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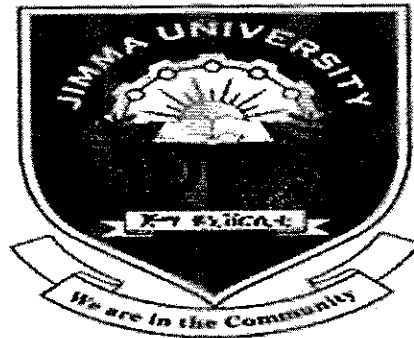
***DETERMENANTS OF LOAN REPAYMENT PERFORMANCE:  
CASE OF OROMIYA CREDIT AND SAVING SHARE COMPANY  
(OCSSCO) IN WEST SHOA ZONE***

**BY: BELETE DEMUMA**

Under the Guidance of  
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and

Saniya Kedir (MSC)



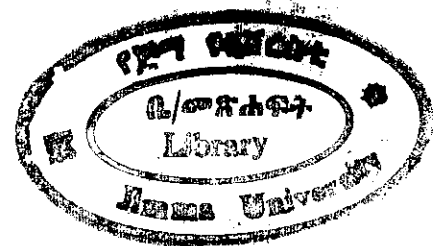
***A Thesis Submitted to the school of Graduate Studies of Jimma University in  
Partial fulfilment of the Requirements for the Award of the Degree of Master of  
Science in Accounting and Finance (MSc)***

**JIMMA UNIVERSITY**

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## CERTIFICATE

This is to certify that the thesis entitles "Determinants of Loan Repayment Performance: A study on Oromia Credit and Saving Share Company in west shoa Zone", submitted to Jimma University for the award of the Degree of Master of Science in Accounting and Finance(MSc) and is a record of bonafide research work carried out by Mr. Belete Demuma Geleta, 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 or diploma.

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## DECLARATION

I hereby declare that this thesis entitled “Determinants of Loan Repayment Performance: A study on Oromia Credit and Saving Share Company in west Shoa Zone”, has been carried out by me under the guidance and supervision of Arega Seyoum Asfaw (PhD) and Saniya Kedir (MSC).

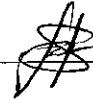
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## *Abstract*

*Microfinance involves the provision of micro-credit, saving and other services to poor people that are excluded by the commercial bank for collateral and other reasons. OCSSCO is one of the microfinance institutions to serve needy people in the region. This study aims at identifying the major socio-economic factors and loan related factors that determine loan repayment performance of borrowers in OCSSCO. In fact, identifying and analysing such determining factors of loan repayment rate is vital in the achievement of profitability and sustainability of MFIs. The survey includes a total of 422 respondents, using stratified sampling the population was divided into Urban and rural based on settlement areas. In this connection, the researcher collected data from primary and secondary sources. The primary data has been collected by interviewing 422 of urban and rural borrowers' respondent using a structured questionnaire with the help of trained enumerators. The questionnaire includes both open- and closed- ended questions. In addition, secondary data were gathered from OCSSCO branch office and other related relevant publications. Descriptive statistics with the help of Pie charts, graphs, table, Percentages were used in analyzing the collected data. In addition to this econometric model by employing SPSS 16.0 version were used to analyse the collected data. Furthermore, a chi-square ( $X^2$ ) test of independence was employed to compare the relationship of dependent variable with independent variables. A total of fifteen explanatory variables were included in the regression and the result of the model show that sex, age, group size, business experience, timelines of loan release, suitability of loan repayment period, other sources of credit, market study were found important in influencing loan repayment performance of the borrowers. However, educational level, training, loan size, frequency of collection and loan diversion were found to be statistically insignificant. Based on the findings of the study, some recommendations were made to improve loan repayment performance in the study area. OCSSCO should set business and income based suitability of repayment period and recruit business experienced borrowers.*

**KEY WORDS:** *Microfinance, Loan Repayment, Performance of Borrowers and Binary Logit.*

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## List of Abbreviations/Acronyms

AEMFI:	Association of Ethiopian Microfinance Institutions
ADCSI:	Dedebit Credit and Saving Institution
MFI:	Microfinance Institution
GDP:	Gross Domestic Product
IFAD:	International Fund for Agricultural development
MSE:	Micro and Small Enterprises
OCSSCO:	Oromia Credit and Savings Share Company
OSHO:	Oromo Self Help Organization
MIX:	Microfinance Information Exchange
NBE:	National Bank of Ethiopia
NGO:	Non-Government Organizations
SSE:	Small-scale enterprise
SMFI:	Sidama Microfinance Institution

# CHAPTER ONE

## 1. INTRODUCTION

### 1.1 Background of the Study

Over the past 20 years, the microfinance industry has emerged in response to the lack of access to formal financial services for most of the world's poor. The delivery of financial services to the poor is a very recent development in Ethiopia. Micro credit programs introduced as components of NGO operations in the 1980s. In 1994, the Government of Ethiopia opened the commercial banking sector to private banks, and in 1996, microfinance institutions (MFIs) created to serve populations with no access to financial services. The decision of the Government of Ethiopia to restructure the financial sector in the 1990s has had a significant impact on the growth and commercialization of both commercial banks and MFIs in Ethiopia. As of June 2008, there were 38 financial institutions operating in Ethiopia including three government-owned banks, seven private banks, one cooperative bank and twenty seven MFIs, all regulated by the National Bank of Ethiopia. The major objective for the establishment of Micro Finance Institutions (MFIs) is to provide financial service to the poor (AEMFI, 2008).

Microfinance Institutions (MFIs) have been established to provide loan and other services to the poor and lower income persons so as to help them alleviate their poverty and become self employed by making their business activities. This is in contrast to formal banks, which provide loans to relatively better off members of the society based on collateral. Microfinance can be considered as a development tool that provides financial as well as social intermediation including the provision of savings, credit and insurance services, while social intermediation involving citizens groups to voice their aspirations, raise concerns for consideration by policy makers, and develop their self-confidence (Robinson, 2002):

Commercial banks in most developing countries commonly exclude the poor and hard-core poor from credit facilities because of high transaction cost, their inability to fulfil the collateral requirements, their unstable income, and lack of marketable skills as well as high monitoring costs. Therefore, they considered as highly risky lending option (Prahalad, 2006). Lending to the poor or lower income group raises many debates among practitioners and academicians.

The poor usually excluded from credit facilities because of many reasons. These include insufficient collateral to support their loans, high transaction costs, unstable income, lower literacy and high monitoring costs.

Usually they survive through involvement in micro business activities or informal activities that comprises food processing and sales, small-scale agriculture, services, crafts and petty trading. However, these activities actually contribute a number of total employment and gross domestic product (GDP) to the country. Micro and small enterprises (MEs) have recognized as a major source of employment and income in many countries of the Third World (Mead & Liedholm, 1998). Commercial banks, savings and loans companies and credit unions always grapple with the issue of credit risk because lending serves as the fulcrum around which the wheels of their operations revolve (Adusei, 2011).

In developing countries, including Ethiopia, micro-financing institutions (MFIs) emerged with unique opportunity to serve poor people who do not have access to commercial banks. Microfinance involves the provision of micro-credit, savings, and other services to the poor that excluded by the commercial banks for collateral and other reasons. Microfinance is relatively new to Ethiopia and came to existence during 1994-95 with the government's licensing and supervision of microfinance institution proclamation (Zerai and Rani, 2012, cited by Pasha and Negese, 2014). The main objective of the these institutions are they 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.

The primary objective of microfinance institutions (MFIs) is to provide financial services like (credit & saving) to the poor in order to release financial constraint and help alleviating poverty. Each MFI tries to maximize its repayment performance, whether or not it is profit oriented. High repayment rates are indeed largely associated with benefits both for the MFI and the borrowers (Sengupta and Aubuchon, 2008, cited by fikirte, 2011). They enable the MFI to cut the interest rate it charges to the borrowers, thus reducing the financial cost of credit and allowing more borrowers to have access to it.

Improving repayment rates might also help reduce the dependence on subsidies of the MFI, which would improve sustainability. It is also argued that high repayment rates reflect the adequacy of MFI's services to clients' needs. They limit the incidence of cross subvention across the borrowers. Finally yet importantly, repayment performance is a key variable for donors and international funding agencies on which many MFIs still depend for their access to funds (Godquin, 2004).

Arene (1992) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, distance between home and source of loan, education, household size, adoption of innovations, and credit needs. Like in other areas of the world, peoples in Ethiopia are living under poverty. Finance institutions in general and microfinance institution in particular plays crucial role in the development of Ethiopia in general and west shoa zone of oromia in particular. However, no study has been under taken in west shoa zone regarding loan repayment performance of borrowers in particular.

## **1.2 Statements of the problem**

One way to tackle the loan repayment problem is to investigate the factors, which affect the loan repayment of MFIs (Onyeagocha et al., 2012). According to Tundui and Tundui (2013) loan repayment performance can be 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 the 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 activities.

Armendariz and Morduch (2000) have highlighted several important mechanisms that allow MFIs to generate high repayment rates from poor borrowers without requiring collateral and without using group-lending contracts. These mechanisms include the use of non-refinancing threats, regular repayment schedules, collateral substitutes, and the provision of nonfinancial services (Armendariz and Morduch, 2000 cited in Baklouti and Abdelfettah, 2013).

MFIs offer credit to the poor clients through different lending modalities including group based lending. Lending is a risky enterprise because repayment of loans can seldom fully guaranteed. For this reason, lenders devise various institutional mechanisms aimed at reducing the risk of loan default like pledging of collateral, third party credit guarantee, use of credit rating and collection agencies, group lending etc.(Sharma and Zeller, 1996).

According to Mike and Eric (2010) Lending risk was the possibility that the borrowers may not pay the loan on time with interest and the market risks include lower prices for borrowers' products and services, which could directly affect their ability or willingness to repay an outstanding loan. Each MFI tries to maximize its repayment performance, whether it is profit oriented or not. One indicator of effective MFIs is the loan repayment performance of the borrowers (Sengupta and Aubuchon, 2008). High repayment rates are associated with benefits both for the MFI and for the borrowers (Godquin, 2004). If there is high repayment rate, the relationship between the MFI and their client will be good, as Bond and Rai (2009) argues that high repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. In this case, the borrowers will not be able to obtain the next higher loan and the lenders lose their clients.

Improving repayment rates helps reduce the dependence of the MFIs on subsidies, which would improve sustainability. It also argued that high repayment rates reflect the adequacy of MFIs' services to clients' needs (Godquin, 2004). In order to maintain sustainability of MFIs, one important thing is to identify the socio-economic and institutional factors, which significantly affect the performance of loan repayment rates from different perspective.

Arene (1992) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, distance between home and source of loan, education, household size, adoption of innovations, and credit needs.

There are many socio-economic and institutional factors influencing loan repayment rates in the MFIs. The main factors from the lender side are high frequency of collections, tight controls, and a good management of information system, loan officer incentives and good follow-ups (Breth 1999, cited in Fikirte, 2011). In addition, the size and maturity of loan, interest rate charged by the lender and timing of loan disbursement have an impact on the repayment rates (Oke, et al., 2007).

High repayment rate enables MFIs to recover interest income and minimize loan losses, which enhance profit. In turn, these profits enhance the capital base, which enables MFIs to increase their outreach and reduce their dependence on donors (Francis and Abel, 2009).

The main factors from the borrower side include socio-economic characteristics such as, gender, educational level, marital status and household income level and peer pressure in-group based schemes. Most MFIs in Ethiopia are experiencing default problems as can be observed from their declining repayment rates (Abafita, 2003). The reasons of low performance of loan repayment in rural borrowers are taking of loan without considering their capacity of repaying the loan and unwillingness to repay the loan (Girma et al., 2004).

A study conducted on loan repayment performance in SMFI by (Pasha and Negese, 2014) concluded that more aged people and well business experienced people can able to repay their loan amount` timely to micro finance institution. In addition, the borrowers who attained higher education level able to pay better than the borrowers who were in lower level of schooling and/or illiterate's. They suggested that the institution should motivate the educated people.

The main purpose of this study is to investigate the determinants of loan repayment performance of borrowers in MFIs a case of OCSSCO West Shoa Zonal administration and socio demographic factors related with loan repayment performance. Through various researches have been conducted on loan repayment performance in MFIs at different time period but the results of the findings by various researchers are different and therefore inconclusive.

The previous studies shows that there is inconsistency of results regarding the determinant factors such as sex, education, business experience and loan size. And majority of the past empirical studies that conducted on the factors contributing to loan default in different area are not similar.



In addition, the issues that have been identified as major problems in the previous studies may not work today. For example, Michael (2006) study on micro-finance repayment problems in the informal sector in Addis Ababa and (Zelalem et al., 2013) found business experience has significant effect and positive relationship with loan repayment rate. On the contrary Pasha and Neges(2014) based on survey data on performance of loan repayment determinants in Sidama microfinance institution (SMFI) found that business experience has not significant effect on loan repayment performance.

Similarly, study made on loan repayment and its determinants in small scale enterprise in Oromia region around Zaway area by Gebeyehu (2011) using the estimation result employing tobit model reveals that having business experience in related economic activity and education were having significant positive effect while repayment period and sex were negatively associated with loan repayment rate. Borrowers who have extensive experience in related activity and educated ones shows better repayment rate.

Concerning loan size (Zelalem et al., 2013) the study on determinants of loan repayment performance of smallholder farmers: The Case of Kalu District, South Wollo Zone, Amhara National Regional State, found as loan size affect loan repayment performance positively and significantly. Whereas, Jemale (2003) the study on microfinance and loan repayment performance: a case study of the Oromia credit and savings share company (OCSSCO) in Kuyu found as loan size have significant and negative influence on loan repayment performance.

In addition to the above-mentioned gap majority of the previous studies conducted focused on loan repayment performance related with rural borrowers, but only a few studies indicate loan repayment performance of urban borrowers. Hence, this study focuses on the determinants of loan repayment performance of both urban and rural OCSSCO beneficiaries.

Therefore, to alleviate the aforementioned problems the researcher intended to study major socio- economic factors, business factors and loan related factors that determines loan repayment performance of borrowers in OCSSCO of west Shoa Zonal administration. Besides, as to the best of the researcher's knowledge, it seems that no studies appears to have been conducted on loan repayment performance of borrowers in west shoa in both urban and rural areas. Finally, the study will be expected to fill literature and knowledge gap in the area.

### **1.3 Research Questions**

In general, this study is guided by the following research questions:-

- Do borrower's characteristics such as sex, age, education level, family size, business experience, residence and training determine the loan repayment performance of borrowers?
- Do business characteristics or type affect the loan repayment performance of borrowers?
- Do loan characteristics such as loan size, loan diversion, suitability of repayment, frequency of collection, other sources of credit determine the loan repayment performance of borrowers?

### **1.4 Objective of the Study**

#### **1.4.1 General Objective**

The main objective of the study is to analyze and identify the major factors affecting loan repayment performance of the borrowers and to identify the major challenges of Oromia Credit and Saving Share Company in this regard.

#### **1.4.2 Specific Objective**

This study on determinants of loan repayment performance assumes the following specific objectives:-

- To analyze the major socio-economic factors that influence loan repayment performance of OCSSCO borrowers.
- To investigate and differentiate loan and business related factors that affect loan repayment performance of borrowers (clients) in OCSSCO.
- To assess the major problems and challenges faced by the borrowers and lenders in the repayment process in OCSSCO.
- Investigate the organizational factors affecting the borrowers' loan repayment ability.

## 1.5 Significance of the Study

The primary objective of micro finance institutions is providing financial services such as loans, savings, money transfer services, micro insurance and other financial products targeted at poor and low income people” to improve the living standards of the poor so as to help them alleviate their poverty and become self employed by making their business activities.

For these the institutions to be able to render such services on the permanent basis, it has to realize its profitability and sustainability. However, the profitability and sustainability of MFIs depends on the borrowers’ action toward the loan repayment performance.

The borrowers’ action toward loan repayment performance is determined by various factors. Such as socio-economic/borrowers/ factors, business factors, institutional factors and loan factors that affect the loan repayment performance.

Identifying such factors and advising possible solutions are essential to expand the activities of MFIs in a sustainable manner. This study expected to provide information for a better understanding on the determinants of loan repayment performance of the oromia credit and saving Share Company (OCSSCO) from both lender and borrowers side. Some of those are:

- ❖ This study initiates institution to give closer attention towards the administration and follow-ups as well as conduct awareness creation program to achieve the desired objectives.
- ❖ Provide relevant information to decision makers about loan repayment performance of OCSSCO.
- ❖ This study helps Oromia Credit and Saving Share Company to evaluate the screening mechanism.
- ❖ The research will be significant in providing a reference material for those who are interested in conducting further research on the area of loan in microfinance institution.

## **1.6 Scope and Limitations of the Study**

The study is conducted in west Shoa zone in Ethiopia. The scope of this study was restricted to identify the determinants of loan repayment performance of OCSSCO by including only the socio economic factors that affect loan repayment performance of the borrowers in three woredas and have not covered other factors that affect the repayment performance of clients. Moreover, the study was confined to analyze only clients and firm specific determinants of MF loan repayment and has not cover other performance measures.

The data were obtained from three service delivery posts out of the 18 delivery posts that OCSSCO operates. The service delivery posts were limited to three branches due to logistical limitations.

## **1.7 Organization of the Paper**

This research paper consists of five chapters. The first chapter consists of background of the study, statement of the problem, research questions, objectives of the study, significance of the study, scope and limitation of the study. Chapter two focuses on related literature review of important concepts that are essential to the study. Chapter 3 focuses on the methodology of the study. The fourth part of the study discusses with presentation, analyzing and interpretation of the collected data on the problem in the sample, and generalized the causes of the problem.

Finally, chapter five presents of summaries of major findings, conclusions, and recommendations for possible solutions to the problems of the study.

## CHAPTER TWO

### 2 REVIEW OF RELATED LITIRETURE

#### 2.1 Introduction

The literature on determinants of loan repayment performance is quite substantial and there are a growing number of empirical papers on this topic as well. This chapter gives the review of definitions of terms in the field of microfinance and various methodologies involved in the delivery of microfinance. The objective of this chapter is to present an overview of microfinance and review relevant literature, concepts, and theories surrounding the study.

#### 2.2 History of MFIs

Traditionally, the idea of poverty has long existed with the old culture of microfinance where people were encouraged to start businesses when it was their turn to take the contribution. However, the modernization and rapid urge for people to get rid of poverty led to the legalization of microfinance worldwide in a unique form. This modern microfinance first created in Bangladesh by a Grammen bank (David, 2008). Another term for microfinance is microcredit although they do not have exactly the same meaning but are interchangeable. It is called microcredit because it gives out small loans to poor people (Grammen Bank, 2011).

The 21st century microfinance system emerged from a group of poor people in Bangladesh in a form of a small microcredit. It started in 1970s with Dr Muhammad Yunas being the brain behind it. He gave money to start a small-scale business with 27 US dollars. They started with the making of Bamboo chairs. With the small amount he gave out to women, he understood the women could survive taking care of their families and themselves. In 1980s, he started the Grameen Bank. This bank gave out loans of about 300 US dollars. The money aimed to helping the poor to be able to sustain themselves but the interest rate was as high as about 98%. Today the bank recounts a success story of what they did in the 1980s. The Grameen banking system of alleviating people against poverty has been a model to many other countries such as Nepal, India, USA and Norway. According to the statistics produced by World Bank (2005), about 7000 microfinance institutions exist, serving about 16 million inhabitants in the world.

## 2.3 Microcredit and Microfinance Definition

Microcredit or micro lending defined as an extremely small loan given to impoverished people to help them become self-employed or Microcredit is a loan given to the poor individuals for income generating activities that will improve the borrowers' living standards.

The loans characteristics are, too small, short-term credit (a year or less), no collateral, required weekly repayment, poor borrower and mostly women who are not qualified for a conventional bank loan.

Usually the loan pays high interest rates because of the high cost in running microcredit program. Microcredit also used as the extension of very small loans to those who are in poverty that designed to spur entrepreneurship and help them out from poverty group. These individuals lack collateral, steady employment and verifiable credit history, which therefore, cannot even meet the minimal qualifications to gain access to traditional credit. (Nawai, 2010).

The Grameen Bank defined microcredit as small loans given to the poor for undertaking self-employment projects that would generate income and enable them to provide for themselves and their families. The target population comprising women microenterprises from the low-income households and the loans have no collateral. However, microfinance defined as the provision of financial services to low-income clients, including consumers and the self-employed, who traditionally lack access to banking and related services (Gonzalez-Vega, 2008).

Microfinance is a place for the poor and near poor clients to get access to a high quality financial service, which include not just credit but also savings, insurance and fund transfer. According to Ledger wood (1999), microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor or low-income group who excluded from the normal banking sectors.

Microfinance is a development approach that provides financial as well as social intermediation. The financial intermediation includes the provision of savings, credit and insurance services, while social intermediation involves organizing citizens' groups to voice their aspirations, raise concerns for consideration by policy makers, and develop their self-confidence (Robinson, 2002).

Moreover, Conroy (2002) stated that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their MEs. The term evolved from the concepts of “microcredit” and “microenterprise” financing, to include the importance of savings as well as borrowing.

The World Bank defines microfinance as “Small scale financial services primarily credit and savings provided to people who farm or fish and who operate small enterprises or microenterprises. In addition where goods are produced, recycled, repaired, or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban” (Robinson, 2001). Therefore, based on all definitions given, it concluded that microcredit is just a small credit given to the poor that engaged in microenterprise or for the purpose of income generating activities. On the other hand, microfinance encompasses broad financial services given to the poor and low-income group for many reasons and not just for income generating activities.

Woller & Parsons (2002) describe microfinance as the second revolution in credit theory and policy where the first revolution is microcredit. Microfinance institutions (MFIs) established to fill the gap in the financial services sector by providing funds to the poor and lower income group and thus alleviating poverty and enhance their business activities.

The MFIs provide funds for start-up business or for working capital. In addition, some MFIs also provide funds for non-business activities such as for education and emergencies purpose. In the credit market, agency problem, moral hazard and adverse selection exist because of information asymmetries. Information asymmetries are the main obstacle for MFIs to provide loans to clients. Financial institutions usually requires business proposal, borrower past credit information and collateral before approving the loan.

## **2.4 Lending Methodology**

Lending methodologies differ with respect to whether loans made to groups or to individuals. The lending methodology selection greatly influences product design, client selection, the application as well as approval process, loan repayment, and monitoring and portfolio management. Lending methodology also affects the institutional structure and staff requirements, including training and compensation (Ledger wood, 2013).

### **2.4.1 Group Lending**

Group-based lending involves the formation of groups of people who have a common wish to access financial services. One important feature of group-based lending is the use of peer pressure as a substitute for collateral. Many group-based lending programs target the very poor, who cannot meet the traditional collateral requirements of most financial institutions. Instead, group guarantees established as collateral substitutes. While many people presume that group guarantees involve the strict joint liability of group members, members seldom held responsible. Instead, the default of one member generally means that further lending to other members of the group stopped until the loan repaid.

The financial and social grouping elicits several types of group dynamics that may increase repayment rates. For example, peer pressure from other group members can act as a repayment incentive, since members do not want to let down the other members of their group or suffer any social sanctions imposed by the group because of defaulting. In other cases, the group may recognize a legitimate reason for the arrears of a certain member and offer to help until the problem is resolved. In still other cases, the mandatory savings of group members used to pay off the loan of a defaulter (Joanna Logewood, 1999).

Since 1970s, group-lending programs have promoted in many developing countries (Zeller, 1996). The key feature of group lending is joint liability. This means all group members treated as being in default if any one member of the group does not repay his/her loan. Therefore, each member made responsible for repayment of loans of his or her peers (Besley and Coate 1995). Most schemes give subsequent credit only if the group has fully repaid its previous loan.



Loan under joint liability shows, the threat of losing access to future credit incites members to perform various functions, including screening of loan applicants, monitoring the individual borrower's efforts, and enforcing repayment of their peers' loans (Zeller, 1996).

The existing theoretical models of peer monitoring assumes that the repayment performance in group-lending program is positively related to the homogeneity of group members with respect to the riskiness of their projects (Stiglitz 1990; Devereux and Fische 1993; Besley and Coate, 1995 cited in Zeller, 1998). However, according to Zeller there is little empirical evidence to confirm or reject this hypothesis. Despite group, lending has several benefits; there are many factors 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 disappear under joint liability, when he or she expects that significant number of peers will default.

Woller & Parsons (2002) MFIs offer credit through group-based lending method to mitigate agency problems, moral hazard and adverse selection and to replace the collateral requirement. In group-based lending, borrowers must form a group before applying loans and they responsible to other loan members. If one member default, the others will be responsible to pay the loan or they denied access for the next loans.

#### **2.4.2 Individual Lending**

Individual lending defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Individual lending requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business.

It is most successful for larger, urban based, production oriented businesses and for clients who have some form of collateral or a willing cosigner. In rural areas, individual lending can also be successful with small farmers (Joanna Logewood, 1999).

The success of microfinance in generating high repayment rates led many economists to investigate the reasons behind this success. The mid-to-late 1990s witnessed a large increase in the number of journal articles on group lending contracts, as economists sought to explain how microfinance “succeeded” where traditional forms of lending had failed. Joint liability contracts seen as the break from traditional lending mechanisms and economic theory used readily explain how these contracts helped to improve repayment rates. The growth of the literature on group lending contracts in the mid-1990s offers the impression that all MFIs operate as such, but the reality is that MFIs use a variety of lending techniques, such as dynamic and progressive loans, frequent repayment schedules, and non-traditional collateral to ensure high repayment rates among poor, underserved borrowers. These mechanisms either introduced independently or in conjunction with joint liability programs such as Grameen’s case (Sengupta and Aubuchon, 2008). Individual lending scheme typically focuses on the crucial role of closely monitoring microfinance clients.

(Morduch, 2000) point out the importance of monitoring borrowers in individual lending programs. Recently researchers have been interested in comparing group-lending programs to individual lending scheme. Gine and Karland (2006) conducted a field experiment in Philippines. They find out that by offering individual loans, a MFI can attract relatively more new clients. Yet, both lending schemes do not differ in repayment rates. As the study made in Philippines (field experiment) stated it, in recent years, however, some micro-lenders, such as the Association for Social Advancement (ASA) in Bangladesh or the Bank Rakyat Indonesia (BRI), have expanded rapidly using individual liability loans. Others, like Bancosol in Bolivia and the Grameen Bank, have converted a large share of its group liability in to individual liability lending (Tsigie, 2013).

## **2.5 Factors, which affect loan repayment performance**

The main factors influencing the loan repayment performance related to information asymmetries, to adverse shocks that affect the borrower or low performance of institutions. Information asymmetries arise due to lack of information in relation to behaviour of the borrower and it is costly to the MFI.

Information asymmetries generate problems of adverse selection that is granting of loans to borrowers with undesirable characteristics like inability to take advantage of the granted loan as well as moral hazard that borrowers make little or insufficient effort to take advantage of the loan or use it for unproductive purposes. The effect of adverse selection and moral hazard is it increases the proportion of borrowers who cannot repay their loans on time. (Godquin, 2004).

Basley and Coate (1995) argue that the whole group may default, even when some members would have repaid under individual liability. This situation happens when the number of defaulting borrowers is so large that the remaining members of the group cannot afford the repayment of defaulters, along with their own repayment. In this situation, borrowers that could repay their loans have little incentive to do so because access to future loans denied. As a result, they will strategically decide to default.

According to Nawai (2010, cited in tsige, 2013), the factors that affect loan repayment performance of MFIs divided in to four factors namely:

- I. Individual/borrowers factors
- II. Firm factors
- III. Loan factors and
- IV. Institutional factor

Stiglitz and Weiss (1981) recommend that the banks should screen the borrowers, 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.

#### **I. Individual/borrowers factors**

Looking at a borrower’s past truck record whether the client is having a clean loan record (repaying the loan on time) and economic prospects to determine whether the borrower likely to repay or not. Besides characteristics of the borrowers, collateral requirements, capacity or ability to repay and condition of the market should considered before giving loans to borrowers. Gender and educational level also affect the loan repayment performance.

## **II firm factor**

Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on borrowers' repayment performance.

Roslan and Mohd Zaini, (2009) found that borrowers that did not have any training in relation to their business have a higher probability of default. According to Tedeschi (2006), there are two possible reasons for default: strategic default or default due to a negative economic shock. The lending contract provides incentives to discourage strategic default, but default due to an economic shock is unavoidable. In contrast, Hulme and Mosley (1996) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorize the designed features in to three categories namely access methods, screening methods and incentive to pay. Access methods generally ensure that poor people access the loans not richer people and the features include maximum loan ceilings and high interest rate. Screening methods used to screen out bad borrowers.

### **III. Institutional/lender characteristics**

A few researchers also found that loan characteristics play an important role in determining repayment performance Roslan and Mohd Zaini (2009) found that defaults generally arise from poor program design or implementation, not from essential problems with the borrowers.

### **IV. Loan characteristics**

According to Derban et al. (2005), causes of non-repayment grouped in to three main areas: the inherent characteristics of borrowers and their businesses that make it unlikely that the loan would repaid. Second, are the characteristics of lending institution and suitability of the loan product to the borrower, which make it unlikely that the loan would be repaid? Third, is systematic risk from the external factors such as economic, political and business environment in which the borrower operates?

Vigenina and Kritikos (2004) find that individual lending has three elements namely the demand for non-conventional collateral, a screening procedure which combines new with traditional elements and dynamic incentives in combination with the termination threat in case of default, which ensure high repayment rates up to 100 percent.

Roslan Abdulhakim et al. (2007) in their study conclude that close and informal relationship between MFIs and borrowers may help in monitoring and early detection of problems that may arise in non-repayment of loans. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them success in their business.

Nawai (2010) find out that repayment problem is one of the critical issues of MFIs that concerns all stakeholders where high loan default rate is the primary cause of the failure of MFIs. The agency problem, adverse selection and moral hazard that appear because of information asymmetries are the main reason why these happened. This is because lenders cannot observe the behaviours of their clients whether they are honest or dishonest.

## **2.6 Challenges of Microfinance**

The first most typical challenges faced by any Microfinance institution is credit risk as mentioned earlier. Moreover, the cost of debt collection per loan amount is, on average, higher than in formal intermediation, especially in developing countries lending (Vento 2004). Similarly, high cost of service associated with the low-value, high volume and cash intensive nature of the business and high fixed and variable costs (Basu, 2005). A second source of risk for MFIs represented by interest rate risk; it can be significant in the case of MFIs that collect deposits too.

In most of developing countries, the average higher interest rate is volatil. Similar to interest rate risk, liquidity risk also appears more significant for deposit-taking MFIs; in fact, small savers tend to make frequent withdrawals and deposits, therefore, managing liquidity could become more difficult (Vento 2004). Moreover, Basu (2005) stated that the risk management challenges are associated with the high levels of information asymmetry.

Another sources of challenges in MFIs is ownership and governance risk. This risk concerns the weakness in internal control systems, which play an important role especially in case of lack of external regulation (Vento 2004).

In addition, limited management capacity in MFIs and institutional inefficiencies also challenges (Campion, 2002). Moreover, inadequacy of well-trained personnel in their rolls and staff incentives within any formal organisation paradigm (private or public) that seeks to deliver these services is challenges for Microfinnce institutions (Basu, 2005).

## 2.7 Microfinance in Ethiopia

in developing country, like in Ethiopia, need a wide range of financial services for consumption smoothing, running their business and building assets. But due to collateral problems, poor people in most cases have no credit access from Banks. Microfinance offers financial services such as loans, savings and micro insurance to the poor people either in individual or in a group basis. Lending to the poor usually means that a lender will not be able to get any collateral to secure the loan Njoroge, and Eff (2009, cited by Fikirte, 2011).

Moreover, Kimentyi et al. (1998) argues that the most difficult aspects of lending to poor clients are borrower selection and repayment enforcement. In addition, Microfinance is relatively new to Ethiopia and came to existence during 1994-95 with the government's licensing and supervision of microfinance institution proclamation Zerai and Rani (2012, cited by Pasha and Negse, 2014). Oromia credit and saving share company (OCSSCO) is operating in the Oromia Regional State of Ethiopia. It originally established as Oromo Self Help Organization (OSHO) in 1996 to deliver credit and mobilize savings in rural Oromia. Soon it transformed into OCSSCO and registered in 1997 as per proclamation No 40/1996 (Jemal, 2003).

The objective of OCSSCO is to alleviate poverty and promote economic development through provision of credit and saving services. Regarding the program norms, OCSSCO's average loan size for the first loan is Birr 1500. A client obtains the next higher loan after the successful repayment of the first loan. Loan terms of OCSSCO 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 paid on declining balance. On the other hand, OCSSCO pays 8% interest on the amount saved by its clients. OCSSCO confined in areas where the majority of small-scale poor farmers live.

The microfinance industry in Ethiopia has shown a remarkable qualitative and quantitative growth since the early 1990. The formal base has laid by the issuance of Proclamation No. 40/1996, which established the licensing, and supervision of MFIs as share companies in accordance with the Commercial Code of Ethiopia.

Twenty MFIs have registered with the NBE until Mai 2002. With a network of about 500 sub-branches and branches, these MFIs deliver financial services to about 600,000 clients by the mid of 2002, with a total loan outstanding of about 35.5 million USD and a total of mobilized savings amounting to about 15.8 million USD (IFAD 2001). Some MFIs have also disbursed input supply loans to about 786,000 farmers and additionally some MFIs manage remittances for about 100,000 pensioners each month. Despite these major achievements of Ethiopian MFIs, in sight of the large population size the outreach of MF in Ethiopia is still relatively limited. It was estimated that the 20 registered MFIs meet less than 9% of the demand for financial services of the active poor (Chao-Beroffet al. 2000, cited by AEMFI, 2002). This indicates that there is significant unmet potential demand for MF services in Ethiopia.

Johnson and Rogaley (1997) defined micro finance as the provision of financial services to the poor involving small deposits and loans. MFIs use peer monitoring and joint liability structure to overcome the screening, monitoring and enforcement problems commonly encountered by formal lending institutions (Sinha, 1998).

(Dejene 2003, cited in Abafita, 2003) argues in his study on the economic importance of the informal institutions in Ethiopia that the poor are often marginalized in the formal credit markets. This explained partly in terms of: 1) a lack of collateral, which makes lending to the poor a risky venture; 2) transaction cost of lending to and borrowing by the poor is often high; and 3) utility loss from repayment is higher for the poor as compared to the rich. Therefore, the poor do not have access to the formal financial sources. Lack of access to institutional credit is one of the crucial factors impeding the poor from involving in operating small business and in particular and economic development in general.

## 2.8 Characteristics of Microfinance Products

Many of the MFIs in Ethiopia provide similar financial products and use predominantly the group lending methodology, while individual lending is employed to a limited extent (Amaha, 2008 cited by Pasha and Nagese ,2014, ). Group lending schemes induce borrowers to engage in assertive matching wherein local knowledge about each other's assets, capabilities, character traits used to sort and self-select (Rejaul and Karim, 2008).

Microfinance gives access to financial and non-financial services to low-income people wishing to access money for starting or developing income generation activities.

Murray and Boros (2002) stated that the characteristics of microfinance products include small amounts of loans and savings, short loan terms, payment schedules featuring frequent installments, easy access to the microfinance intermediary, simple application forms which are easy to complete, availability of repeat loans in higher amounts for clients who pay on time.

Credit linked to savings, and in most cases loan sizes related to the amount each borrower has saved. Saving can play a significant role in increasing levels of institutional sustainability and enhancing levels of outreach. Therefore, MFIs that offer savings facilities have a cheap source of funds for further lending to more sustainable operations. On the other side, voluntary saving builds the equity of poor households and protects them against unforeseen economic and personal crisis (AEMFI, 2010). Zeller (1996) also agree with the importance of saving to influence the repayment rate. It expected that saving services offered by the program improve the repayment rate of the group. Saving may increase the financial discipline of group members and they can serve as loan collateral.

The Microfinance Information Exchange (MIX) reports that African regional deposits made-up 54% of the MFIs gross loan portfolio. In contrast, voluntary savings represented merely 22% of the Ethiopian microfinance portfolios (AEMFI, 2010). Therefore, the microfinance sector in Ethiopia still depend on donated funds and have not been in a position to finance its future business by generating income operation (NBE, 2010).



One of the important requirements for the success of microfinance institutions is to create awareness among potential clients. The appropriate training has to provide to new borrowers about loan utilization, loan terms and obligations. Statham (2008) stated that training from MFI to the clients could broadly be classified into two areas; group formation and business development. Group formation training is concerned with the group dynamics of the borrowers.

## **2.9 Oromia Credit and Saving Share Company**

Oromia National Regional State is one of the widest & heavily populated regional states in the Federal Democratic Republic of Ethiopia. According to 2008 census, the population of the region estimated to be over 30 million. Out of the total population, about 89 percent is living in rural whereas only about 10 percent is living in urban centers. As statistical evidences show majority of the Ethiopian cities & towns are located in Oromia because Oromia is the innermost part of the country, which shares boundaries with all national regional states except Tigray.

As other parts of the country, many of the population of the region engaged in traditional backward subsistence life style and suffer from poverty. Taking these problems into account, the regional government of Oromia has taken initiative to commence micro financial services under Oromia Self Help Organization (OSHO) in 1990s in the form of rural credit and saving schema. The conception of OCSSCO has begun within the womb of OSHO. In general, OCSSCO is the extension of the former Oromia Rural Credit and Saving Scheme.

After proclamation No. 40/ 1996, the proclamation that defines the mandates of micro finance institutions in Ethiopia creates favorable conditions for the set-up of micro finance institutions. Following the endorsement of this proclamation, OCSSCO has got legal personality and commenced its operation on August 4, 1997. When it established at company level, OCSSCO had only 4 branches and 1,529 clients.

Loan disbursed at that time was less than one million Birr; whereas, the amount of mobilized saving was virtually one thousand birr. Nowadays, OCSSCO is one of the leading micro finance institutions in Ethiopia which possesses 17 zonal offices and 247 branches with total active client number of 516, 382 as of June 30, 2012.

Its disbursement also reaches more than 1.7 billion birr during the same time. Similarly, its saving mobilization raised to about 996,749,355 birr. Its insurance premium service also shows significant increment.

### **2.9.1 Oromia Credit and Saving Share Company Structure**

The Oromia Credit and Saving Share Company structured in the arrangement that helps to meet the company's vision, mission and objectives. Accordingly, it managed by a board of director, which elected by the general assembly and comprises some of the shareholder's representatives. The management flow charts of the company is general assembly, board of directors, general manager, two deputy general managers, five departments and four services, seventeen zonal offices and 247 branch managers. The head office located in Finfinne (Addis Ababa) has the mandate to formulate policy, plan, coordinate, control, and supervise the activities of the company.

www. <http://oromiamicrofinance.net/index.php>.

## **2.10. Empirical Studies on Loan Repayment Performance**

Several studies have conducted in different developing countries regarding determinants that affect loan repayment performance. The following are determinants of loan repayment performances.

### **2.10.1 Empirical Studies in Other Countries**

Rosland and Abd karim(2009) conducted the study at Agro bank in Malaysia with the aim of investigate the determinants of microcredit repayment among borrowers in the case of agro bank, which is the commercial bank that focuses in lending in agricultural sectors. In this study, the researcher used both probit and logit models to identify the main determinants that influence microcredit repayments: such as characteristics of borrowers, characteristics of the project or business and the characteristics of the loan. Therefore, the result of the study shows that the probability for loan repayment default influenced by the gender of the borrowers, types of business activity, amount of loan repayment period and training.

The study that investigated the factors affecting repayment rate of loan beneficiaries of MFIs in the Southeast States of Nigeria, Onyeagocha, Chidebelu, & Chukwuemeka (2012) found that default rate decreased with loan size, level of education, the length of experience in occupation, the ability of the supported business to make profits and portfolio diversity or ownership of multiple enterprises.

Another study in Nigeria that analyzed smallholder farmers loan repayment capacity using household data from 110 co-operative farmers in Ogun State, also found that loan size and farm size had significant positive influences on loan repayment capacity whereas, household size had a negative influence on loan repayment (Ojiako & Ogbukwa, 2012).

Regarding the factors influencing loan repayment among women self-help groups in Bayelsa State, Nigeria, Ugbomeh, Achoja, Ideh and Ofuoku (2008, cited by Tundi, 2013) found that household headship was a determinant factor in loan repayment. In particular, women were more likely to face repayment difficulties when they were the sole household heads. They also found that interest rate and household size were negative predictors of loan repayment. On the other hand, their study established that women borrowers were able to meet their repayment obligations in case of farm output price stability and when borrowers were committed to self-help groups.

Evidence from Kenya shows that the ability of women business owners to repay their loans was negatively influenced by social responsibilities such as the feeding of children, paying of house rents, hospital bills, and the number of households members (Sangoro, Ochieng & Bureti, 2012). Acquah and Addo (2011) employed descriptive statistics and multiple regressions to analyze the data. The analyzed data reveals that amount of loan received, age of beneficiaries, household size, educational attainment, and occupation can influence loan repayment.

Determinants of loan repayment performance of angler (fisherman), 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.

The factors affecting loan repayment performance among Yam farmers in the Sene District, Ghana analyzed. Based on analysis, the factors that affect loan repayment, the researcher employed Tobit model. According to the finding education, experience, profit, age, supervision and off-farm income have positive effects on loan repayment performance (Wongnaa and Awunyo, 2013).

The causes of loan default within micro finance institutions in Kenya studied on Causes of loan default within micro financing institutions in Kenya. The study found out that loan repayment default was as result of non-supervision of borrowers by the MFIs (Okibo,2013).

Yelimani(2013) study on determinants of repayment performance of group and individual lending in microfinance: a case study in the upper west region of Ghana. The result of the study shows that individual lending yield a better repayment performance than group lending.

This outcome attributed to the fact that most individual clients as compared to group clients presented collateral before loans given out and a large proportion of group members were relatives. Finding also suggests that the mobilization of savings by MFIs improves repayments in both group and individual lending.

Client's access to loans from other FIs did not have any effect on repayment. However, access to future and bigger loans enhanced repayment. In addition, access to future and bigger loans served as the lead motivator for repayment in both lending methodologies. Regular repayment and visits in a form of monitoring enhances repayment. The ability of a group to self-select each other and the rejection of someone from the group as a measure of screening improves repayments. The study also showed that social ties in form of mediation and borrowing to make timely payments did not affect repayment. However, a large proportion of relatives in groups lower repayment performance.

The study Conducted on determinants of loan repayment among cooperative farmers in Awka north L.G.A of Anambra state, Nigeria revealed that the joint effect of the explanatory variable in the model account for 91.9% of the variations in the factors affecting the farmers' credit repayment ability. Four coefficients (educational qualification, farm size, loan application cost, and collateral value) are significant at 5%, 1% respectively.

Age, membership duration and income of the farmers were not significant but it shows a positive relationship with loan repayment. There is a significant difference between the amount of loan received and amount repaid by the cooperative farmers (Anigboğu et al., 2014).

### **2.10.2 Empirical Studies in Ethiopia**

The study made on loan repayment and its determinants in Oromia regional state around Zuway area done by Abreham Gebeyehu(2002) the estimation result employing tobit model reveals that having other sources of income, education, work experience in related economic activity before the loan and engaging on economic activities other than agriculture are enhancing. While loan diversion being male borrower and giving extended loan repayment period are undermining factors of the loan recovery performance of projects. Borrowers who have business experience in related economic activity and education are found to be significantly and positively while repayment period and sex are negatively associated with loan repayment rate.

The determinants of loan repayment performance were studied with the specific reference of Addis Credit and Saving Institution, Addis Ababa, Ethiopia Fikirte(2011) on her study loan repayment performance of Addis Ababa credit and saving institution (ADCSI) in Addis Ababa Ethiopia she employed a binary logit model used to analyze socioeconomic factors that influence loan repayment. The result of the study shows out of 11 variables age and five business types (baltina & petty market, kiosk & shop, services providing, weaving & tailoring and urban agriculture) were important influencing loan repayment performance of the borrowers. In addition, sex and business experience of the respondents found to be significant determinants of loan repayment.

Jemal (2003) conducted study at OCSSCO kuyu wereda's of North showa of oromiya with the aim of analyzing the factors that influence microfinance loan repayment, evaluating the loan rationing mechanism and assessing the impact of program on the living standard of borrowers by the help of primary data through structured questionnaire. The estimations results of the descriptive statistics and the probit model show that the variables such as education, income, loan supervision, suitability of repayment period, availability of other credit sources and livestock are important and significant factors that increases the loan repayment performance.

However, loan diversion, number of dependent and loan size are significant and negatively related to loan repayment performance. Jemal study sex's influence on the repayment performance of repayment in both ways. i'e the female borrowers are better while males are not good in repayment of loan as females.

Micha'el (2006) study conducted on Microfinance repayment problems in the informal sector in Addis Ababa. The research employed primary data collected through a structured interview, questioner and informal discussion in the ten sub-cities of Addis Ababa. The result of multinomial logit technique strongly and directly associated with educational level of the borrowers.

Insufficiency of loan granted and unplanned engagement in the business activity do also reduce repayment performance. Government owned and not-for-profit non- governmental microfinance institutions found out to face relatively larger non-repayment due to credit attitude of borrowers towards the loan, as if it were grant, instead of a liability at the time of difficulty.

Samuel (2011) discussed with the use of descriptive statistics and the probit model to analysis the credit repayment performance. The results shows that education, income, loan supervision, suitability of repayment period and availability of other credit sources are important and significant factors that enhance the credit repayment performance, while credit diversion and credit/loan size are found to significantly increase credit default.

Zelalem, Hassen and jema(2013) the study determinants of loan repayment performance of smallholder farmers .A case of Kalu District, South Wollo Zone, Amhara national regional state. The researcher employed both primary data were collected through semi-structured questionnaire and secondary data collected from different organization and pertinent publication. The result of two-limit tobit regression model shows that total land holding size of the family (hectare), total livestock holding, expenditure on social festivals, number of years of experience in agricultural extension services, purpose of borrowing and source of credit are statistically significant. From these expenditure on social festivals has a negative and significant effect on loan recovery rate while the remaining five variables have a significant and positive effect.

Abebe(2013)the study conducted on the factors that influence microfinance loan repayment, evaluating the loan rationing mechanism: a case study of the Oromia Credit and Saving Share Company, Ethiopia the study employed primary data collected through structured questionnaire. The result of the descriptive statistics and the probit model shows that education, income, loan supervision, suitability of repayment period, availability of other credit sources and livestock are important and significant factors that enhance the loan repayment performance, while loan diversion and loan size found significantly increase loan default. In addition, female borrowers found better in terms of loan repayment.

Solomon and Addisu(2013) also made an empirical analysis on determinants of rural households loan repayment performance with particular reference to Oromia credit and saving share company (OCSSCO) and keleta saving and credit union(KSCUCSs) in Dodota woreda in oromia regional state. Employed logistic regression analysis, result shows age, sex, number of oxen owned, land holding size, and loan supervision were positively and significantly to pay full and timely loan. However, house hold size and level of interest rate are the major factors which are increase default rate. However, the study done by Amare(2005) on the determinants of formal source of credit loan repayment performance of small holder farmers in north Gonder show that land size is negatively related with loan repayment.

Pasha and Negese(2014) study on major socio- economic factors and loan related factors that determines loan repayment performance of borrowers in Sidama Microfinance Institution. The researchers employed both primary and secondary sources. Primary data sources are the sample loan borrowers of both defaulters and non-defaulters from each branch. In support of primary sources, secondary data sources obtained from both head office, and branches' managers concerned other officers' unpublished works also. The results of Binary logistic model shows that 14 determinants' are selected for evaluation, out of which 9 variables are significant ( age, education, time laps between loan application and disbursement, loan size, loan diversion, repayment period, number of dependents, training, and supervision). However, the remaining five variables found not significant (family size of respondents, repeatedly borrowing, business experience, agricultural type business, and non-agricultural type business).

Oromia Credit and saving Share Company is one of major financing institutions of oromia regional state working to provide credit and saving services to both urban and rural poor who do not get access to financial services from formal banks in Oromia regional state. 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.

Finally, other various studies conducted on the determinants of loan repayment performance in different countries. Majority of the past empirical studies that were conducted on the factors contributing to loan default in different regions are not similar and the issues that have been identified as a major problems in the previous studies may not work today. In addition to the above-mentioned gap majority of the previous studies conducted focused on loan repayment performance related with rural borrowers, but some studies indicate loan repayment performance of urban borrowers.

However, this study focuses on the determinants of loan repayment performance of both urban and rural OCSSCO beneficiaries. Therefore, to alleviate the aforementioned problems the researcher intended to study major socio- economic factors, business factors and loan related factors that determines loan repayment performance of borrowers in OCSSCO of west Shoa Zonal administration. In general, the literature written in this chapter describes about the determinants of loan repayment performance of the borrowers, which help the researcher to identify the factors, which influence the loan repayment performance of borrowers' OCSSCO of MFI.

Table 2.1 show that the studies have been conducted on loan repayment performance of borrowers in Ethiopia by different authors. The different authors reported different outcome on determinants of loan repayment. Some of the studies were summarized below.

Table 2.1 Findings of different authors on determinants of loan repayment performance.



Authors	Coverage	Methodology	Results
Abebe (2011)	Eastshoa zone, oromia region, Ethiopia	Tobit model was employed	The result of the model showed that family size, were statistically significant factors influencing timely loan repayment performance positively
Jemal (2003)	OCSSCO in kuyu, Ethiopia	Employed logit model	The result showed that education, suitability of repayment period and availability of other credit sources were important and significant. Factors that enhance the loan repayment performance, while loan diversion and loan size were found to be significantly increase loan default.
Abraham(2002)	Around zuway, Ethiopia	Employed tobit model	The result showed other source of income, education, and work experience related economic activities before the loan affected loan repayment positively. On the other side, extended loan repayment period was influenced the repayment performance negatively.
Pasha, and Neges(2014)	sidama microfinance institution, Ethiopia	Employed logit model	The result showed that age, education, time laps between loan application and disbursement, loan size, loan diversion, repayment period, number of dependent within and out household, training, supervision, and advisory visits were significantly influence loan repayment performance. Whereas, family size, business experience, repeatedly borrowing, agricultural types businesses, and non-agricultural types businesses have insignificant effect on loan repayment performance of borrower.
Samuel(2011)	MF industry in ethiopia	Probit model wasw employed	Found out that education, income, loan supervision, suitability of repayment period and availability of other credit sources were important and significant factors that enhance the credit repayment performance, while credit diversion and credit/loan size were found to be Significantly increase credit default.
Birhanu(2005, as cited in Fikirte,2011)	North Gondor, Ethiopia	Employrd the probit model	Out of these seven variables were found to be significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers.
Tosue(2011)	Tigray, Ethiopia	Probit model was employed	He found that, sex, age, educational status, loan size, occupation, supervision, number of dependents supported by borrower, and income from the loan activities financed by institution were significant determinants of the probability of loan repayment.

# CHAPTER THREE

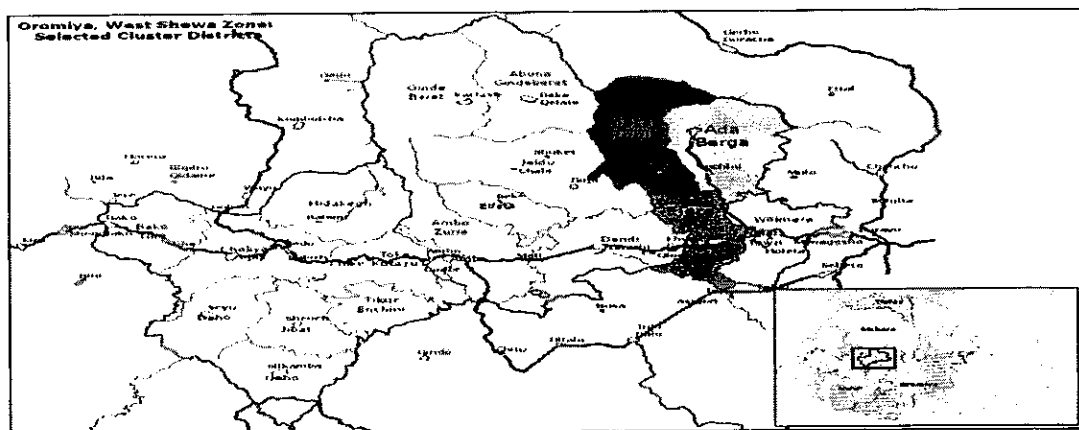
## 3. RESEARCH METHODOLOGY

### Introduction

The second chapter of this paper tried to discuss the literature review. This third chapter present the research methodology along with the detailed method planned used in the study and the research was concentrated on the method adopted to conduct the study. This section includes the study area and period, survey design types and nature of the data, method and instrument of data collection, sampling technique, sample size determination, methods of data analysis and the type of model employed.

### 3.1 The Study Area

The study on determinants of loan repayment performance of the borrowers was conducted in west shoa zone of Oromia regional state that is located at the central part of the state. This zone takes its name from the Kingdom or former province of Shewa. The Zonal town is Ambo which is located in the West Shewa Zone of the Oromia Region, west of Addis Ababa, this town has a latitude and longitude of 8°59'N 37°51'E and an elevation of 2101 meters and it is located 112 Kms West of the capital Addis Ababa, on the road to Nekempt . Neighboring zones of West shoa are Amhara region in the North, East wollega and Horo Guduru zones in the west and North West, Jimma zone in south west, South west shoa zone in south east, and north shoa zone in south east (Fanos Mekonnen, 2012). This survey mainly considered three woredas' of OCSSCO branches of Ambo, Ilu Gelan and Dano in west shoa zone



Source: Fanos Mekonnen(2012) Fig 3.1 West Shoa Zone Administrative districts

### **3.2 Data Type and Sources**

The study made by the use of both secondary and primary data using a structured questionnaire with the help of trained enumerators. The primary data were collected by face to face interviews using structured questionnaire. The questionnaire includes both closed and open-ended questions. The closed-ended questions used to collect background information about the respondent. It covered the personal information, institutional, group lending, business, loan and repayment related questions. The open-ended questions dealt with the challenges in repayment process and institution, the perception of clients towards the OCSSCO and microfinance institution as a whole.

The secondary data obtained through extensive review of documents from microfinance institutions, loan cycle and loan repayment records to help target population of the study. In addition, journals, articles, books, published and unpublished documents from government organization and previous researches that done on the area reviewed. The review of secondary data was to expose diverse theories and conceptual issue surrounding loan repayment performance of borrowers thus serves as guide to the study.

In order to assess the determinants of loan repayment performance, primary data collected by direct interview with the respondents. The respondents were the branch managers and branch loan officers of OCSSCO. All questions were prepared by English language and then translated in to the local language (Afan Oromo) the language which spoken by the population in the study area.

Survey questionnaire form revised and adopted from various related studies: Abbafita 2003, Gebeyehu, 2002, Fikrte, 2011 and others. The questions include borrowers' characteristics, business and loan characteristics. Such as socio demographic profile of borrowers, loan and loan related questions, group lending related questions, business related questions and other general loan related questions in internal and external factors.

### **3.3 Study Population**

A population can be defined as all people or items (unit of analysis) with the characteristics that the researchers wish to study. For the achievement of the study the target population is all borrowers of OCSSCO in the three selected branches in west shoa zone.

These are Seyo branch, Ilu Gelan branch, Ambo branch, and all workers of these branches. The number of borrower's data was collected from borrower profile of the institution (from master register book).

The total numbers of borrowers were rural 11816 and urban 3452, totally the study size comprised of 13,046 beneficiaries from the selected branches.

### **3.4. Sample Size Determination and Sampling Techniques**

The study was conducted in West Shoa Zone Oromia regional state. In this study, the OCSSCO of west shoa zone was selected purposively. Because there is no scientific study which has been conducted regarding loan repayment performance in this study area. For this study, multi-stage sampling techniques were used. At the first stage out of 18 branches of OCSSCO found in west shoa zone, only three branches were purposively selected for the study purpose based on their year of service provision and in terms of their large number of clients(both urban and rural). Accordingly, three OCSSCO branches: Ambo branch, Ilu Gelan branch and Seyo branch were selected. At the second stage, individual samples (422 sample borrowers out of 13046 borrowers) were selected using systematic random sampling technique. During this, profile of borrowers in the institution was used as sample frame. Because systematic sampling is used when lists of population are available and they are of considerable length (Kothari, 2004). A required sample was proportionally allocated to each target OCSSCO branch using (Israel, 1992 and Cochran, 1977) proportional allocation formula. Therefore, this study was employed through proportional stratified sampling in selecting the representatives following the method of proportional allocation under which the sizes of the samples from different strata are relatively kept proportional to the sizes of the strata. The number of borrower's data was collected from borrower profile of the institution. The researcher used a total number of 9 officers (out of those three branch managers and 6 loan officers) were interviewed in study period. These respondents were purposively selected since, they were involved in day-to-day credit processing, screening and delivery; and the researcher believed they had pertinent loan information.

Cochran's (1977) sample size determination formula was adopted for this study. The numbers of borrowers were rural 11816 and urban 1230, totally the study size comprised of 13046 beneficiaries, using the following scientific formula.

The sample size appropriate for this assumption is computed as follows:

$$n = (Z_{\alpha/2})^2 p(1-p)/d^2$$

Where

n= Desired sample size where population greater than 10,000

p= sample proportion (taking 0.5 gives the maximum sample size)

z= the value of the standard variant at a given confidence level (to be read from the table given the area under normal curve) and it is 1.96 for a 95% confidence interval.

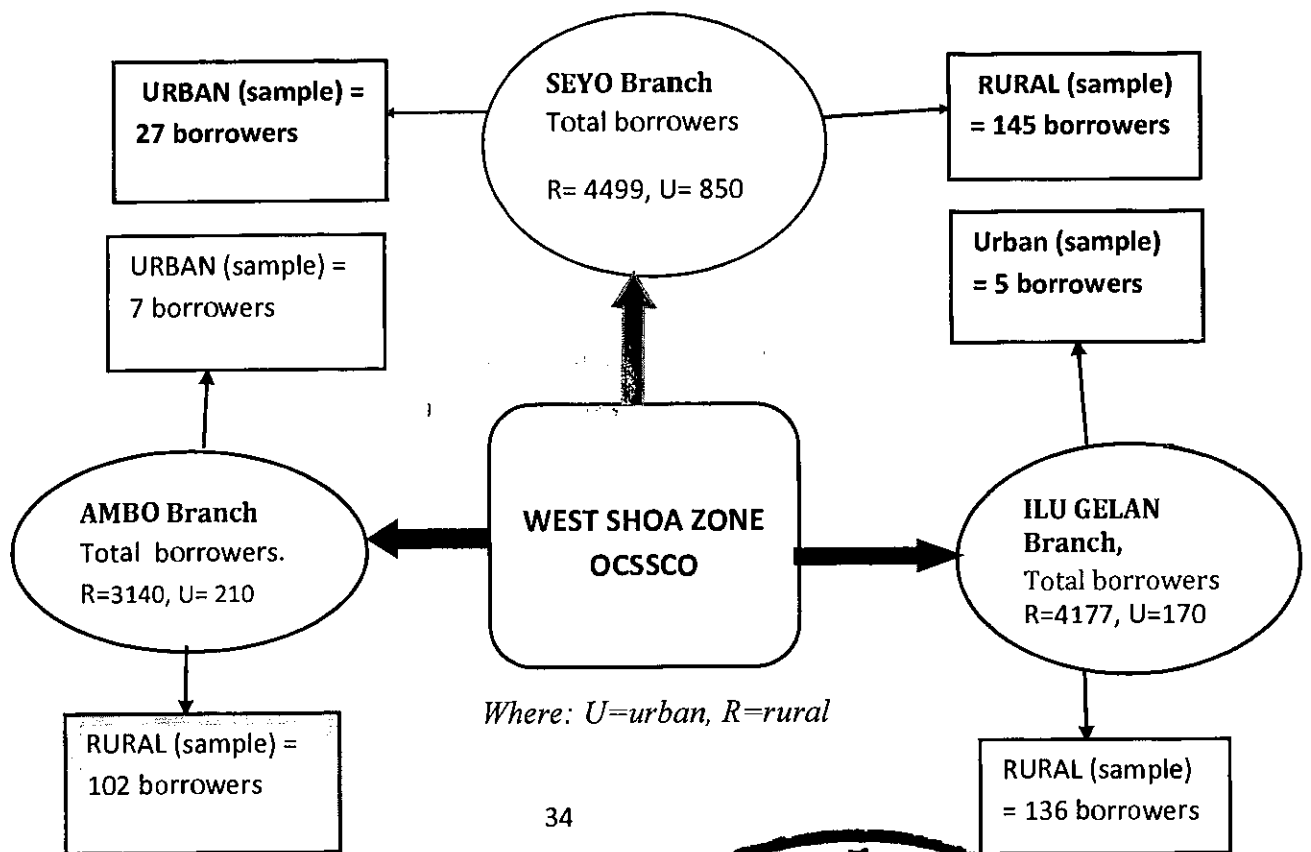
d= acceptable error

$$n = (1.96)^2 \times 0.5 \times 0.5 / 0.0025 = 384 \text{ plus } 10\% \text{ non-response rate.}$$

$$n = 384 + 10\% = 422$$

The researcher believed that 422 sample size was used as representative of the population because of borrowers under similar stratification have homogenous characteristics and have common environment in which they exposed for similar problems. These samples were selected from each Stratum using relatively proportionate allocation in relation to the percentage of total population.

Fig 3.2 Sample design of the study



Therefore this study mainly considers three service delivery posts namely; Dano Woreda, Ilu Gelan woreda and Ambo Woreda for both urban and rural respondents were selected in terms of their large number of clients likewise based on their service year provision. Stratified sampling technique was used to fix the number of sample borrowers selected from each woredas.

### **3.4 Method of Data Analysis and Presentation**

To analyze the determinant of loan repayment performance of borrowers the descriptive statistics and econometric regression model analysis have been employed to deal with the research questions and to achieve the objectives.

Descriptive statistics is one of the techniques used to summarize the data collected from the sample respondents. Descriptive measures employed to examine, describe, and compare the lender and borrower function, business characteristics, socio-economic characteristics of the borrowers, loan officer's activities and others.

Discussion based on descriptive statistics has been made by using the measures like, percentages, tables, graph, bar chart, pie charts and Pearson chi-square test were used for comparing borrowers not paid credit and paid credit in various explanatory variables. As well as the researcher used statistical package for social sciences 16.0 version (SPSS16.0) software for data analysis.

The econometric regression model is applied for analyzing the data based on binary logistic model, which deal with loan repayment performance in total of 15 explanatory variables included in this study. Loan repayment status is a dependent variable, while different socioeconomic, business related and lender related factors considered as independent variables. In this case the value of this dependent variable is 0 and 1, Zero stands for borrowers paid credit timely and 1 otherwise. Therefore, loan repayment is treated as dichotomous dependent variable. Chi-square test were used for comparing the relationship of various explanatory variables with loan repayment (dependent variable). It is also used to determine whether frequency distributions differ significantly. When using  $\chi^2$  we first prepare a cross-tabulation of the variables.

The chi-square test can be applied to the cross-tabulation to determine whether there is a significant difference between distributions (Fisher and Foreit, 2002).

The joint effects of all explanatory variables put together on the odds is (Holmes and Hossain, 2008)

$$\text{Odds} = \frac{p}{1-p} = e^{\alpha + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p} \quad (3.1)$$

Taking the logarithms of both side

$$\text{Log} \frac{p}{1-p} = \text{Log} \alpha + \beta_1 x_1 + \beta_2 x_2 + \dots + \beta_p x_p \quad (3.2)$$

$$Y = \alpha + \sum_{i=1}^k \beta_i X_i + \mu \quad (3.3)$$

Where “y” is dependent variables

“α” is constant term

“β<sub>i</sub>” is coefficient of each independent variables

“X” is explanatory variables

“μ” is error term

The unknown parameters s' β are estimated by likelihood function

The determinants of the loan repayment problem model were analyzed using logistic regression (Gujarati, 2003)

### 3.5 Definition of variables

Once the analytical procedure and its requirements are known, it is necessary to identify the potential explanatory and dependent variables. Different variables are expected to affect loan repayment (the dependent variable). The major variables influencing the loan repayment and the direction of their effect are presented and explained below.

#### 3.5.1 Dependent variable

Dependent variable is the estimated result of the independent variable being operated and whose value depends on the value of independent or explanatory variables and also it measures to demonstrate the effect of the independent variables. The borrowers that did not repay the amount of money they borrowed as per credit schedules are considered as defaulters. Likewise, borrowers that repaid the amount they borrowed per credit schedules considered as non-defaulters.

### 3.5.2 Independent Variables

Independent variables are variables that are expected and have more explanatory power on the dependent variable, i.e., loan repayment. For the purpose of this study, the researcher has included 15 independent variables assuming that it is best to explain the determinants of loan repayment performance of OCSSCO borrowers in urban and rural areas.

**Age:** It argued that older borrowers are wiser and more responsible than younger. On the other hand, younger borrowers argued to be more knowledgeable and more independent. Hence, age might have positive or negative effect on loan repayment rates but most studies attach positive sign to females in relation to repayment that show the effectiveness of group arguing that female borrowers feel more responsibility to their families than male (Paxton, 1996) .

**Education:** the educational Background of the borrowers ranges from illiterate to college. It assumed that as the lender gets educated, they could acquire more knowledge so that their efficiency in allocation of resources increases and so does the proper utilization of the loan. Their ability to adopt themselves to changing situation would be better than the illiterate ones, borrowers with higher levels of education may have higher repayment rate, they may develop the entrepreneurial skill, and they may engage in new business. Bhatt and Tang (2002) in their study they found that a higher education level was significant and positively related to better repayment performance.

**Gender:** Most studies attach positive sign to females in relation to repayment that show the female borrowers feel more responsibility to their families than male.

**Family Size:** if the group member has large household size, a considerable amount of income from the project could be diverted away from loan repayment, which is the sign of group ineffectiveness and had no profitability to household consumption. Therefore, the sign is expected to be negative.



**Residence of Borrowers:** This variable is a dummy capturing the fact that the borrower lives in rural or urban areas. Borrowers in rural areas are predominantly farmers. Loans extended for agricultural purposes expected to face problem of default because of risk and uncertainty attached to agriculture (Jemal, 2003). In addition, rural areas borrowers are limited by difficulty of access, poor quality of infrastructures and limited local market. Hence, this variable is expected negative sign.

**Training:** Training about the business and institutional services given to the borrowers before and after loans to avoid the problems of loan repayment performance.

**Lending method:** In-group lending methodology there might be more group lending pressure for defaulters than individual lending method. In addition, there was a social norm that govern the group members (Ch.2002). The group member may be feel responsibility for the other group member loan. Therefore, they may put social sanction on defaulters within the group and enforce them to repay loan.

**Loan size:** If amount of loan released enough for the purposes intended, it will have a positive impact on the borrower's capacity to repay. On the other hand, the amount of loan exceeds what the borrower needs and can handle, it will be more of a burden than help, thereby undermining repayment performance. In addition, positive or negative sign expected if the loan is too small. If the loan is too small it may be easy to repay such loans thus enhancing performance (i.e. positive sign). Pasha & Neges (2014) the loan size influence borrowers' loan repayment performance. Keeping the other factors constant, having sufficient loan size and operating business with adequate amount of capital decreases the probability of default.

**Loan Diversion:** If the borrower diverted to more productive use than the intended project, then it will have a positive impact. However, the borrower diverted it to unviable projects it will have a negative impact. Thus, it all depends on their performance of the project the loan diversion. Therefore, the sign of the variable cannot be predetermined (Anne Paxton, 1996).

**Frequency of collection:** One of the factors from the lender side is high frequency of collections. According to Vogelgesang (2003) Weekly collection of repayment installments by bank personnel 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 and positively related to loan repayment and reduce the probability of loan default.

**Suitability of Loan repayment period:** If borrowers find the repayment period appropriate, they can utilize the loan proceeds effectively for the intended purpose than those who regard the period of repayment unsuitable.

**Business type:** the borrowers engage in small business (manufacturing, trade, construction and services) has higher repayment rate than borrowers engage in agriculture because the borrowers involved in agriculture repay the loan at the end of loan period or contract. Mokhtar, Nartea and Christopher Gan (2012) the borrowers involved in agriculture, such as farming, animal husbandry and fisheries, were more likely to have a problem repaying the microcredit loan than borrowers involved in a small business activity.

**Land Size:** identifying the land size and its impact on the loan repayment performance of borrowers.

**Business Experience:** borrowers who acquire experience related economic activity before the loan are expected to be favored because the lending institute may consider them as they have better knowledge as to how to run a profitable business venture (Gebeyehu, 2002).

# CHAPTER FOUR

## 4. FINDING AND DISCUSSIONS

This chapter discusses the analytical results of the study. The first section of this chapter presents the descriptive statistics results of the study. This is followed by the discussion of the econometric model results to identify the most important determinant variables that affect borrowers' loan repayment performance.

The survey conducted by distributing questionnaires' to OCSSCO borrowers and interview held with OCSSCO woreda's branch managers and loan officers. From the total 422 questionnaires intended to be collected from OCSSCO borrowers only 369(87.4% response rate) questionnaires were collected and analysed. In order to have interpretive data, in some sort of quantitative sense the researcher constructed the closed ended questionnaires in the form of "yes" or "no" with the item to be chosen as their possible reason for the responses. The Open-ended questionnaire and its major purpose were to give opportunity to the respondents to express their feeling, perceptions and intentions related to the determinants of loan repayment performance of OCSSCO. The questionnaires distributed to the OCSSCO borrowers with an English and Afan Oromo language to minimize language barriers and response biases due to misunderstanding.

### 4.1 Descriptive Statistics Analysis

#### 4.1.1 Socio-Economic Characteristics of the Respondents

The socioeconomic, demographic and institutional characteristics of the respondents such as sex, age, resident, family size, level of education, training, lending methodology, business type, loan size, saving, loan diversion and frequency of collection period of the respondents and other variables related to loan repayment of the borrowers were analysed using descriptive statistics.

According to the survey result from the total respondents 369 of the borrowers 330 (89.5%) were rural borrowers and 39 (10.5%) were the total number of the urban borrowers of OCSSCO. Out of the total 369 sample respondents 242(65.6%) were male borrowers and 127(34.40%) were female borrowers of OCSSCO.

Table 4.1 Respondent by sex and area of resident with respect to loan

Variable	Category	Rural		Freq.	Urban			Total
		D	ND		D	ND	Freq.	
Sex	Male	53(21.9%)	164(53.4%)	217(89.7%)	8(3.3%)	17(7%)	25(10.3%)	242(65.6%)
	Female	39(30.7%)	74(58%)	113(89%)	5(2%)	9(7%)	14(5.8%)	127(34.4%)
	Total	92(24%)	238(64.5%)	330 (89.5%)	13(3.5%)	26(7%)	39(10.5%)	369(100%)

Source: SPSS output from survey data

Age is also one of the independent variables related with borrower's characteristics and expected to determine loan repayment performance of the borrowers. Accordingly the respondents age range from 18-25 constitutes 96(26.02%), the age range from 26-35 constitutes 137(37.13%), the age range from 36-45 constitutes 98(26.56%), and the remaining 10.30% of respondents were constituted greater than 46 years.

The proportion of the defaulters age was highest in the age range from 18 – 25 by constituting 11.63% and lowest in the age range greater than 46 years representing 0%. While the non-defaulter respondents comprises 14.63% in the age range of 18-25, 26.29% in the age range of 26-35, 21.13% in the age range of 36-45 and the remaining 8.94% of the respondents were greater than 46 years. Regarding to the resident of borrowers 13(3.52%) of urban borrowers are defaulters and 26(7.05%) of borrowers are non-defaulters, while 92(24.93%) of rural borrowers were defaulters and 238(64.50%) of respondents are non-defaulters (table 4.2).

The survey on the educational characteristics of the borrowers shows that, 137(37.13%) were having no formal education, 108(29.27%) respondents were primary school, 43(11.63%) respondents middle school, 33(8.94%) respondent were high school, 27(7.32%) respondents are vocational and the remaining 21(5.69%) are college and above.

Among the total respondents as shown in table 4.2, 170(46.1%) of respondents has  $\leq 3$  family size, 129(35%) of them has 4-6 family size and 30(8.1%) of the respondents has 7-9 family size. Regarding the family size of defaulters and non-defaulters 104 (28.2%) of rural and 17(4.6%) of urban respondents has  $\leq 3$ , 75 (20.3%) of rural and 7 (1.9%) percent of urban of family size of the respondents were 4-6 in number, 24(6.5%) of the family size of the respondents has 7-9 in number and 35(9.5%) of the respondents has 6+.

Concerning the family size of the defaulters about 40(10.8%) of rural and 9 (2.4%) of urban respondents has  $\leq 3$  families, 45 (12.2%) of rural and 2(0.5%) of urban respondents has 4-6 families and the remaining 9 (2.4%) of the respondents has 6+ families.

**Table 4.2 Demographic profile of respondents by resident with respect to loan**

Variables	Category	Rural		Freq.(X)	Urban			Total %Z= X + Y
		D	ND		D	ND	Freq.(Y)	
Age	18-25	37(10.03%)	43(11.65%)	80(21.68%)	5(1.35%)	11(2.98%)	16(4.34%)	96(26.02%)
	26-35	34(9.21%)	88(23.85%)	122(33.06%)	6(1.63%)	9(2.44%)	15(4.06%)	137(37.13%)
	36-45	19(5.15%)	74(20.05%)	93(25.20%)	1(0.27%)	4(1.08%)	5(1.35%)	98(26.56%)
	46-55	2(0.54%)	26(7.05%)	28(7.59%)	1(0.27%)	0	1(0.27%)	29(7.86%)
	+55	0	7(1.90%)	7(1.90%)	0	2(0.54%)	2(0.54%)	9(2.44%)
Resident	Urban	0	0	0	13(3.52%)	26(7.05%)	39(10.57%)	39(10.57%)
	Rural	92(24.93%)	238(64.5%)	330(89.43%)	0	0	0	330(80.43)
Educational level	No education	30(8.13%)	103(27.915)	133(36.04%)	1(0.27%)	3(0.81%)	4(1.08%)	137(37.13%)
	Primary school	30(8.13%)	72(19.515%)	102(27.64%)	2(0.54%)	4(1.08%)	6(1.63%)	108(29.27%)
	Middleschool	11(2.98%)	27(7.32%)	38(10.30%)	1(0.27%)	4(1.08%)	5(1.36%)	43(11.63%)
	High school	11(2.895)	17(4.61%)	28(7.59%)	2(0.54%)	3(0.81%)	5(1.36%)	33(8.94%)
	Vocational college	8(2.175)	10(2.71%)	18(4.88%)	4(1.08%)	5(1.36%)	9(2.44%)	27(7.32%)
		2(0.54%)	8(2.17%)	10(2.71%)	3(0.81%)	8(2.17%)	11(2.98%)	21(5.69%)
Family size	$\leq 3$	40(10.8)	104(28.2)	144(39.0)	9(2.4)	17(4.6)	26(7.1)	170(46.10%)
	4-6	45(12.2)	75(20.3)	120(32.5)	2(0.5)	7(1.9)	9(2.4)	129(33.9%)
	7-9	4(1.1)	24(6.5)	28(7.6)	2(0.5)	0	2(0.5)	30(8.1%)
	9+	3(0.8)	35(9.5)	(10.3)	0	2(0.5)	2(0.5)	40(10.8%)

Sources: SPSS output from survey data, 2015, Note: "D" stands for defaulters where as "ND" stands for non-defaulters

#### 4.1.2 Training, lending methodology, type of business, Market research, business experience, loan and loan related characteristics.

In the following table 4.3 majority of the respondents 364(98.6%) in rural and 5 (1.4%) in urban indicated that they had receiving some kind of training before loans. Out of those 253(77.57%) of respondents were trained by branch loan officer, 86(23.31%) of the respondent were trained by branch manager and the remaining respondent were trained by other bodies.

With respect to lending methodology, 100% of the respondents were engaged in-group lending methodology. From this 238(64.50%) of respondents of non-defaulter were in rural and 26(7.05%) of respondents of non-defaulters were in urban area, while 92(24.93%) of respondents defaulter in rural and 13(3.52%) of respondents of defaulters were in urban.

Regarding to business type, the respondent found to engage in varies business activities. For this study purpose the most important business are agriculture, services, manufacturing and construction.

With respect to the purpose for which loan was taken 284(76.96%) of sample respondent took the loan to engage in agriculture type of business in rural areas. whereas another activities for which some of the borrowers both in rural and urban were took loan for non-agricultural type of business 85(23.04%). With respect to saving, out of the total respondents 44.44% of the respondents have saving account in OCSSCO before getting loan. While 55.56 percent of the respondent have no saving in OCSSCO before getting loan. Among the sample 422 borrowers 55% of them have no other sources of credit, and the rest 45% borrowers do have the availability of other source of credit.

**Table 4.3 Training, lending methodology, type of business, business experience and saving.**

Variable	Category	Rural			Urban			Total Z = X + Y
		D	ND	Freq.(X)	D	ND	Freq.(Y)	
Training before loan	Yes	89(24.1%)	236(63.96%)	325(88.08%)	13(3.52%)	26(7.05%)	39(10.57%)	364(98.6%)
	No	3(.8%)	2(.54%)	5(1.35%)	0	0	0	5(1.4%)
Training offered by	Loan officer	64(17.3%)	161(43.63%)	225(60.98%)	10(2.71%)	18(4.88%)	28(7.59%)	253(68.6%)
	Manager	12(3.3%)	65(17.62%)	77(20.87%)	3(.81%)	6(1.26%)	9(2.44%)	86(23.30%)
	External bodies	13(3.5%)	10(2.71%)	23(6.23%)	0	2(0.54%)	2(0.54%)	25(6.8%)
Involve in group	Yes	92(24.9%)	238(64.50%)	330(89.43%)	13(3.52%)	26(7.05%)	39(10.57%)	369(100%)
	No	0	0	0	0	0	0	0
Principal type of business	Agriculture	72(19.5%)	211(57.18%)	283(76.69%)	0	1(0.27%)	1(0.27%)	284(76.96%)
	Services	4(1.1%)	2(0.54%)	6(1.63%)	2(0.54%)	5(1.35%)	7(1.89%)	13(3.52%)
	Trading	16(4.3%)	23(6.23%)	39(10.57%)	10(2.71%)	15(4.06%)	25(6.78%)	64(17.34%)
	Manufacturing	0	0	0	0	2(0.54%)	2(0.54%)	2(0.54%)
	Construction	0	2(0.54%)	2(0.54%)	1(0.27%)	3(0.81%)	4(1.08%)	6(1.63%)
Other source of credit	Yes	66(17.9%)	80(21.68%)	146(39.57%)	9(2.44%)	11(2.98%)	20(5.42%)	166(44.97%)
	No	26(7.1%)	158(42.82%)	184(49.86%)	4(1.08%)	15(4.06%)	19(5.15%)	203(55.01%)
Saving before loan	Yes	49(13.3%)	82(22.22%)	131(35.50%)	10(2.71%)	23(6.23%)	33(8.94%)	164(44.44%)
	No	43(11.7%)	156(42.28%)	199(53.93%)	3(0.81%)	3(0.81%)	6(1.63%)	205(55.56%)
purpose of saving	To expand bus	5(1.4%)	21(5.69%)	26(7.05%)	6(1.63%)	9(2.44%)	15(4.06%)	41(11.11%)
	agricultural input	35(9.5%)	28(7.58%)	63(17.07%)	2(0.54%)	0	2(0.54%)	65(17.62%)
	HHconsumption	2(0.5%)	0	2(0.54%)	2(0.54%)	0	2(0.54%)	4(1.08%)
	participate in MSE	16(4.3%)	24(6.5%)	40(10.84%)	8(2.17%)	6(1.63%)	24(6.5%)	64(17.34%)

Sources: SPSS output from survey data, 2015

#### 4.1.3 Socio- economic characteristics of respondent based on continuous variables and sex

In table, 4.4 disclosed that, age of sample respondents range from 18-55 years. Accordingly the respondents age range from 18- 25 constitutes 26.02%, the age range from 26 – 35 constitutes 37.13%, the age range from 36 – 45 constitutes 26.56%, and the remaining 10.30% of respondents were constituted greater than 46 years. The proportion of the defaulters age was highest in the age range from 18 – 25 by constituting 11.63% and lowest in the age range grcater than 46 years representing 0%. While the non-defaulter respondents comprises 14.63% in the age range of 18-25, 26.29% in the age range of 26-35, 21.13% in the age range of 36-45 and the remaining 8.94% of the respondents were greater than 46 years. The independent variable (age) of respondents has significant association with the (dependent variable) loan repayment performance ( $X^2=22.437$ ,  $p = 0.0001$ ).

**Table 4.4 Age and family size of respondents**

Variables	Category	Defaulter		Non defaulter		Total		x <sup>2</sup> \$ P-value
		N	P	N	P	N	P	
Age (in year)	18-25	42	11.38%	54	14.63%	96	26.02%	X <sup>2</sup> =22.437 p =0.000+
	26-35	40	10.84%	97	26.29%	137	37.13%	
	36-45	20	5.42%	78	21.14%	98	26.56%	
	46-55	3	0.81%	26	7.05%	29	7.86%	
	>55	0	0	9	2.44%	9	2.44%	
Family size	≥3	49	13.28%	121	32.79	170	46.07%	X <sup>2</sup> =13.727 P= 0.003
	4-6	47	12.74%	82	22.22	129	34.96%	
	7-9	6	1.63%	24	6.50	30	8.13%	
	9+	3	0.81%	37	10.03	40	10.84%	
Sex	Male	61	25.2%	181	74.8%	242	100%	X <sup>2</sup> = 3.645 p=0.056
	Female	44	35%	83	65%	127	100%	

Source: SPSS output from survey data

From the table 4.4 regarding to the family size of non-defaulter 32.79 percent of the respondents has ≤3, 22.22 percent of the family size of the respondents has 4-6 and the rest of the family size of the respondents 16.53 percent had 6+.

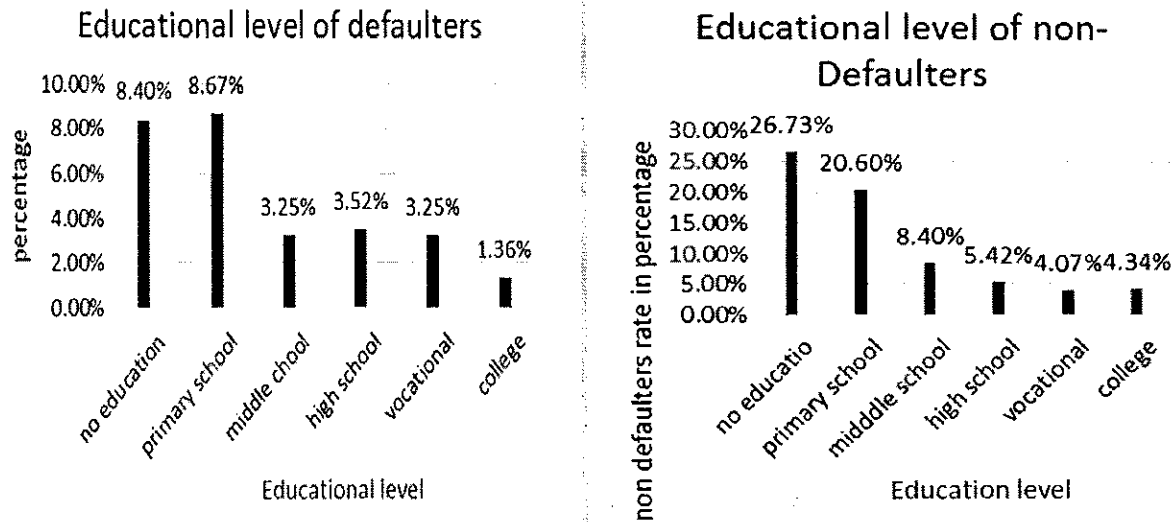
Concerning the family size of the defaulters 13.28 percent of the respondents has  $\leq 3$ , 12.74 percent of the family size of the respondents was 4-6 and the remaining 2.44 percent of the respondents has 6+. The statistic result shows that the family size has significant association with the dependent variable (loan repayment performance), ( $X^2 = 13.727$ , P value = 0.003)

As regard to sex, 242(65.58%) were male respondents, whereas 127 (34.42%) were female respondents. The proportion of defaulter was 64(25.2%) for male whereas 44(35) for female counter parts. This reveals that their respective sex computation, male respondents found having more repayment performance than female respondents do. The statistical result shows that the association between sex of respondents and loan repayment is not significant ( $X^2 = 3.645$  p=0.056) (table 4.4).

#### 4.1.4 Educational level of borrower

Education is one of the key variables that influence the behaviour and attitude of borrowers in loan repayment. It was assumed that the higher the educational status, the better would be the knowledge and awareness level on efficient utilization of loan. When coming to the actual ground of the OCSSCO borrowers the default rate decreases as level of education increases. As indicated in (fig.1) bellow, the education level of defaulters were 8.4% of respondents never attended school, 8.67% of respondent were primary school, 3.25% of the respondent were middle school, 3.52% of respondents were high school and the rest 4.61% of the respondents were vocational and above. While for the non-defaulter, 26.73% of respondents never educated, 20.6% of respondent were primary school, 8.4% of respondent were middle school, 5.42% of respondents were high school, 8.41% of respondents were vocational and above. Therefore, the literate borrowers are well informed and responsible to repay their loan on time than illiterate borrowers. However, the independent variable (education level) has no significant association with the dependent variable (loan repayment rate), ( $x^2 = 7.759$  p value 0.170). This indicated that the educational level does not determine the loan repayment performance of borrowers.

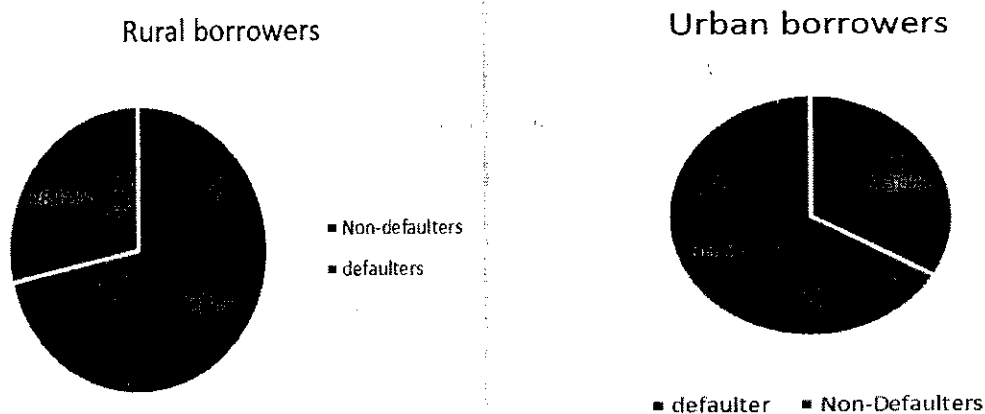




Source: SPSS output from survey data, 2015. Fig 4.1 Educational level of defaulters and non-defaulters

#### 4.1.5 Loan repayment performance of urban and rural borrowers

With regard to residence computation, 66.7% of urban non-defaulter borrowers, which is higher than the computing amount 33.3 percent for the defaulters. Likewise, 71.5% of respondents and 28.5% of respondents in rural area were non-defaulters and defaulters respectively (fig.2). This indicated that urban borrowers loan repayment performance were better than rural borrowers were, although the difference in rural and urban defaulters has not statistically significant association with the loan repayment performance ( $\chi^2 = 0.510$ , at p value of 0.294).



Source: survey result 2015 Fig 4.2 Resident of borrowers and loan repayment

#### 4.1.6 Training before loan, type of training and lending methodology

Training increases the awareness of the borrowers and would increase the exposure to information, opportunities, and working environment. Majority of the respondents, 98.64% of them received some kind of training on business and about institutional services before receiving loan from OCSSCO, while only 1.36% responded that they had not receiving any kind of training before receiving loan from OCSSCO. Out of the defaulters, 27.64% of those who have got training before receiving loan, while 71% of non-defaulters who have got training before receiving loan and the remaining 1.36% have not received any training before getting loan. Training is important in that it empowers borrowers with knowledge on utilization of loan fund, which in turn would translate to lower default rate. This indicated that training before receiving loan has positive relationship with loan repayment performance. However, training before receiving loan has no significant association with the loan repayment performance (at p-value 0.115).

With respect to lending methodology, almost all of the respondents were involved in-group lending, about 99.73% of the respondents engaged in-group lending before receiving loan, while only 0.27% of the respondent were borrowed loan under individual lending scheme. Out of those 28.46% of defaulters and 71.27% of non-defaulters proportion were involved in-group methodologies, while 0.27% defaulters categorized under individual lending methodology. As per respondents the reason to involve, in-group lending methodology is the chance to get loan easily without formal collateral and personal guarantee, joint liability of group members used as collateral. However, the independent variable (group lending methodology) has not significant association with loan repayment performance (at p-value 0.528) table 4.5. With respect to group size, 29% of respondent engaged in the group size (2-5), 42.28% of respondent engaged in the group size (6-10) and the rest 28.72% of respondent engaged in the group size more than 10. The group size has statistically significant association with the dependent variable (loan repayment) ( $\chi^2 = 14.093$ ,  $p = 0.0001$ ).

**Table 4.5 Training before loan and lending methodology**

Variables	Category	Loan Repayment				Total		X <sup>2</sup> -value
		Defaulter		Non defaulter		N	P	
		N	P	N	P			
Trained before receiving loan	Yes	102	27.64	262	71	364	98.64%	X= 2.224 P=0.115
	No	3	0.81	2	0.54	5	1.36%	
Type of training	Business training	40	10.84	85	23.04	125	33.88%	X <sup>2</sup> =2.224 P=0.527
	Bookkeeping	3	0.81	9	2.44	12	3.25%	
	Training of MF services	55	14.91	158	42.82	213	57.72%	
	Financial mgt. training	7	1.9	12	3.25	19	5.15%	
Di you involve in-group lending.	Yes	105	28.46	263	71.27	368	99.73%	X <sup>2</sup> = 2.399 P= 0.528
	No	0	0	1	0.27	1	0.27%	
Reason for involve in-group lending?	Easily to get loan	52	14.09	58	15.72	110	29.81%	X <sup>2</sup> =27.410 P=0.0001
	By group member	16	4.34	56	15.18	72	19.51%	
	Group methodology	37	10.03	150	40.65	187	50.68%	
Group size/group number	2-5	43	11.65	64	17.34	107	29%	X <sup>2</sup> =14.093 P=0.001
	6-10	44	11.92	112	30.35	156	41.28%	
	>10	18	4.88	88	23.84	106	28.72%	

Source: SPSS output from survey data, 2015

#### 4.1.7 Business related characteristics

In the following table, regarding to the business experience of the non-defaulters, about 6.5% of the respondents were having one year business experience, 2.05% of the respondents were having two year business experience, 11.38% of the respondents has three year business experience, 21.14% of the respondents has four year business experience, and 12.46% of the respondents has >5 year business experience.

The proportion of defaulters' business experience of the respondents were 4.07% of the respondents has one year business experience, 7.32% of the respondents were two year business experience, 7.86% of the respondents has three year business experience, 21.14% of the respondents has four year business experience, and the remaining 1.95 % of the respondents has more than five years business experience.

This indicated that as experience in the business of the borrowers increases the more knowledgeable he/she would be about the business, efficient and profitable, it would become in its operation. This believed to enhance the repayment capacity of the borrowers. Statistical test result also confirm that there is very strong significant association between business experience and loan repayment rate (dependent variable) at ( $\chi^2 = 13.859$ ,  $P = 0.008$ ). Regarding the market assessment about 195(52.85%) of the respondents undertake market assessment before starts the business, while 147 (47.15%) of the respondents did not assess market before they were doing their business. The variable market study has very strong significant association with loan repayment (at  $\chi^2 = 22.403$ ,  $p = 0.0001$ ).

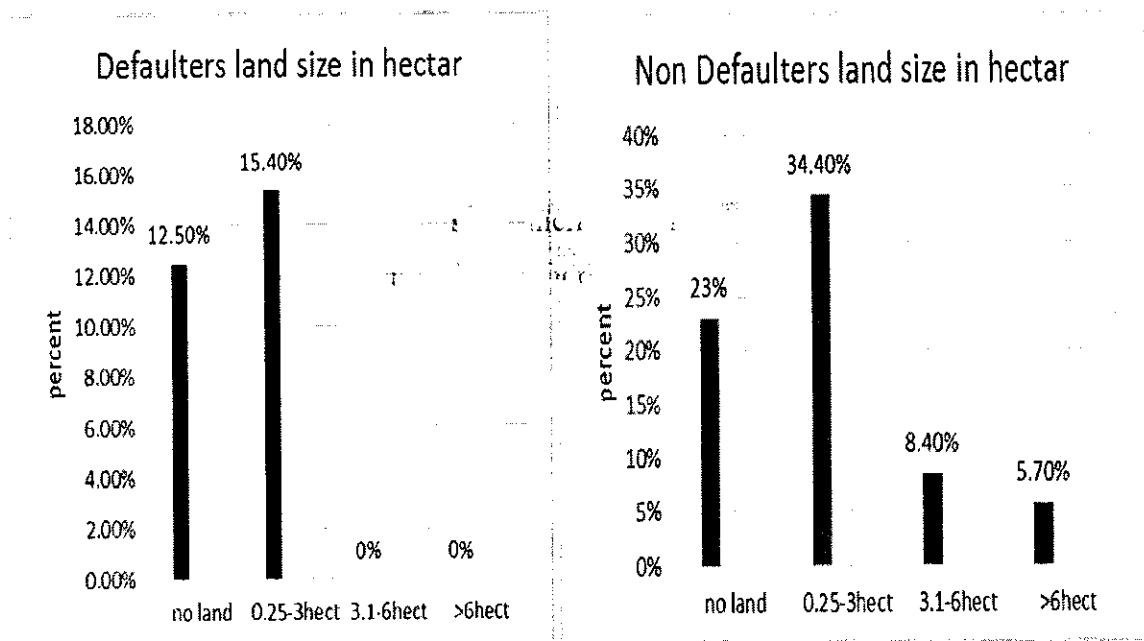
Table 4.6 Type of business and business experience of defaulters and non-defaulters

Variables	Category	Defaulter		Non defaulter		Total		X <sup>2</sup> -value
		N	P	N	P	N	P	
Principal type of business	Agriculture	72	19.51%	212	57.45%	284	76.92%	X <sup>2</sup> =9.204 P=0.056
	Service	6	1.63%	7	1.9%	13	3.52%	
	Trading	26	7.05%	38	10.3%	64	17.34%	
	Manufacturing	0	0	2	0.54%	2	0.54%	
	Construction	1	0.27%	5	1.36%	6	1.63%	
Business experience	1 year	15	4.07%	24	6.5%	39	10.57%	X <sup>2</sup> =13.859 P=0.008
	2 year	27	7.32%	74	20.05%	101	27.37%	
	3 year	29	7.86%	42	11.38%	71	19.24%	
	4 year	27	7.32%	78	21.14%	102	28.46%	
	>5 year	7	1.95%	46	12.46%	53	14.36%	
Market study	Yes	35	9.48%	160	43.36%	195	52.85%	X <sup>2</sup> =22.403 P=0.0001
	No	70	18.975	104	28.18%	174	47.15%	

Sources: SPSS output from survey data, 2015

#### 4.1.8 Size of Land Holding in Hectare

Land is the basic asset of farmers. In this study the table below shows that out of the total respondents 131 (35.5%) of respondent have no farm land, 184(49.9%) of respondents has 0.25-3hectares farmland and the remaining 54(14.1%) of respondents has more than three hectare farmland. As shown in figure below each additional hectare of land holding increases the probability of being non-defaulter decreases which means as the land size in hectare of the borrowers increases the repayment capacity also increases. Therefore, having larger size of land enhances a borrower's capacity to repay his/her loan timely and the statistical results shows that land size in hectare has significant association with loan repayment performance ( $\chi^2=20.169$ ,  $p\text{-value}=0.0001$ ). This indicated that the borrowers who have enough land size in hectares repay their loan in time rather than those who have small parcel of land. According to Afolabi (2010), farm size was one of the major significant socio-economic characteristics that determine loan repayment and the study done by (Berhe, 2010) show that the farm size owned by the borrowers has positive relationship with loan repayment performance.



Source: SPSS output from survey data, 2015

Fig 4.3 Defaulters and non-defaulters land size in hectare

#### 4.1.9 Loan and related characteristics of respondents

**Table 4.7 Source of credit, saving and purpose of saving**

Variables	Category	Defaulter		Non defaulter		Total		X <sup>2</sup> -value
		N	P	N	P	N	P	
Other source of credit	Yes	75	20.33%	91	24.66%	166	44.99%	X <sup>2</sup> =41.462 P=0.0001
	No	30	8.13%	173	46.88%	203	55.01%	
Do you have saving in ocssco?	Yes	59	15.99%	105	28.46%	164	44.44%	X <sup>2</sup> =8.201 P=0.004
	No	46	12.47%	159	43.09%	205	55.56%	
Purpose of saving	Expanding business	18	4.6%	23	6.2%	41	11.1%	X <sup>2</sup> = 16.991 P= 0.002
	For agriculture	17	4.9%	48	13%	65	17.6%	
	HH consumption	0	0	4	1.1%	4	1.1%	
	participating in MSE	24	6.5%	30	8.1%	54	14.6%	

Source: SPSS output from survey data, 2015

Regarding to other source of credit, among the total respondents as shown in table 4.7 above, 55% of them has the availability of other source of credit, and 44.99% of borrowers do not have the availability of other sources of credit other than OCSSCO. As shown in the above table 24.66% of non-defaulters who have the availability of other source of credit and among the borrowers who do not have other source of credit 46.88 % of them were non-defaulters. Having additional credit sources is determinant factor for loan repayment. If the members have other sources of loan, they may use these sources to be able to settle their loan obligation in case they forced to repay. The statistical result showed that, access to additional credit services has significant association with loan repayment performance of borrowers (X<sup>2</sup>=41.462, P=0.0001).

As per saving services, all the OCSSCO service users are required to save compulsory saving as mandatory since it seen as collateral. Compulsory Saving is part of pre-conditions or requirement to access loan. Compulsory savings are deposited pre and post loans based on the types of the loan that to be provided. All OCSSCOs' loans require pre loan savings as precondition except Group based loan. Among the sample 422 borrowers, as shown on table 4.6, 44.44% of them have the availability of saving account in OCSSCO before getting loan. Out of those 24.66 percent non-defaulters, and 22.33 percent were defaulters, While 55.56 percent of the respondent were have no saving account in OCSSCO before getting loan, out of these respondents 43.09 percent were non-defaulters and the remaining 12.47 percent were defaulters.

This indicated that the clients have no saving before getting loan has positive relation with loan repayment rate. For this reason there was significant difference between the non-defaulters and defaulters, the statistical test shows that significant association between loan repayment and saving before loan (at p value of 0.004) disclosed by table 4.7.

Regarding saving purpose of client the study revealed that, out of the borrowers who have saving account in OCSSCO about 11.1%, 17.6%, 1.1% and 14.6% of the respondent save their money to expand their business, for acquisition of agricultural input, for HH consumption and for participation in micro and small-scale program respectively. Statistically purpose of saving has significant association with loan repayment performance( $\chi^2 = 16.991$ , p-value = 0.002).

**Table 4.8 Loan size, Loan diversion, and suitability of loan repayment and frequency of loan collection.**

Variables	Resident	Category	Loan Repayment				Total		X <sup>2</sup> -value P- value
			Defaulter		Non defaulter		N	P	
			N	P	N	P			
Is loan size is sufficient?	Urban	Yes	1	0.27%	0	0	1	0.27%	X <sup>2</sup> =3.695 P=0.036
		No	25	6.78%	13	3.52%	38	10.3%	
	Rural	Yes	42	13.38%	9	2.44%	51	13.82%	
		No	196	53.12%	83	22.49%	279	75.61%	
The loan size from OCSSCO	Urban	Too small	32	8.67%	43	11.65%	75	20.32%	X <sup>2</sup> =16.697 P=0.0001
		Small	51	13.82%	144	39.02%	195	52.85%	
	Rural	Too small	7	1.90%	8	2.17%	15	4.07%	
		Small	6	1.63%	14	3.79%	20	5.42%	
		Large	0		4	1.08%	4	1.08%	
Loan issued timely	Urban	Yes	5	1.4%	16	4.3%	21	5.7%	X <sup>2</sup> =27.294 P=0.0001
		No	8	2.2%	10	2.7%	18	4.9%	
	Rural	Yes	43	11.7%	180	48.8%	223	60.4%	
		No	49	13.35	58	15.7%	107	29%	
Loan Diversion	Rural	Yes	41	11.11%	181	49.05%	222	60.16%	X <sup>2</sup> = 50.558 P=0.0001
		No	51	13.82%	57	15.45%	108	29.27%	
	Urban	Yes	22	5.96%	6	1.63%	28	7.59%	
		No	4	1.08%	7	1.90%	11	2.98%	

Source: SPSS output from survey data, 2015

Variables	Resident	Category	Loan Repayment				Total		X <sup>2</sup> -value
			Defaulter		Non defaulter		N	P	
			N	P	N	P			
Reason of spending for an intended purpose	Urban	HH consumption	5	1.36%	2	0.74%	7	1.9%	X <sup>2</sup> =90.946 P=0.0001
		For health care	3	0.81%	1	0.27%	4	1.08%	
		For wedding ceremony	2	0.74%	1	0.27%	3	0.81%	
	Rural	For HH consumption	43	11.65%	38	10.3%	81	21.95%	
		For health care	9	2.44%	20	5.42%	29	7.86%	
		For wedding ceremony	24	6.5%	15	4.06%	39	10.57%	
Suitability of loan repayments	Urban	Yes	5	1.36%	17	4.60%	22	5.96%	X <sup>2</sup> =53.800 P=0.0001
		No	8	2.17%	9	2.44%	17	4.61%	
	rural	Yes	34	9.21	187	50.68	221	59.89	
		No	58	15.72%	51	13.82%	109	29.54%	
Reason for unsuitability	Urban	Grace period is too short	2	0.54%	8	2.17%	10	2.71%	X <sup>2</sup> =66.158 P=0.0001
		Repayment period is short	6	1.63%	2	0.54%	8	2.17%	
	Rural	Grace period is too short	13	3.52%	16	4.33%	29	7.86%	
		Repayment period is short	47	12.74%	33	8.94%	80	21.68%	
Frequency of collection	Urban	Yes	5	1.36%	20	5.42%	25	6.78%	X <sup>2</sup> =55.878 P=0.0001
		No	8	2.17%	6	1.63%	14	3.79%	
	Rural	Yes	42	13.38	200	54.2	242	65.58	
		No	50	13.55%	38	10.30%	88	23.85%	

Source: SPSS output from survey data, 2015

As indicated in table 4.8 above, the statistical test shows that the association loan repayment (dependent variable) and some independent variables (suitability of loan repayments, frequency of collection have become very strongly significant at p-value of 0.0001, while loan size is significant at p-value of 0.036 and loan diversion is not significant). Some of the variables are as follows:



### **Loan Size**

As the statistical test in the above table shows in terms of sufficiency of loan amount released shows that 14.09% of rural and urban respondents in the sample reported that the loans they received to be sufficient for the purpose they intended. On the other hand, 85.91% of rural and urban borrowers declared that the loan amount they took was not sufficient. Out of those 59.9% of both urban and rural respondents were defaulters. This indicated that if the borrowers acquired sufficient amount of loan, it might enable them to utilize properly and repay their loan timely. The loan size has significant association with the loan repayment ( $\chi^2 = 3.695$ ,  $P = 0.036$ ). According to the rural and urban respondents the loan amount, which provided by OCSSCO were 24.4%, 58.27% and 17.34% of the respondents replied that the loan size too small, small and fairly large respectively.

### **Suitability of loan repayment period**

Concerning suitability of loan repayment period, 65.85% of both urban and rural respondents indicated that the loan repayment period was suitable. On the other hand, 34.15% of other respondent revealed it was not suitable. Based on the result, more defaulters members (17.89%) was found in the group that replied the period is not suitable, while large number of non-defaulters (55.28%) were those who reported period was suitable. For the 16.26% respondents who disagreed suitability of loan repayment period, the main reason was the shortage of grace period and repayment period. Suitability of loan repayment very strong significant association with dependent variable (loan repayment performance) ( $\chi^2 = 55.785$ ,  $p = 0.000+$ ) disclosed in table 4.8.

### **Frequency of loan collection**

In the table above 4.8 shows that 6.78% of urban and 65.58% of rural borrowers of the sample reported that the loan collection mode provided by OCSSCO are suitable. On the other hand, 3.79% of urban and 23.85% of rural respondents reported that the frequency of loan collection mode is not suitable. The result shows that very strong significant association between frequency of loan collection and dependent variables (loan repayment) ( $\chi^2 = 55.878$ ,  $p = 0.0001$ ).

### **Timelines loan release**

This study has considered attitude of borrowers towards loan repayment and timeliness of loan release issuance as important variables affecting loan repayment performance. Table 4.8, 66.1% of respondents of both urban and rural have answered that they took loan timely. On the other hand, 33.9 % of respondents portray that loan disbursement delayed.

As indicated in table 4.7 the higher proportion of non-defaulters 53.1% were found from those respondents who received timely disbursed loan, while 18.4% of non-defaulter respondents were a group who have received the loan delayed on disbursement. Therefore, the loan received by the borrowers on time, the more the chance of the repayment of the credit at proper time.

The statistical result show that the timelines loan release has strong significant association with loan repayment at ( $\chi^2 = 27.294$ ,  $p= 0.0001$ ) disclosed in table 4.8.

### **Loan Diversion**

Regarding to the loan diversion, about 50.68 percent of rural and urban respondents of non-defaulters used the loan for intended purposes. While 15.45 percent of rural defaulters and 1.9 percent of urban defaulters have diverted the loans they received to other purposes than specified in their loan agreement (fully or partly for non-intended purposes), such as for household consumption, for health care, for wedding ceremony and other purpose. The loan diversion has significant association with the dependent variable (loan repayment performance), ( $\chi^2= 50.558$ ,  $P=0.0001$ ). As per survey respondent the main reason to divert loan where about 36(9.8%) of defaulters used for household consumption, 8(2.2%) of respondents for health care and 17(4.6%) of respondents were divert the loan for wedding ceremony purpose.

## **4.2 Challenges and Difficulties**

Concerning the challenges and difficulties faces to OCSSCO; the explanation from in interview to strengthen the above response as follows:

Internal challenges and External challenges to the Oromia credit and saving share company, which affects the loan repayment rate. Based on the interview with branch managers and branch loan officers the following issues were identified to improve the loan repayment performance of OCSSCO.

#### 4.2.1 Internal challenges

- The presence of highly experienced employees turn over to other government and non-government organization, they are mainly attracted by better salary scales and benefits provided by these organizations.
- Majority of the activities in the institution have been done manually/do not computerized system.
- Transportation problem
- Poor documentation
- High group size in rural to assess loan, most of the key informants indicated that, group lending methodology contributed to the repayment problems as well as conflicts and distrust among group members. For example, if one of the group members fails to pay his/her loan, OCSSCO collect the amount due from the rest of the group members. Besides, this created financial problems for the group, since they are not allowed to get the next loan unless the whole group settles their loans.

#### 4.2.2 External challenges

- OCSSCO is one of highly competing in the same area of institution. In addition, the other sources of competition rise from local cooperatives and some traditional association, like Iddir, Ikub that give loan without interest, in relation to saving mobilization.
- Lack of reliable information about borrowers

### 4.3 Econometric Result

#### Result of Binary logistic analysis on the determinants of loan repayment performance.

Table 4.9 shows the effect of explanatory variables on the dependent variable. Before applying final model, Bivariate analysis was applied to identify the candidate variables for the final model, during this p-value of less than or equal to 0.25 was used to identify the candidate variables and accordingly variables with p-value less than or equal to 0.25 were taken to the final model to see their independent effect on the dependent variable. Model usefulness checked by comparing a computed proportional by chance accuracy rate with overall accuracy rate from classification table. Omnibus test of model coefficient also shows fitness of model.

Multi co-linearity was detected by examining the standard errors for the  $\beta$  coefficients. A standard error larger than 2.0 indicates multi co- linearity. Accordingly, none of the independent variables in this analysis had a standard error larger than 2.0. (The check for standard errors larger than 2.0 does not include the standard error for the Constant). From the final model socio-demography, lending methodology, business experience, and market study, other source of credit and repayment period suitability were independent determinants of loan repayment performance. Form socio-demographic determinants sex, age and family size were significantly associated with loan repayment performance at p-value  $< 0.05$ .

Table 4.9 Result of Binary logistic model

Variables	F	%	B	S.E.	DF	Sig(p-value)	Exp(β)	95.0% C.I for EXP(B)	
								Lower	Upper
Sex Male*	242	65.6	-	-	--	-	-	-	-
Sex Female	127	34.4	1.082	.433	1	.012	2.951	1.264	6.890
Age (18-25)	96	26.02	1.684	.464	1	.0001	5.388	2.170	13.377
Age (26-35)*	137	37.13	-	-	-	-	-	-	-
Education: no education*	137	37.13	-	-	-	-	-	-	-
Education: High school	33	8.94	.123	.598	1	.836	1.131	.350	3.653
Education: Vocational	27	7.32	-.008	.735	1	.991	.992	.235	4.188
Family size			.463	.157	1	.003	1.589	1.167	2.162
Training type									
Training d/f MF services*	55	14.91	-	-	-	-	-	-	-
Financial Mgt. training	7	1.9	-.006	.805	1	.994	.994	.205	4.817
Training offered by									
Loan officer*	77	20.87	-	-	-	--	-	-	-
Manager	15	4.07	-.773	.516	1	.135	.462	.168	1.270
External body	13	3.52	1.237	.669	1	.065	3.445	.928	12.797
Number of group member/size									
(2-5)	43	11.65	1.357	.678	1	.045	3.884	1.029	14.656
(6-10)*	44	11.92	-	-	-	-	-	-	-
>10	18	4.88	-1.788	.580	1	.002	.167	.054	.521
How group formed									
Already existed	17	4.6	1.294	.768	1	.092	3.646	.809	16.436
Group member interest*	270	73.2	-	-	-	-	-	-	-
Formed by credit officer	82	22.2	-.041	.485	1	.932	.959	.371	2.480
your group member you know before loan									
All *	305	82.7	-	-	-	-	-	-	-
Half	33	8.9	1.836	.664	1	.006	6.272	1.707	23.042
One fourth	13	3.5	2.654	.736	1	.0001	14.206	3.356	60.142

Business Experience	One year		Three years		Four years*		>5 years	
	Yes*	No	Yes*	No	Yes*	No	Yes*	No
Mark study	195	174	195	174	195	174	195	174
	52.9	47.1	52.9	47.1	52.9	47.1	52.9	47.1
other source of credit	203	166	203	166	203	166	203	166
	55.01	45	55.01	45	55.01	45	55.01	45
Save to OSSCO before loan	205	164	205	164	205	164	205	164
	55.6	44.4	55.6	44.4	55.6	44.4	55.6	44.4
Loan issued timely	244	126	244	126	244	126	244	126
	66.1	33.9	66.1	33.9	66.1	33.9	66.1	33.9
loan size sufficient	317	52	317	52	317	52	317	52
	85.9	14.1	85.9	14.1	85.9	14.1	85.9	14.1
Load version	250	119	250	119	250	119	250	119
	67.8	32.2	67.8	32.2	67.8	32.2	67.8	32.2
Suitability/ loan repayments	243	126	243	126	243	126	243	126
	65.9	84.1	65.9	84.1	65.9	84.1	65.9	84.1
Freq. of loan collection	267	102	267	102	267	102	267	102
	72.4	27.6	72.4	27.6	72.4	27.6	72.4	27.6

\*Reference Group with Highest Frequency,  $\beta$  = regression coefficient,  $\text{Exp}(\beta)$ =odd ratio over all, S.E standard error, sig. = significance.

## SEX

The multivariate result shows that the female borrowers were 2.951 times more likely to default when compared to male borrowers. This indicated that male borrowers have better understanding in loan repayment, this enabling them to pay loan than female. This result is supported by the finding of Fikirite (2011) in Addis Ababa male were twice more likely to pay loan than female. In addition Bahata and Tang (2002) they reported men were most likely to repay loan than female, but the study oppose the result of Wangnaa and Awunya (2013) they reported females are more likely to be able to repay their loan better than males. This might be due to the saying that females are more disciplined than males and will make sure production resources given to them for their intended purpose.

## Age.

As indicated in table 4.9 the majority of borrowers were in productive age group. Age of the borrowers' was found to be as expected, as positive impact on loan repayment, which means as age increased, the probability of being defaulter is decreased. This implies that non-defaulters are aged than defaulters, this might helped them to accumulate better wealth and able to repay their debt in time than defaulters.

Age range 18-25 years of borrowers were 5.388 times more likely default when compared to the age range 26-35 years of borrowers. This variable was significantly influence the loan repayment at a 5% level of significant. The positive relation implication is that the borrowers were becomes elder, they might be wealthy and they feel responsibly. In addition, social tie and other benefits such as, information-sharing increase with the age of the borrower increase. This result is in line with study done by Tnsue (2011), Godquin(2004) and Amare (2005), Fikirite (2011) and Oladeebo & Oladeebo (2011) suggest the elder borrowers have taken responsibility to repay their loan than youngsters. This indicated that as age of the borrowers become older and older, they might get business experience on their activities and they take the responsibility of loan repayment.

## **Family Size**

The variable family size is statistically significant at 5% of significance level on the loan repayment performance. From the logistic regression result, it can be conclude that the family size can influence the loan repayment performance of borrowers. This indicated that as the number of dependents increases, the borrower needs more money to fulfill their requirements in addition to the obligation of loan repayment. This result is supported by a study done by Retta (200), Abebe (2011) and a study conducted by Njoku and Odii indicated that household size was determined to be inversely related to loan repayment (Njoku and Odii 1991). In opposite to this result Abreham (2002), Berhanu (2005) and Pasha and Negase (2014) conclude that family size has no significant effect on loan repayment performance of borrowers.

## **Group size/number of group member**

Group size/number of group has significance influence on loan repayment performance at 5% significant level. The logistic regression shows that the group size which have (2-5) members were 3.884 times more likely default when compared to the group size involve (5-10) and the group size has >10 were 0.167 times less likely default when compared to (5-10) group size. The same result was stated by okurut et al. (2009) the group size variable, which was measured by the number of people that form a particular group was found to have a negative and significant effect (at 5% significance level) on loan repayment performance. From this it is easy to say that the loan repayment performance is influenced by the group size of the borrower.

## **Group member know each other (familiarity) before loan**

Group member know each other (familiarity) before loan is another specific variables, which found significant at 5% significant level. It refers to the way in which the group member knows each other before loan (engage in the group). With regard to this variable, the binary logistic result shows that from the group members half of them know each other before loan were 6.27 times more likely default when compared to those whose all group members knows each other before loan. This result indicated that screening and selecting of credit worth borrowers are more effective with group that are formed by the members themselves than the group that depend on the intervention from an outside agent to be formed because members of a community may know more about each other's types, actions, and states than the MFI.



The probability of non-default is high when all the group members know each other before loan (table 4.9). In support to this finding the study done by (Tesfaye et al.,2014) suggest that the probability of group loan repayment performance increases as far as group formation is based on members self-selection because group members can easily identify the credit worth group member.

### **Other source of credit**

Having variable source of credit has significant influence on loan repayment performance of borrowers at 5% level of significant. The logistic model result shows that the borrowers who have no other source of credit were 0.209 times less likely default when compared to those who have other sources of credit. This indicated that the borrowers who has other source of credit used to meet their loan repayment obligation. In support to this finding, the study done by Samuel (2011) suggests that the availability of other credit sources were important and significant factors that enhance the credit repayment performance of borrowers. Against this the finding done by Paxton (1996) suggest if someone has too many other debt contracts, then they may pay back the informal loans to friends or to informal lending groups before they repay to their formal group.

### **Business experience**

With respect to business experience of respondents, as indicated in table 4.9 non-defaulters had more years of business experience than defaulters and the econometric result shows that those who have one-year business experience of borrowers were 3.034 times more likely to default when compared with those who have four year of business experience. This variable found to influence significantly the borrowers' loan repayment rate at 5% significance level. This indicated that as experience of borrower increases, they became knowledgeable; he/she would know about the business and become efficient and profitable. This result was agreed with the finding of Birhanu(2005), Birhanu and Fufa(2008) and Abrham(2002) suggest work experience related economic activities before the loan affected loan repayment positively.

## **Market Study**

With respect to market assessment, 195(52.9%) of the respondents were assess the market before doing the business, while 174(47.1%) of the respondents did not assess before starting the business (table 4.9). The econometric result shows that the borrowers who have not assess the market before doing the business were 5.771 more likely default when compared to those who assess market before doing the business. This result might be implied that the borrower start the business when they have no chance of income generation and they have no idea about the market study.

## **Timelines loan release**

This study has considered attitude of borrowers towards loan repayment and timeliness of loan release issuance as important variables affecting loan repayment performance. Table 4.8, 66.1% of respondents of both urban and rural answered that they took loan timely. On the other hand, 33.9 % of respondents portray that loan disbursement delayed. AS indicated in table 4.9 the higher proportion of non-defaulters 53.1% were found from those respondents who received timely disbursed loan, while 18.4% of non-defaulter respondents were a group from who have received the loan delayed on disbursement. The logit model result shows that the borrower who have not get the loan timely from OCSSCO were 4.837 more likely default when compared with those who have get the loan timely (table 4.9).

## **Suitability of loan repayment Period**

Regarding perception of Suitability of loan repayments 204(55.3%) of the respondents who consider suitable instalment period were non-defaulters, which is greater than the corresponding figure for the defaulters borrower 165(44.7%). This variable found to influence significantly the borrowers' loan repayment rate at 5% significance level. This is an indication that the variable under consideration positively related with repayment performance. The econometric model result revealed that borrowers who perceive the instalment period appropriate was increases non defaulter rate by factors of 3.590 times for suitability of loan repayment period than who perceive the period was unsuitable. The same to this Jemal (2003) and Samuel (2011) results shows that the variable Suitability of loan repayments period has important and significant factor that enhance the loan repayment performance.

## CHAPTER FIVE

### 5. SUMMARY, CONCLUSION AND RECOMMENDATION

#### 5.1 Summary of key Findings

The fourth chapter of the study contains the data analysis and the findings of the study. In this chapter the key findings of the study are concluded and recommended based on the findings and are forwarded for the concerned bodies.

The nature of this research is descriptive type and econometric model analysis that incorporates fact finding inquiries and surveys with regard to the determinants of loan repayment performance of borrowers in west shoa Zone OCSSCO.

In this study made to take in to the factors that determinant the repayment performance of MFI borrowers. Moreover, it assessed the impact of loan repayment on the performance of OCSSCO and sustainability of the institution because the poor loan repayment performance undermines the financial position of MFI, which further hinders the cyclical flow of fund between institution and borrowers. A total of 422 loan beneficiaries were including in this survey. The data obtained from the respondents through questioner and interview. The collected data from each selected sample of the OCSSCO borrowers found in west shoa zone filtered, categorized and proceeded using both descriptive statistics and econometric analysis carried out to accomplish the above listed task.

The descriptive statistics shows that majority of the sample borrowers are female which is higher than their male counterpart. From the total respondents 242(65.6%) are male borrowers and 127(34.40%) are female borrowers of OCSSCO. This indicated that more is not done on the microfinance institution towards women empowerment. The educational background of the borrowers reveals that, 37.13% of the sample borrowers cannot read and write and this will have an effect on their business activity. This indicated that the borrowers who attained higher educational level able to pay better than the borrowers who were in lower level schooling and/or illiterates. The statistic and econometric results show that the age of respondents significantly determines the loan repayment performance of borrowers. This indicated that the elder respondents have better repayment performance than youngsters.

According to descriptive result, 98.6 percent of the respondent received some kind of training on business and about institutional services before receiving loan from OCSSCO. Regarding to lending methodology, about 99.7percent who were participated in-group lending methodology before receiving loan. It was also found that the basic reasons as to why members want engaging in group borrowing are lack of collateral security to take loan individually when they want, required by OCSSCO, and easy to get loan in group than on individual basis.

With respect to group size, 42.28% of respondent engaged in the group size of (6-10) and the remaining 28.72% of respondent engaged in the group size, which contain more than 10 group members. Regarding the availability of other source of credit, 55 percent of the borrowers do not have other source of credit and 45 percent of the borrowers have other source of credit. The business experiences of borrower range from 1-5 years and more than five years. Regarding to the market assessment about 52.85percent of the respondents were undertake market assessment before starts their business and (47.1%) of the respondents did not assess before starting the business.

The chi-square tests showed that there is a significant relationship between the explanatory variable and the loan repayment in terms of age, family size, group size, business experience, market study, land size, other source of credit, loan size, timelines of loan release, loan diversion, and suitability of loan repayment and frequency of collection at 5% significant level.

The result of binary logistic econometric model also show that, out of 15 explanatory variables used in the regression model, ten variables (sex, age, family size, business experience, market study, suitability of loan repayment period, and timelines of loan release, other source of credit and group size) has statistically significant influence on the loan repayment performance of borrowers. Whereas five variables (educational level, training, loan size, saving and frequency of collection) has statistically not significant influence on loan repayment performance of borrowers.

## 5.2 Conclusions

Based on the analysis made in chapter four, the following conclusions are made on socio-demographic characteristic of borrowers, loan repayment related factors and institutional related factors were as follows:

The finding of this study has shown that more male clients borrowed and repaid loan to OCSSCO than females did, this indicated that male borrowers have better understanding in loan usage and repayment, this enabling them to pay loan than females.

The regression analysis reveals that the age of the beneficiaries of loan is significantly determines the loan repayment performance of borrowers. The elder borrowers have better repayment performance than youngsters and the elders were more responsible to repay loan than youngster.

The variable family size has significant effect on repayment performance of OCSSCO borrowers. As the number of family size increases, the borrower needs more money to full-fill their requirements in addition to the obligation of loan repayment. As a result, they might divert the loan to meet the needs of those dependent families. This implies that borrowers of larger family could shoulder much burden than those with smaller number of or no dependents, they repay as good or bad as the other group.

The regression analysis result indicated that group size has positive and significantly influence on loan repayment performance of borrowers. While the member of group size very small/large, the non-default rate of borrowers decreases. With regard to the group member, the binary logistic result shows that the group members not know each other before loan were more default when compared to those whose all group members knows each other before loan. This result indicated that screening and selecting of credit worth borrowers are more effective with group that are formed by the members themselves than the group that depend on the intervention from an outside agent to be formed because members of a community may know more about each other's types, actions, and states than the institution.

The study results revealed that business experience is an important determinant of loan repayment performance; non-defaulters has more years of business experience than defaulters and the econometric result show that those who have no or one year business experience of borrowers were more default than those who have more years of business experience. The borrowers who acquired extensive experience in similar economic activity before the loan knows how to run a profitable business than new ones hence could have better repayment record. This shows that longer experience in business is developed on the operation and conduct of using MFIs as sources of poverty reduction.

Regarding to the availability of other source of credit, majority of the borrowers do not have other source of credit and some portion of the borrowers have other source of credit and the logistic model result show that, the borrowers who have other source of credit meet their loan repayment obligation than those who has no other source of credit. From this point of view the availability of other credit sources were significant factors that enhance the credit repayment performance of borrowers.

Some factors like, timely credit services and suitability of loan repayment period has significant relationship with loan repayment performance of clients. Timely credit services found to have positive impact on credit utilization of the borrowers. A timely credit service is vital for any business activities. This variable encouraged borrowers to use the loan in appropriate way and time for the proposed purposes. Suitability of loan repayment period is also found to be significant determinant of loan repayment performance of clients and it was found to be significantly increase the probability of repaying loan.

Furthermore, lender and borrower related factors, which are responsible for inability of borrowers to fulfil their repayment obligation. These include unwilling to pay, internal and external factors that affect both parties.

In general, the model output shows that, sex, age, family size, group size, other source of credit, business experience, market study, timelines loan release and suitability of loan repayment period were significant and positively related with loan repayment. However, group size and other source of credit were significant and have negative relationship with loan repayment of borrowers. Therefore, those determinant variables have to be give emphasis by microfinance institution and concerned bodies.

### **5.3 Recommendations**

Based on the finding obtained from descriptive and econometrics analysis of the study the following recommendations are derived.

- ❖ The model result shows that female borrowers are defaulter than male borrowers; therefore, microfinance institutions should strengthen and support the poor women and should provide trainings to the borrowers before they deliver the loan, because this is likely to enable them to have some level of managing ability in their business. It is better to monitor the women borrowers regularly to ensure that they use the loans they received for the agreed and intended purpose.
- ❖ The age of respondents significantly determines the loan repayment performance of borrowers. The younger aged group has more defaulters compared to other. It is not recommended to exclude the young age groups but the institution should give special attention to those borrowers by providing awareness creation training, continuous follow up and supervision.
- ❖ Since borrowers who have small number of family in the household perform better in loan repayment and borrowers who have large number of family in the household have performed less in loan repayment, OCSSCO should provide loan for those borrowers who have large family sizes with proper supervision.
- ❖ Clients recruited in the credit program should have adequate business experience to run viable business.

- ❖ Group formation by members for the credit program is better formed without the initiation of credit officers. This does not mean that the credit officers have to be totally excluded in the initiation of the group formation; even if the credit officers take part in the initiation to some extent, they should restrain themselves from enforcement to form the group.
- ❖ It is better to reduce the timeliness of loan release to increase loan repayment performance. If the borrowers get loan on time, they can utilize the loan effectively and get better output. Therefore, a timely credit service help borrowers to use the loan in appropriate way and perceived importance of loan by the borrower and accelerates the chance of the repayment of the loan at proper time. For this reason, the lending institution has to provide the loan on time when the borrower needs it; because complicated loan processing procedures might lead to delay in disbursement will further increase default rate.
- ❖ The borrowers who have other source of credit meet their loan repayment obligation than those who has no other source of credit. This indicates that they might pay back the informal loan (the loan from others) to OCSSCO before they repay to informal group, however, this leads them to sell their property or asset at the end of loan terms to pay back the informal loan. Therefore, it is recommended that OCSSCO should embark into greater coordination among lending institution to restrain the problem of multiple borrowing among clients, which enhances loan default. The policy option is for OCSSCO to collaborate in the creation of a credit reference for all their clients.
- ❖ Repayment period was found to be a significant determinant of loan repayment performance of borrowers. Suitability of loan repayment period for borrowers was found to significantly increase the probability of repaying loan. Therefore, the institution has to give enough time to clients so that they will be able to work with the loan they have borrowed and arrange the time to collect loan that will be suitable for them to sell their business output. It is better to set business and income based suitable of loan repayment period. (i.e., enough grace period, amount repayment and repayment time as per the type of business), because some loan financed activities require more than a year to get return from investment and other may require short period to get return on investment, flexible repayment period should be designed in order to improve default rate.



- ❖ The borrowers not undertake market assessment before receiving loan from OCSSCO not repays their loan on timely basis. Therefore, it is better to compare business plan of borrowers with current market and current economic condition of the country before releasing loan to clients.
- ❖ Lastly, the institution should focus on the repayment challenges, which stated by the borrowers and take corrective actions. In order to solve the internal and external problems of the institution, the main thing might be to improve the financial capacity of the institution, adjust loan repayment period, timelines of loan release and expand the services. Taking the recommendation in to consideration, OCSSCO finance institution should strive to increase the loan repayment rate of the borrower and it has to look for ways the borrowers could market what they produced and has to schedule programs on the time that debts are collected and the client should be aware of it.

Finally, this study has focused on certain variables related to the determinants of loan repayment performance of borrowers. However, loan repayment performance on behalf of the institution was not investigated. Thus, further research can be conducted on this issue to narrow the gap in this area.

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# Appendices

## Appendix I

**Jimma University**  
**College Of Business and Economics**  
**School Of Graduate Studies**  
**MSC Program in Accounting and Finance**

### Questionnaires

#### **Dear respondents:**

You are being asked to participate in a survey that intends to assess the determinants of loan repayment performance in OCSSCO at west shoa zone. Ato Belete Demuma conducts this study in partial fulfillment of the requirements for Master's Degree in Accounting and Finance. This is survey questionnaire which is aimed at identifying and collecting data about the determinants of loan repayment performance in OCSSCO west shoa Zone. Your response to these questions has a paramount importance to complete the study, confidential and will not use in any form for another purpose. I respectfully request your kind cooperation in answering the questions that follow as clearly and frankly as possible and your response will be highly confidential.

Thank you in advance for your kind cooperation!

#### Additional information

- I. You need not disclose your name
- II. Circle the letter of the choice that is the most appealing to you
- III. Write your answer in the space provided is so required.
- IV. For open-ended questions, you may use the blank space provided \_\_\_\_\_ or you may use additional paper, if the space is not adequate.
- V. If you have any question, you can contact the researcher by the following addresses:

Mobile: - 09-13-09-07-11 or Email address:-beletedemuma@gmail.com



**Questionnaires to be filed by beneficiaries**

**I: General characteristics of respondents**

- 1. Sex of borrower's    A) Male    B) Female
  
- 2. Which age groups do you belongs to?  
A) 18 – 25 years olds    B) 26 – 35 years' olds  
C) 36 – 45 years' olds    D) 46 – 55 years' olds    E) Over 55 years old
  
- 3. What is the level of your education?    A) No education,    B) primary school,  
                  C) middle school, D) high school,    E) vocational, F) college, G) postgraduate school,  
                  if others, specify\_\_\_\_\_
  
- 4. Total number of family size  
A) Age 1- 10    Male \_\_\_\_\_ Female \_\_\_\_\_  
B) Age 11- 20    Male \_\_\_\_\_ Female \_\_\_\_\_  
C) Age 21- 40    Male \_\_\_\_\_ Female \_\_\_\_\_  
D) Age 41-60    Male \_\_\_\_\_ Female \_\_\_\_\_  
E) Age 61 and above    Male \_\_\_\_\_ Female \_\_\_\_\_
  
- 5. How many of your family are in college/university? \_\_\_\_\_
  
- 6. How many of the family members are regular income earners in your family?  
A) 1, B) 2, C) 3, D) 4, E) more than 4
  
- 6.Residence of borrower 1) Urban 2)Rural

**II: Training**

- 7. Did you take training before receiving the loan from OCSSCO?    A) Yes                      B) No

8. If 'yes', what kind of training did you take?

A) Business training

B) Bookkeeping

C) Training on different microfinance services (credit, saving)

D) Financial Management

If other, please specify \_\_\_\_\_

9. If your answer to question number 8 is 'A' by whom the training was given?

A) By loan officer B) By managers C) By external bodies

If others \_\_\_\_\_

10. Do you think that the training has helped you to increase your income? A) Yes B) No

### III: Group lending related questions

11. Are you involved in a group lending? A) Yes B) No C) don't know

12. If 'yes', why did you engaged in group lending?

A) Easy to get loan in a group B) By initiative with one of the group members

C) Because group lending is the methodology that the MFI currently adapting for non-collateralized loans.

If any others reasons please specify \_\_\_\_\_

13. How many members do a group has? \_\_\_\_\_

14. How the group formed? A) Already existed for non-financial services

B) Based on the group member interest C) Formed by the credit officer

15. How many of the group members that you know before?

- A) All of the group members                      B) Half of the group member  
C) One fourth of the group members      D) none of them

16. How many group members have relatives in the group?

- A) Majority of the members      B) About half of the members  
C) Just a few                      D) I do not know/no answer

17. Do you feel responsibility to the other members of your group related to loan repayment?

- A) Yes                                  B) No

18. If your answer to question no 17 'yes', what are the main reason?

- A) Social capital i.e. trust, cooperation, personal ties      B) Fear of default

If others, please specify \_\_\_\_\_

19. What actions do you take when the group members did not repay their loan?

- A) Put social sanction (isolate from social life like, Iddir, Committee, ceremonial participation etc.)      B) Inform to the loan provider  
C) Repay for someone else

If others, please specify \_\_\_\_\_

#### IV: Business related equations

20. What is your principal type of business?

- A) Agriculture      B) Services      C) Trading      D) Manufacturing      C) Construction

21. If your answer to question number 20 is "A" or agriculture how much is your land?  
\_\_\_\_\_ in hectares.

22. Based on question number 21 does it affect your paying ability to the borrowed money from the institution? A) Yes B) No C) don't know

23. As your answer of question number "22" please give the reason.

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24. In which type of business you currently engage.

- A) Cattle fattening and selling B) Selling of grains and other staple crops
- C) Shop and Kiosk D) Handcraft E) Small restaurant and cafeteria
- F) Services providing

25. How long have your business experiences?

- A) 1years, B) 2years, C) 3years, D) 4years,

If other, please spesfiy \_\_\_\_\_

26. Did you conduct market study (survey) before starting your business?

- A) Yes B) No

27. If your answers question no.26 is no why? \_\_\_\_\_

#### V. Loan and Repayment Characteristics

28. Did you have any source of credit other than O<sup>best</sup>SSCO? A) Yes B) No

29. If your response to question 28 is 'yes' what is your source? A) Iddir B) Money lender C) Friends/relatives D) Bank E) If other source please specify \_\_\_\_\_

30. How much money did you receive from these sources during the last year?

Source	Year	Amount of loan

31. Do you have saving in OSSCO before getting loan? : A) Yes B) No,

if your answer is 'yes' how much? \_\_\_\_\_

32. For what purpose do you save?

A) To expand business B) For acquisition of Agricultural inputs like, fertilizers

C) For HH consumption D) for participating in micro and small scale program

E) To pay school fees, if others (specify) \_\_\_\_\_

33. Why do you borrow from OSSCO microfinance?

A) To repay other credit B) To improve or expand business

C) To engage in other business D) To purchase agricultural inputs and improve the quality of existing products

E) To cover educational fee

If other (specify) \_\_\_\_\_

34. From question no. 33, if you borrow for purchase Agricultural input, for what types of input?

A) Fertilizer purchase (Dap and urea) B) Oxen purchase C) Goat or sheep purchase, D) seed

If other, please specif \_\_\_\_\_

35. For how many rounds did you take loan from OCSSCo microfinance?

A) One round B) Two rounds C) Three rounds D) More than three rounds

36. Do you believe that the loan issued timely? A) Yes B) No

37. If your answer to number 36 is 'No', how do you evaluate the loan procedure time used by OSSCO? A) Too long B) Long C) medium D) Short E) very short

38. How much money did you receive in loan from OSSCO microfinance?

Year	Round 1		Round 2		Round 3		Above around 4	
Year								
Amount of loan	Birr	Cen.	Birr	Cen.	Birr	Cen.	Birr	Cen.

39. Was the loan size you obtained from ossco sufficient to undertake for the purpose intended?

A) Yes B) No,

40. If your answer to question 39 is 'No', what was the amount you requested? Birr \_\_\_\_\_

41. The loan size you obtain from ossco is

A) Too small B) Small C) Fair Large D) Very large

42. If your answer for number 41 is 'too small' or 'small', what solution did you take?

A) Borrow from informal financial sectors (Iddir or equb)

B) Borrow from formal banks at higher interest rate C) Borrow from relatives and friends

Others (specify) \_\_\_\_\_

43. From question number 42, which loan do you repay first?

A) Informal financial sectors (Iddir) B) Formal banks

C) Relatives and friends, if others, please specify \_\_\_\_\_

44. Do you spend the entire loan for running your business according to loan agreement (your business plan)? A) Yes B) No

45. If your answer to question 44 is 'No,' for what purpose you spent. (Multiple answers are possible)?

A) For household consumption B) For health Care C) For wedding ceremony

46. Did you repay loan to OCSSCo on timely basis? A) Yes B) No

47. If your answer to question 46 is 'yes', what is your repayment status?

A. Fully repaid: A) on time B) too late

B. Partially repaid: A) on time B) too late

48. If your answer number 46 is 'yes' what motivates you to repay your loan on time?

A) To keep social status B) In the expectation of getting another large loan

C) Build good relationship with the loan provider, If others (specify) \_\_\_\_\_

49. If your answer for question number 46 is 'No', what causes your repayment problem?

A) Weak legal enforcement for defaulters B) Loan activity was not profitable

C) Personal problem (like sickness, change of place) D) Low supervision by the loan officer of OCSSCO E) Disaster (theft, fire, flood.) F) Used enterprise capital for consumption (food, clothing, HH goods) G) Lack of sale/ demand H) Family celebration (wedding, birth, etc.)

50. The repayment period set by OCSSCO suitable in your opinion? A) Yes B) No

51. If your answer to question number 50 is 'No', what do you think is the suitable repayment period? A) Grace period is too short B) Repayment period is too short

If others, please specify \_\_\_\_\_

52. The frequency of collection offered by OCSSCO suitable in your opinion? A) Yes B) No

53. If your answer to question number 52 is 'No', what is your preferable collection period?

A) Weekly B) monthly C) quarterly D) semiannually E) annually

Other specify \_\_\_\_\_

54. How many months did you actually take to pay back the last loan? \_\_\_\_\_

#### VI. General Question

55. If you face any difficulties and challenges during the repayment period, please mention the major challenges.

\_\_\_\_\_

56. What is your overall opinion about OCSSCO credit Scheme?

\_\_\_\_\_

## Appendix II

**Universitii Jimmaa**  
**Koollejji Barnoota Sadarkaa Digirii lammaffaa**  
**Garee Biizinasii fi Ikonomiksii**  
**Sagantaa Digirii Lammaffaa Akkawuntingii fi Faayinaansii**

### Gaaffilee

#### **Kabajamoo Deebii deebisaa:**

Isin mata duree qorannoo “assess the determinants of loan repayment performance in OCSSCO” ilaalchisee yaada qabdan maaloo ibsaa. Qorannoon kun kan raawwatu Obbo Ballaxaa Damumaa dhaan , sabaaba Digirii lammaffaa gosa barnoota “Accounting and Finance” tiin Xumursiisuu danda’udhaaf. Kaayyoon Gaaffilee Qorannoo kanaa waa’ee haala raawii liqii Waldaa liqii fi qusannaa oromiyaa (WLQO) damee Godina Shawaa Lixaa adda basuu fi daataa(odeefannoo) funaanuu dha. Deebiin keessan qorannoo kana xumursisuudhaaf faayidaa gudda qaba. Iccitiin isa eegamaa fi faayidaa biroof hin oolu. Kanaaf, gaaffii kana hordofuun haala gaarii fi karaa danda’amuun waan naaf ibsitaniif galata guddaa qabdu.

#### **Waan na gargaartaniif dursa galatoomaa!**

#### **Yaada dabalataa**

- I. Maqaa keessan barreessuun hin barbaachisu
- II. Qubee filatanitti giingoo itti maraa
- III. Deebii keessan bakka duwaa jirutti bareessaa
- IV. Yoo gaaffii qabaattan teessoo armaan gadiin na argachuu dandeessu.

Lakk. Bilbilaa 0913090711

[Email.beletedemuma@gmail.com](mailto:Email.beletedemuma@gmail.com)



**Gaaffilee armaan gadiif deebii sirrii dha jettee kan itti amantu filadhu.**

**I: Haala dhuunfaa**

- 1) Saala      A) Dhiira      B) Dhalaa  
2) Umurii    A) Waggaa 18-25    B) Waggaa 26-35    C) waggaa 36-45    D) Waggaa 46-55    E) 55 ol  
3) Sadarkaa barnootaa keessanii.  
A) Homaa hin baranne    B) Sadarkaa 1<sup>ffaa</sup>    C) Sadarkaa giddu galeessaa    D) Sadarkaa 2<sup>ffaa</sup>  
E) Teekinikaa fi Ogummaa    F) Koollajjii    G) Digirii 2<sup>ffaa</sup>

Kan biroo \_\_\_\_\_

- 4) Bayina waliigala maatii  
A) umurii waggaa 1-10    Dhiira \_\_\_\_\_    Dhalaa \_\_\_\_\_  
B) umurii waggaa 11-20    Dhiira \_\_\_\_\_    Dhalaa \_\_\_\_\_  
C) umurii waggaa 21- 40    dhiira \_\_\_\_\_    Dhalaa \_\_\_\_\_  
D) umurii waggaa 41-60    Dhiira \_\_\_\_\_    Dhalaa \_\_\_\_\_  
E) umurii waggaa 61 fi isaa ol  
5) Maatii keessan keessaa nama meeqatu Koollaajjii/Universiitii bartaa? \_\_\_\_\_  
6) Maatii keessan keessaa nama meeqatu madda galii dhaabbataa qabaa? \_\_\_\_\_  
6) Bakka Jireenyaa    A) Magaala    B) Baadiyaa

**II: Haala Leenjii**

- 7) Waldaa liqii fi qusannoo Oromiyaa(WLQO) irrara osoo liqiin dura leenjiin siniif/siif kennameeraa? A) Eeyyee    B) Lakki  
8) Yoo deebiin kee gaaffii 7<sup>ffaa</sup> 'eeyyee', kan jedhu ta'e kanneen armaan gadii keessaa kam irratti?  
A) leenjii dhimma biizinesii (Hojii)    B) Akkaataa qabinsa herreegaa    C) haala liqii fi qusannoo  
D) Bulchiinsa Maallaqaa

Kan biroo \_\_\_\_\_

- 9) Yoo deebiin keessan gaaffii 8<sup>ffaa</sup> 'A', kan ta'e leenjichi eenyuun kenname?  
A) Offisera(qoondaala) liqiin    B) Manaajera    Dhaabatichaan  
C) Qaama hojjetaa waajirichaa hin taaneen ykn qaama biroon  
Kan biroo yoo jiraate \_\_\_\_\_  
10) Leenjii isiniif kenname galiin keessan akka dabaluu taasisseeraa?  
A) Eeyyee    B) Lakki    C) Hin beeku

### III: Liqii Gareen Kennamu Ilaalchisee

11. Garee liqeefattootaa keessa jirtuu? A)Eeyyee B) Lakkii
12. Yoo deebiin keessan gaaffii lakk. 11<sup>ffaa</sup> “eeyyee”, ta’e maaliif?  
A)haala salpaan liqeeffachuuf  
B) Waan misinsi garee tokko kaka’umsa nakeessatti uumeef  
C) liqiin waldaan ykn gareen kennamu yeroo amma kana akka wabiitti waan hubatameef kan biroo \_\_\_\_\_
13. Gareen keessan miseensa meeqa qabaa? \_\_\_\_\_
14. Ijaarsi garee liqeefattootaa haala kamiin hundeeffamee? A)Garee dursa ijaaramee jiru  
B) Fedhii miseensotaatiin/liqeefattootaatiin irratti hundaa’uun C) Qondaala liqiitiin D) hin yaadadhu.
15. Osoo gareen hin ijaaramin duru miseenota garee keessaa nama meeqa beektuu?  
A)Miseensa hunda B) walakaa miseensaa C) Tokko araffaa D) miseensa tokkoyyuu hin beeku
16. Miseensota gareen ijaaraman keessaa nama meeqatu firooma qabaa?  
A) harka caalu B) Walakkaa miseensaa C) Miseensa muraasa D) hin beeku
17. Miseensi garee kee liqii fudhatan akka deebisaniif itti gafatamummaa kee ni baataa?  
A) Eeyyee B) Lakkii
18. Yoo deebiin kee lakk. 17<sup>ffaa</sup> “eeyyee”, ta’e maaliif?  
A) Waliin hojichuu, hawaassummaaf B) Sodaa liqiin ni hafa jedhu irraa ka’uun  
Kan biroo \_\_\_\_\_
19. Yoo miseensi garee kee liqii kanfalu dide maal gootuu?  
A) jireenya hawaasummaa keessaa baasuu (fkn iddifrii, daadoo, jigii, cidha, jaarsummaa)  
B) Dhaabbilee liqii kennan beeksisuu C) hanga ta’e kanfalu  
kan biroo \_\_\_\_\_

### IV. Gaosa hojii liqeefattoonni irratti hirmaatan ilaalchisee (Bus.type)

20. Gosti hojii idilee kee kamii?  
A) Qonna B) Tajaajila C) Daldaala D) Oomisha E) ijaarsa adda addaa
21. Yoo deebiin kee lakk. 20<sup>ffaa</sup> ‘qonna’, ta’e lafa heektaara meeqa qabdaa? \_\_\_\_\_
22. Akkataa deebii lakk. 21tti liqii deebisuuf irratti dhiibbaa qabaa?  
A) Eeyyee B) Lakkii C) hin beeku
23. Maaloo akkataa deebii lakk. 22<sup>ffaa</sup> irratti hundaa’uun sababii isaa ibsitaa?

24. Gosti hojiin ati yeroo ammaa hojechaa jirtu kamii?

A) Furdisa loonii fi gurgutaa B) Daldaala midhaanii C) Daldaala suuqii fi kiiskoo D) hojii narkaa  
C) mana nyaata xixiqaa fi kaafteeriyaa F) Kenninsa tajaajilaa

25. Muuxannoo hojii keessanii waggaa meeqaa?

A) wagga tokko B) waggaa lama C) waggaa sadii D) waggaa afur, kan biro \_\_\_\_\_

26. Osoo hojii hin eegalin dursa qorannoo gabaa ni taasiftuu? A) Eeyyee B) Lakkii

27. Deebiin kee lakk. 26<sup>ffaa</sup> 'lakkii', yoo ta'e maaliif?

### V) Haala liqii fi kanfaltii

28. WLQOn ala madda liqii qabduu? A) Eeyyee B) Lakki

29. Yoo deebiin kee gaaffii 28<sup>ffaa</sup> "eeyyee", ta'e kanneen armaan gadii keessaa isa kam irraatii?

A) Iddirii B) Namoota naannoo liqii liqeesan irraa C) Hiriyyaa/ Fira D) Bankii

Kan biroo \_\_\_\_\_

30. Kanneen lakk. 29 irratti tuqaman irra bara darbe qarshii meeqa fudhatte?

Madda isaa	Bara isaa	Hamma maallaqaa

31. Osoo liqii hin fudhatin dura WLQO irraa qusannoo qabdaa? A) Eeyyee B) Lakkii

Yoo deebiin keessan 'eeyyee', ta'e qarshii meeqa? Qr. \_\_\_\_\_

32. Maal karoofateetu qusatte? A) Hojiidhuma duraa babal'isuuf B) xaa'oo fi sanyii bituuf C)

Itti fayadama baasii mana keessaaf D) Makiroo xixiqaa keessatti hirmaachuuf E) kanfaltii  
tajaajila barumsaa kanfaluuf, kan biroo \_\_\_\_\_

33. WLQO irraa maaliif liqeffattaa?

A) Liqii biroo kanfaluuf B) Hojii duraan jiru babali'isuuf C) Hojii biroo ittiin hojechuuf

D) Kanneen oomishitummaa qannoo dabalaniifi fooyessan bituuf E) Kanfaltii barumsaaf

Kan biroo \_\_\_\_\_

34. Yoo deebiin keessan lakk. 33<sup>ffaa</sup> 'bittaa omishaa qonnaaf,' kan ta'e maal bituuf?

A) xaa'oo B) Sangaa, C) Re'ee ykn Hoolaa D) Sanyii

kan biroo \_\_\_\_\_

35. WLQO irraa marsaa meeqaffaaf liqeffattani?

- A) Marsaa tokko B) Marsaa lama C) Marsaa sadii D) yeroo sadii oli

36. Dhiyeesiin liqii yeroo isaa kan eegatedhaa? A) Eeyyee B) Lakki

37. Deebiin keessan lakk. 36<sup>ffaa</sup> 'lakki', kan jedhu yoo ta'e adeemsa keenninsa tajaajila liqii WLQO haala kamiin madaaltuu?

- A) Yeroo bayee dheeraa ni fuudhata B) Yeroo dheeraa ni fudhata C) Gidduu galeessa  
D) Yeroo gabaaba E) yeroo bayee xiqoo keesatti ni xumurama/kennama

38. WLQO irraa qarshii meeqa liqeffattanii/tee?

	Marsaa 1 <sup>ffaa</sup>		Marsaa 2 <sup>ffaa</sup>		Marsaa 3 <sup>ffaa</sup>		Marsaa afur(4) ol 4	
Bara								
Hnaga Mallaqaa	birr	Cen.	Birr	Cen.	birr	Cen.	Birr	Cen.

39. Mallaqinni WLQO irraa liqeffattan hojii hojettaniif gahaadhaa? A) Eeyyee B) Likkii

40. Yoo deebiin keessan lakk. 39<sup>ffaa</sup> 'lakki', ta'e qarshii meeqa akka isiniif kennamu barbaaddanii? Qr. \_\_\_\_\_

41. Maallaqni WLQO irraa argattan

- A) Bayee xiqaa B) xiqaa C) Gahaadha D) Baayee guddaa dha.

42. Deebiin keessan lakk. 41<sup>ffaa</sup> "A" ykn "B" yoo ta'ee maaltu fala ta'a jettanii yaaduu?

- A) Namoota ykn garee maallaqa liqeessan irraa liqeffachuu (Iddirii, Uqubii)  
B) Dhala bayee waliin Baankii irraa liqeffachuu C) Matii ykn hiriyaa irraa liqeffachuu  
Kan biroo \_\_\_\_\_

43. Kanneen gaaffii 42<sup>ffaa</sup> irratti tuqaman keessaa kamiin drsa kanfaaluu/taa?

- A) Tuuta ykn garee maallaqa liqeessan irraa liqeffachuu (Iddirii, Uqubii)  
B) Baankii irraa liqeffachuu C) Matii ykn hiriyaa irraa liqeffachuu

Kan biroo \_\_\_\_\_

44. Haalli baasii keessanii akkaataa karoo hojii (Business plan) qophaa'ee tiinii?

- A) Eeyyee B) Lakkii

45. Deebiin keessan gaffii lakk. 44<sup>ffaa</sup> 'lakki', kan jedhu yoo ta'e maaliif?

- A) Tajaajila dhunfaa B) Tajaajila fayyaaf C) Cidhaaf

Kan biroo \_\_\_\_\_

46. Liqii WLQO irraa fudhutta yeroo isaa eegdanii ni deebistuu? A) Eeyyee B) Lakkiii

47. Yoo deebiin keessan lakk. 46<sup>ffaa</sup> 'eeyyee', ta'e haala kamiin deebistuu?

A) Guutummaan kanfaluu: A) yeroo isaa eeguun kanfaluu

B) Yeroo isaa dabarsuun kanfaluu

C) Gartokkee isaa kanfaluu: A) yeroo isaa eeguun kanfaluu

B) yeroo isaa dabarsuun kanfaluu

48. Yoo deebiin keessan lakkoofsa 46<sup>ffaa</sup> 'Eeyyee', ta'e maaltu akka yeroon kanfalta singodhee?

A) Jireenya hawaasummaa kabajuuf B) Gara fuula duraatti liqeeffachuuf

C) Walitti dhufeenya qaama liqii liqeessu waliin jiru cimsuuf

Kan biro \_\_\_\_\_

49. yoo deebiin keessa 46<sup>ffaa</sup> 'lakkii', kan jedhu yoo ta'e maaltu akka hin kanfale sitaasisee?

A) seerri akkan kanfal nataasisu laafaa ta'uu B) maalaqinni ani liqeeffadhe bu'aa waan dhabeef

C) Sababa rakkoo dhunfaa tiif(dhukkuba, jijjirraa bakkaa)

D) Hordofiin gama qondaala liqaatiin jiru waan laafaa ta'eef

E) Bala dingataa(balaa ibdaa, balaa bishaanii, hanna)

F) Fayidaa adda addaa irra olchuu(ufata, nyaata, itti fayidama mana keessaa)

G) Hanqina gurgurtaa/fedhii fayadamtootaa H) Cidhaa fi qophii adda addaaf

Kan biro \_\_\_\_\_

50. Haali yeroo kanfaltii WLQO mijataadha jettee yaaddaa? A) Eyyee B) Lakki C) Hin beeku

51. Yoo deebiin keessan lakk. 51<sup>ffaa</sup> 'lakk', ta'e yeroo attam osoo ta'ee mijataa?

A) kanfaltiin yeroo eegannoo ni gabaabate B) Yeroon liqiin itti deebi'uu ni gabaabate

Kan biro \_\_\_\_\_

52. Marsaan liqii WLQOn itti kennu mijataadha jettee yaaddaa? A) Eeyyee B) Lakkii

C) Hin beeku

53. yoo deebiin keessan lakk. 53<sup>ffaa</sup> lakki kan jedhu ta'e haal kamiin osoo ta'ee gaarii dhaa?

A) Torba torbaniin B) Ji'a ji'aan C) walakeessa waggaa E) waagga waggaa

Kan biro \_\_\_\_\_

54. Kanfaltii dhumaa kanfaluuf baatii meeqa fudhataa? \_\_\_\_\_

## VI. Gaafii waligalaa

55. Yeroo liqii deebistaniifi fudhattan rakkooleen sinqunnaman yoo jirate maaloo sirritti ibsaa?

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56. Mee yaada waliigalaa dhimma liqii fi qusannaa WLQO irratti qabdan ibsaa?

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Appendix III

Interview for OCSSCO Woreda branch Managers

Jimma University

College Of Graduate Studies

School of Business and Economics

MSc Program in Accounting and Finance

Introduction: Good morning/ afternoon. My name is Belete Demuma: I am MSc Degree student in Accounting and finance at Jimma University. I am working this Thesis for the partial fulfillment of the requirements for the degree of masters in Accounting and finance. I am currently conducting studies on determinants of loan repayment performance: a baseline study to assess the determinants of loan repayment in west shoa zone. You have elected to participate in this study because of your position in woreda OCSSCO Branch. The findings of this study will be for further research on this area in Oromia. All the information you give will kept confidentially. First, I want to thank you for your voluntary to make this interview.

Name of interviewee: \_\_\_\_\_ Date \_\_\_\_\_

Position and name of the office: \_\_\_\_\_

Interview which related to the assess of the loan repayment performance in OSSCO microfinance institution in west shoa Zona.

Key guidance Questions

1. What are the main factors that affect (both external and internal) loan repayment performance of borrowers in OSSCO microfinance institutions?
2. Do you think which loan distribution area (from rural and urban) effectively paid loan repayment?
3. What kind of lending methodology utilized by OSSCO and which method is effective related with loan repayment?
4. What measures taken to improve the repayment situation of borrowers?
5. What challenges are faced by borrowers towards loan service utilization? Related to both rural and urban business sectors?
6. Does the OSSCO branch give training, for borrowers before releasing funds? For how many times?
7. Do you think the loan size affect the repayment performance of the borrowers?