethiopia

The study conducted by Alex Addae, (2014) found the causes of loan default to include; high interest rate, inadequate loan sizes, poor appraisal, lack of monitoring, and improper client selection.

Fikirte (2011) studied on determinants of loan prepayment performance in the Addis credit and saving institution, Addis Ababa. According to her study sex, business experience, dependency ratio and business type have significant effect on group lending loan repayment performance.

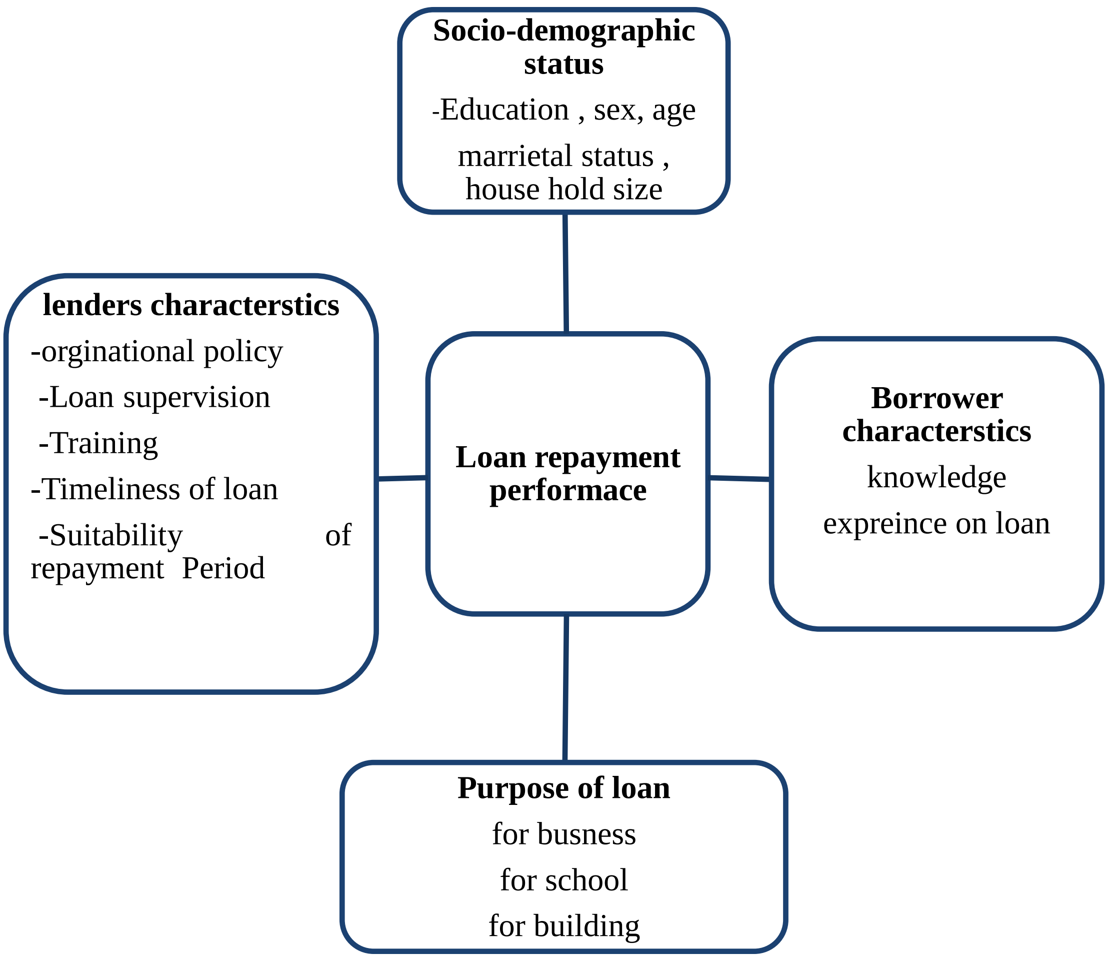
Jemal (2003) analyzed the microfinance repayment performance of Oromia credit and saving institution in kuyu, Ethiopia. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand, age was found to be positive. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance.

Abreham (2002) studied on the loan repayment and its determinants in small- scale enterprise financing around Zeway area. He found out that other sources of income, education, and work experience related economic activities before the loan are enhancing loan repayment. While extended loan repayment period influences the repayment performance negatively.

Conceptualizations

The conceptual model for the study is to identifying and analyzing factors that can affect the loan repayment performance of MFIs in Jimma town. In the literatures reviewed, various empirical studies were focused on the probable factors that can affect repayment performances. To carry on the empirical studies to investigate the probability of variables that can affect repayment performance of borrowers, the study mainly focused on identifying and analyzing borrowers' demographic characteristics and lenders‟ lending characteristics.

2.3. Conceptual Model



Source: -Done By the researcher after reviewing different Literature

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Study Area

Jimma is the largest city in southwestern Ethiopia. Located in the Jimma Zone of the Oromia Region, this city has a latitude and longitude of 7°40′N 36°50′E / 7.667°N 36.833°E / 7.667; 36.833. It was the capital of Kaffa Province until the province was dissolved. The study was to assess factors affecting loan repayment performance of microfinance institution operating in Jimma town. This study was chosen Jimma town MFIs are as a research site because of evidence of the increasing number of loan borrowers.

3.2. Research Design

The study employed explanatory research design with quantitative and qualitative methods. The quantitative aspect of the data focused on description of socio - demographic variables and analysis of relationship among the dependent and explanatory variables of and qualitative data collected through semi-structured interview and discussions were made with selected loan officers and branch managers.

3.3. Data Source and Type

A written survey is a questionnaire while an oral survey is an interview (Desalegn, n.d). This study was conducted based on both primary data, using a structured questionnaire. The questionnaire includes both closed and open ended questions. The closed-ended questions were used to collect background information about the respondent. It covered the personal information, institutional, loan and repayment related questions. The open ended questions dealt with the challenges in repayment process and institution, the perception of clients towards the microfinance institution at Jimma town. The questionnaire was pre-tested before conducting survey for the whole sample. Secondary sources include published and unpublished materials about microfinance institution activities.

3.4 Study Population

The target population of the study includes all active borrowers of the three Microfinance institutions (Eshet, Harbu and OCSSC). In addition to borrowers, loan officers and branch managers. Accordingly, the population of the study was 4,278 individuals that taken from the lists of the institutions.

3.5. Sampling Method and Sample Size Determination

Deliberate sampling is also known as purposive or non-probability sampling. This sampling method involves purposive or deliberate selection of particular units of the universe for constituting a sample which represents the universe. When population elements are selected for inclusion in the sample based on the ease of access, it can be called convenience sampling. The researcher was employed through convenience sampling in selecting the representatives following the method of proportional allocation under which the sizes of the samples from different the researcher selects the easiest population members from which to obtain information.

Determination of Sample Size:

The sample of this study was 390 individuals comprised from the three MFIs .This selection of Sample Size of the credit beneficiaries of the Jimma town MFI Was based on the formula $n=N/ (1+N (\alpha)^2)$ Where; yemane (1967).

n = Sample Size

N = Total Number of Microfinance credit beneficiaries

A= Level of Confidence is 95 percent, this is chosen because the convenient method reduced the possibility of non-response drastically.

Therefore $$n= \frac{4,278}{1 + 4,278\ (0.05)^2} = 390$$

Therefore, a total of (390) respondents consisting of the microfinance credit beneficiaries of Jimma town were sampled from the target population. All Jimma town MF institutions were participated in the study by proportional allocation method the total sample size allocated for each MFI based on their sample size and final participant borrowers were selected by simple random sampling technique.

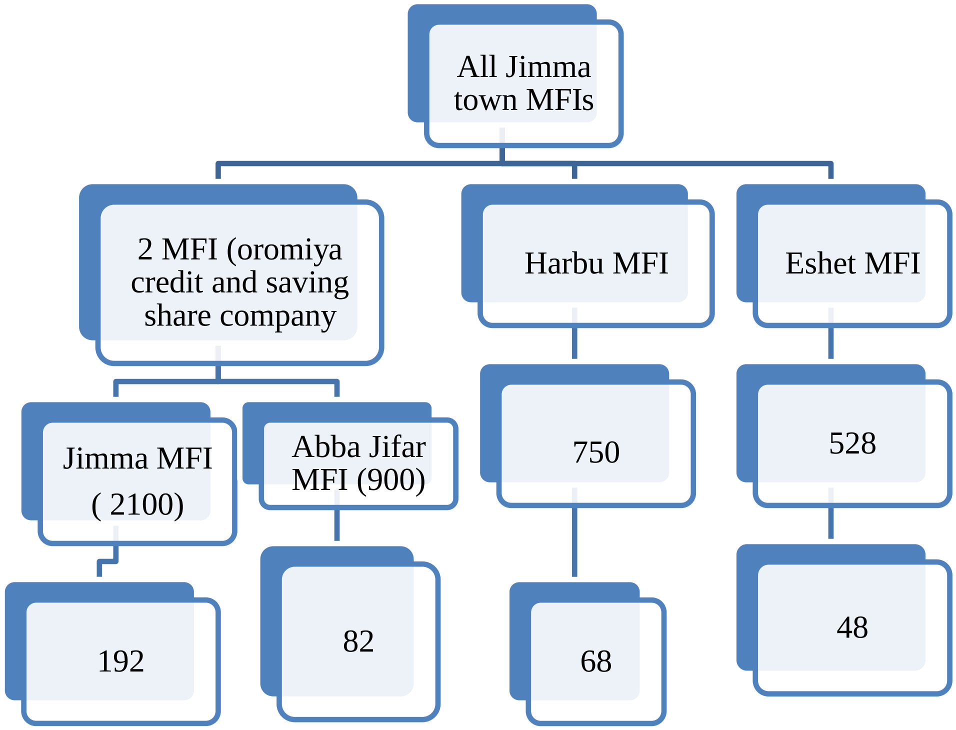


Figure 1: Schematic presentation of sampling technique

- All Jimma town MFIs

3.6. Data Analysis Techniques

Data analysis has been done after all the relevant data have been gathered from the respondents. Quantitative data was edited, coded and entered into a computer and processed using SPSS Version 20.0 statistical software. Errors related to inconsistency of data checked and corrected during data cleaning. The empirical analysis of the study was conducted using both descriptive statistics and econometric regression model. Descriptive statistics discussion is made by using measures like percentages and tables. Moreover, Binary Logistic Regression model were employed to identify the most determinant factor (s) of repayment performance from the demographic variables.

3.7. Definition of variables and its expected sign

3.7.1. Dependent Variable

The quantitative approach has been used to support the previously analyzed statistical results. Dependent variable is the estimated result of the independent variable being operated and whose value depends on the value of independent or explanatory variables. It measures to demonstrate the effect of the independent variable. In this study the dependent variable used was loan repayment (LR) of performance.

3.7.2. Factors Affecting Loan Repayment Performance of MFIs

The independent variable is normally the variable indicative of the value being manipulated or changed and used to explain the dependent variable. For the purpose of this study the researcher has include 4 independent variables assuming that it is best to explain the determinants of loan repayment performance of MF borrowers.

1. Sex (SX): many researchers argue that female were better payers than male borrowers, taking into consideration their being more entrepreneurial that results from assuming more responsibilities in the internal affairs of a household . But some researchers have found the opposite result. So nothing can be said about the sign of this variable. In this study sex has hypothesized as positive sign.

2. Age (AG): In this study age was hypothesized a positive impact on repayment performance. Usually at certain level of age limit borrowers get more stability and experience but beyond a certain age limit this variable has negative relationship. This shows as people get older, their ability to effectively use loan and generate income declines, the variable could also have a negative impact. Hence, may have a nonlinear relationship with loan repayment.

3. Education Level (EDL): This variable is expected to have a positive impact on repayment performance in general. Considering normal circumstances, a more educated borrower is expected to use the loan effectively as compared to a less educated one.

4**. Family Size (FSZ):** Define as the total number of household in the family and elsewhere that depend on the borrower for their livelihood when number of household increases, the borrower will need more money to fulfill their requirements in addition to the obligation of loan repayment. As a result, he/she may divert the loan to meet the needs of the dependents. Hence we expect this variable to have a negative impact on loan repayment.

CHAPTER FOUR

4. RESULTS AND DISCUSSIONS

Questionnaire Response rate: Based on the sample size determination, the researcher distributed 390 questionnaires in order to collect primary data from sample borrowers of the three sample microfinance institutions.

4.1 Demographic Characteristics of the Respondents

Variables	Categories	f	%	Variables	Categories	Frequency	Percent
Age	Less 24 years	39	10.0	**Marital status**	Single	42	10.8
	25-30 years	149	38.2		Married	181	46.4
	31-35 years	54	13.8		Divorced	90	23.1
	36-40 years	83	21.3		Widowed	77	19.7
	Above40years	65	16.7		Total	390	100
	Total	390	100.0				
Gender	Male	159	40.8	**Education**	Illiterate	52	13.3
	Female	231	59.2		Primary	65	16.7
	Total	390	100.0		Secondary	165	42.3
Family size	0-1	81	20.8		Certificate	76	19.5
	2-5	149	38.2		Diploma	32	8.2
	>5	160	41.0		total	390	100.0
	total	390	100				

Source: SPSS Output from Survey Data, 2019

A total of three hundred ninety (390) microcredit beneficiaries of Jimma town who received microcredit services for one year were included in the study with a 100% response rate. The result of the study shows that; the large proportion of age falls in the range of 25-30 years, (38.2%) of young respondents. this tells us that most participants or clients of the microfinance institutions were from the right age to be independent enough to manage and take responsibilities from their loan and their investments (business work). On the other hand, 159(40.8%) of the respondents were male and 231 (59.2%) of the respondents were female. the analyzed data revealed that most clients for the microfinance institutions were female which in turn indicates as the institutions are implementing the national government policy that says empowering the women economically, socially and politically. This result again indicates that most clients of the institutions are those who completed the national secondary school level which again shows that the institutions were working on the working human power of the study area**.** Majority of respondents have more than 5 family sizes. This revealed that the institutions are still supporting single parent lead family that proposed by country economic policy.

4.2. Regression result of Binary Logistic regression model

Here, econometric analysis was undertaken in order to assess factors affecting loan repayment performance of Microfinance institutions in Jimma town. As previously explained, binomial logistic regression was employed to estimate the effects of explanatory variables on the loan repayment performance of beneficiaries in the MFIs in Jimma town. The model was used to satisfy the specific objectives of the study i.e., to identify and examine demographic factors that affect loan repayment performance of borrowers in the study area.

Regression result: dependent variable

Independent Variables	B	S.E.	Wald	Exp(B)	Sig.
Educational level	.208	.122	2.099	.115	.037
Family size	-.066	.082	.802	.044	.023
Age	.637*	.260	2.659	.036	.035
Gender	.263	.119	2.206	.116	.028
Constant	3.226	.408			

Number of observation: 390 B=regression coefficient Exp (B) = odds ratio

Sig. = significance S.E. = Standard error,

Source: binomial logistic regression model output, 2019

4.2. Elaboration on Significant Explanatory Variables

4.2.1. Demographic Factors

1. Educational level (EDL): It was hypothesized that education is associated with loan repayment of MFIs. The result from binomial logistic regression model in the above table indicate positive sign for education level variable (β of .208), which implies positive association between education level and loan repayment MFIs. This shows that as level of education increases, borrowers enhance their ability to access, evaluate, and understand new production techniques and technologies. Since the Sig. statistic or p-value in some other statistical application (.037) is smaller than the chosen significance level (0.10 or 10 percent), the positive association between education level and loan repayment is statistically significant i.e., the level of education contributes to the variance in probability of borrower's loan repayment performance. By another way, as Wald statistic of education level (2.099) is outside of 95 percent confidence interval (.969 – 1.563), the developed research hypothesis that there is significant association between education level and loan repayment is accepted. Hence, there is significant association between education level and loan repayment of MFIs. The result from binomial logistic model can be interpreted as, other variables being constant, increase in education level could lead loan repayment rate to be improved by.115. By other way, increase in one year schooling increases the odds ratio in favor of non-defaulting by.115 a factor of, ceteris paribus. This implies that education plays great role in raising the level of awareness, exposure to technologies, access to business information and to manage resources properly which boost production and then improves loan repayment. Education level of the borrowers is one of the variables that were thought to affect loan repayment performance of the borrowers by different authors. This result is consistent with the findings of Abreham (2002), Jemal Abafita (2003), but inconsistent with that of Reta, F. (2011).

2. Family size: It was hypothesized that there is significant association between family size and loan repayment of MFIs The result from binomial logistic regression model in the above table indicate negative sign for family size variable (β of -.066), that shows negative association between family size and loan repayment of MFIs. This shows that as borrower's family size increases, the probability of borrowers to repay their loan decreases. Having higher number of household members will increase consumption expenses and other living expenses which led loan repayment difficult. Since the Sig. statistic or p-value (.023) is smaller than the chosen significance level (0.10 or 10 percent), the negative association between family size and loan repayment is statistically significant i.e., having lower or higher number of household members or family size contributes to the change (increase or decrease) in probability of loan repayment performance of borrowers. By another way, as Wald statistic of family size (2.206) is outside of confidence interval (.450 – 1.030), the developed research hypothesis that there is significant association between family size and loan repayment is accepted. Hence, there is significant association between family size and loan repayment of borrowers in MFIs. The result from binomial logistic model can be interpreted as, other factors being equal, increase in family size lower the probability of borrowers' loan repayment by .681. By other way, increase in family size increases the odds ratio in favor of loan defaulting by a factor of .044, ceteris paribus. This result is consistent with the findings of *Afolabi, J. A. (2010).* who have analyzed the determinants of repayment decision among small holder farmers in Southwestern State of Nigeria and obtained the result those borrowers with lower number of household members would meet their repayment obligation better than those with high number of household members. In addition, the result of this study conforms to findings of and Tnsue, G. (2011). Who argued that family size had negative influence on the level of loan repayment? However, the result of the model is inconsistent with the finding of Fufa B. (2008), who argued that family size had insignificant effect on loan repayment performance of smallholder farmers.

3. Age: It was hypothesized that age is associated with loan repayment of MFIs. The result from binomial logistic regression model in the above table indicate positive sign for education level variable (β of.637*.), which implies significantly positive association between age and loan repayment MFIs. This shows that age of borrowers' increases they became settled and accumulate wealth; acquire experience in business management and credit use than youngsters Since the Sig. statistic or p-value in some other statistical application (.035) is smaller than the chosen significance level (0.10 or 10 percent), the positive association between age and loan repayment is statistically significant i.e., the borrowers age contributes to the variance in probability of borrower's loan repayment performance. By another way, as Wald statistic of education level (2.659.) is outside of 95 percent confidence interval (.969 – 1.563), the developed research hypothesis that there is significant association between age and loan repayment is accepted. Hence, there is significant association between age and loan repayment of MFIs. The result from binomial logistic model can be interpreted as, other variables being constant, increase in age could lead loan repayment rate to be improved by.036. By other way, increase in one year schooling increases the odds ratio in favor of non-defaulting by.115 a factor of, ceteris paribus. This implies that education plays great role in raising the level of awareness, exposure to technologies, access to business information and to manage resources properly which boost production and then improves loan repayment. Age is one of the variables that were thought to affect loan repayment performance of the borrowers by different authors. This result is consistent with the findings of Abreham (2016), Jemal Abafita (2003), *Samuel, S. A. (2011, Tnsue, G. (2011).* , *Reta, F. (2011)*. but inconsistent with that of .

4. **Gender:** It was hypothesized that there is significant association between Gender and loan repayment of MFIs. But, the result from binomial logistic regression model in the above table indicate positive of coefficient for this variable (β of .263), that shows positive association between Gender and loan repayment of borrowers in MFIs. This implies, Gender has been associated with the repayment performance of MFIs' loans and the tendency of the findings has been that women are less likely to default. Since the Sig. statistic or p-value in some other statistical application (.028) is smaller than the chosen significance level (0.05 or 5 percent), the positive association between nearness of borrower's residence to institution and loan repayment is statistically significant i.e., the nearness of borrower's residence to institution contributes to the variance or loan repayment performance of borrowers. By another way, as Wald statistic of nearness of borrower's residence to institution (2.206) is outside of 95 percent confidence interval (1.170 – 5.113), the developed research hypothesis that there is significant association between nearness of borrower's residence to institution and loan repayment is accepted. Hence, there is significant association between nearness of borrower's residence to institution and loan repayment of borrowers' in MFIs. The result from binomial logistic model can be interpreted as, other variables remain constant, and increase in nearness of borrower's residence to institution increases the borrowers' loan repayment probability by .116. By other way, increase in to Microfinance institution increases the odds ratio in favor.

CHAPTER FIVE

5. SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1. Summary of Findings

The main purpose of this study was to assess the major factors that determine the loan repayment performance of borrowers of OCSSCO, Harbu and Eshet MFIs which are currently operating in Jimma town. To achieve the research objective loan repayment of Oromia Saving and Credit Share Company, Harbu MFI, Eshet MFI working in Jimma town.to achieves this objective data have been gathered from the participants and analyzed where different findings were identified. Therefore now it is time to discuss these findings in relation to research findings literatures.

The demographic characteristics of the participants were the first most importantly analyzed points. Accordingly, gender wise female constituted the majority of MFIs' participants. Supporting this finding, Norhaziah and Mohad (2012) found that more participants of MFIs in the study area were female MFIs. This indicates that most micro finance even in the world is mostly focusing on the female gender to upgrade the economic status of women.

The other important factor to determine loan repayment performance was educational background. There is positive relationship between clients' educational level or background and loan repayment performance. On line to this idea Girma (2018) found that as the level of education increase, borrowers enhance their ability to access, evaluate and understand new production techniques. This indicates that the higher literacy level of the clients, the higher will likely to repay the loan. Other most studies identified that education background is critical factor for loan repayment (Absham, Zerozi Swwal, Zrozi; Samuel, 2014).

Family size is the other important variable to determine the repayment performance of the clients while this study found family size is negative relationship with loan repayment performance the background for MFIs to lend for the clients, other studies found as this factor a good determinant of loan repayment (Girma, 2018). Girma stated that this is inversed relation between the family sizes of clients and their loan repayment performance that means, having lower or higher number household members or family size contributes to the change (increase or decrease) in probability of loan repayment performance of borrowers. Therefore family size has negative influence on the level of loan repayment.

5.2 Conclusions

The study brings to therefore the understanding of the relationship between demographic characteristics and loan repayment performance in MFIs. Through the practice has been that demographic characteristics form an important aspect that MFIs consider when advancing loans, this study finds that borrowers' demographic characteristics influence loan repayment performance in MFIs in jimma town. According to the outputs of binomial logistic regression model done by the SPSS version 21 education level, age, and gender are positively related with loan repayment, whereas family size has negative association with loan repayment. According to the model, supporters of large number of dependents and having the responsibility to shoulder large family members had the` higher probability of being defaulters.

5.3 Recommendations

The three identified MFIs were found the way to implement the national policy that to reduce the job lossless of the individuals and strengthening of the economic status of the disadvantaged individuals including women and poor career family sizes. However, the institutions are holding clients without awareness as well as serious of loan and operation systems of the institution. Therefore, it is critical for the institutions to give training about the loan and their operation system prior to the loan times. The clients are showing improvement from there profiles of their purpose of loan. But this implement doesn't have close follow up and monitoring from the institutions.

From this result literate borrowers are better performance of loan repayment than illiterate and also the result shows attending the level of education is increased, the default might be decreased .Such borrowers did not receive formal education and are likely to have inadequate knowledge of loan acquisition and management, thereby making them unable to repay the loans, institution should provide short and long term awareness creation training with especial attention to rural clients and also include in strategic plan continuous supervision, monitoring and evaluation system.

In this study age was hypothesized a positive impact on repayment performance. Usually at certain level of age limit borrowers get more stability and experience. This shows as people get older, their ability to effectively use loan and generate income declines, so the researchers advice to the institutions before take loan consider borrowers age.

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APPENDIXES

Jimma University

College of Business and Economics

Department of Banking and Finance

Questionnaire prepared for three MFIs (Eshet, Harbu and Oromia Micro finance institution)

Dear Respondents,

The purpose of this questionnaire is to collect data for the thesis work in requirement for partial fulfillment of MSc degree in Accounting and Finance in Jimma University. The study aimed at investigates the factors that affect loan repayment performance of MFI and to identify the major problems that face MFI in jimma town. I would like to emphasis that your responses are extremely valuable for the successful completion of this paper and I would immensely appreciate your response for all questions genuinely. I can assure you that the information you provide will be completely anonymous and will not be used for any other purpose it will use only for academic purpose.

I thank you very much in advance for your cooperation and for sacrificing your invaluable time

Part I. Personal Information

1. Gender

Male ☐ Female ☐

2. In which age group do you belong?

Less than 24 years ☐ between 25 – 30 years ☐

Between 31 -35 years ☐ between 36 – 40 years ☐

Above 40 years ☐

3. Level of Education

Postgraduate ☐ Degree ☐

Diploma ☐ Certificate ☐ other (specify) ________

4. Year of service

Less than 1 year ☐ 6-10 years ☐

1-5 years ☐ More than 10 years ☐

5. The level of position in the institution

Supervision ☐ credit officer ☐

Team leader ☐ manager ☐ other ___________

To identify the credit policies used in MFIs

1. In your organization sets and follows the credit policies and terms

a) Yes ☐ b) No ☐

2. The organization implements these terms and policies in case of failure to pay back the loan.

a) I strongly Agree ☐ c) I strongly Disagree ☐
b) I Agree ☐ d) I Disagree ☐

3. There is always training to all employees on the terms and policies set by the organization.

a) I strongly Agree ☐ c) I strongly Disagree ☐

b) I Agree ☐ d) I Disagree ☐

4. In my organization credit policies are effective in answering the borrowers' queries.

a) I strongly Agree ☐ c) I strongly Disagree ☐

b) I Agree ☐ d) I Disagree ☐

5. Who authorized the high loan in your institution?

a, manager c, other please specify___________________________________

b ,supervisor

To evaluate the loan performance in MFIs

6. It is very easy for customers to get loans in your organization

a) Yes b) No

7. Does the institution incur a lot of costs in recovering loans given to borrowers?

a) Yes b) No

8. In cases of failure does the institution take measures to recover the loan?

a) Yes b) No

9. What type of credit does the institution offer?

a. Long term only c. Others (specify) ______________________________

b. Short term only

10. How much interest rate you offer for loans _________________________

11. How is the interest rate charged?

Monthly Per Annum

Per loan cycle other ____________________

10. In cases of failure to pay the loan the organization takes measures to recover it.

a) Yes b) No

11. If your answer is yes for Q.10 what measures your institution takes ____
____.

12. How many loans application do you receive monthly? ______________________________

13. How many of them are approved? ____

14. What kind of lending is done by MFIs?

(a) To a group (c) Both groups and individuals

(b) To individuals

14. Collateral securities are required before the loan is granted.

a) Yes b) No

15. What types of collateral you required to credit the loan

A, for individual's borrowers' ____

B, for group borrowers' ____

16. Group lending is mainly used because it is more cost effective than individual lending and attracts more borrowers.

I strongly Agree ☐ I strongly Disagree ☐

I Agree ☐ I Disagree ☐

17. Loan repayment through groups is higher than individual basis

a) Yes b) No

18. MFIs give individual borrowers' sufficient credit period

I strongly Agree [ ] I strongly Disagree [ ]

I Agree [ ] I Disagree

19. To what extent do the borrowers' factors affect the level of loan repayment at MFIs?

Very great extent ( ) Moderate extent ( ) No extent ( )

Great extent ( ) little extent ( )

20. Loan products have increased the organizational profitability levels

a) Yes b) No

22. Does the degree of risks associated with loans in your organization is high

a) Yes b) No

23. What are the main causes for late repayments? ____________________________________
____
____.

24. What was the purpose of the loan?

a) For working capital

b) For fixed investment

25. What is the Status of the current customers' loans?

Fully repaid [ ] Repayments in arrears [ ]

Repayment on schedule [ ] Other______________________

26. How do you handle clients in arrears?

____

____

To evaluate the loan Default in MFIs

27**.** Have you had cases of loan defaults?

a) Yes b) No

28. If yes, yes how would you rate the level of default?

a. Very high b. High. c. Moderate d. Low

29. The interest rate is high making the loan beneficiaries fail to realize the anticipated returns

I strongly Agree ☐ I strongly Disagree ☐

I Agree ☐ I Disagree ☐

30. **MFIs** has adequate staff in the loans section to oversee loan recovery

a) Yes b) No

31. When lending is not effectively done, loan default rate becomes high

I strongly Agree ☐ I strongly Disagree ☐

I Agree ☐ I Disagree ☐

32. In your own views what is the main solution to loan defaulting?

____

____

____.

33. What is the maximum period given to borrowers to repay their loan?

a. Six months c. Two years

b. One year d. Three years

Other specify____

34. How does the period given affect the cash flow of **MFIs**?

____

35. What is the Status of the current customers' loans?

Fully repaid [ ] Repayments in arrears [ ]

Repayment on schedule [ ]

Other specify ______________________

36. The volatile changes in the prices of goods and service has affected the capacity of clients to pay back.

I strongly Agree ☐ I strongly Disagree ☐

I Agree ☐ I Disagree ☐