

***Loan Repayment Performance in Omo Bank in Dawuro Zone of
South West Ethiopia: Case of Kechi and Tocha Branches,***

***A Thesis Submitted to the school of Graduate Studies Jimma University in
Partial Fulfilments for the Requirements for the Degree of Master of Science
in Accounting and Finance***

BY

ASRES ASHIRO



JIMMA UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

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JIMMA, ETHIOPIA

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ASRES ASHIRO

Under the Supervision of

Mainadvisor: Dr.Matewos Kebede (Assistant, Professor)

Co-Advisor:Mr.Erko Teferi (Lecturer)



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MSC PROGRAM

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CERTIFICATE

This is to certify that the thesis entitles “Loan Repayment Performance: A Study on Selected Omo Bank (OB) in Dawuro Zone of South West Ethiopia Case Of Kechi And Tocha Branches,”, submitted to Jimma University for the award of the Degree of Master of Accounting and Financing (Msc) and is a record of bona-fide research work carried out by Dr.Matewos Kebede, 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.

Main Adviser’s Name	Date	Signature
Dr. Matewos Kebede	_____	_____
Co-Advisor’s Name	Date	Signature
Mr.ErkoTeferi	_____	_____

DECLARATION

I hereby declare that this thesis entitled “Loan Repayment Performance: A Study on Selected in Omo Bank in Dawuro Zone Of South West Ethiopia: case of Kechi and Tocha Branch’s, (OB)”, has been carried out by me under the guidance and supervision of Dr.Matewos Kebede and Mr.ErkoTeferi. The thesis is original and has not been submitted for the award of any degree or diploma to any university or institutions.

Researcher’s Name

Date

Signature

Asres Ashiro

BOARD OF EXAMINERS

As members of the Examining Board of the Final Thesis On line Defence, we certify that we have read and evaluated the dissertation thesis prepared by **Asres Ashiro** and examined the candidate. We recommended that it is accepted as fulfilling the thesis requirement for the degree of master of accounting and finance.

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_____	_____	_____
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ABSTRACT

Omo Bank is one of the upcoming new private Bank in Ethiopia, Omo Bank is one of Ethiopia Banks which has made its institutional transformation from microfinance institution to fully commercial Bank. The objective of this study is to analyze and identify the determinants of loan repayment performance of borrowers in the case Omo Bank. Primary data was collected from a sample of 256 borrowers selected from Tocha and Kechi branches of OB. A probability sampling technique was employed to selected participants of the questionnaire survey. The survey questionnaires collected the relevant data of borrower's socio-economic factors and the lender institution related factors. In addition, interview was conducted with the branch manager and two customers' service employees concerning the institution trend of the nonperforming loan and legal issues concerning repayment. Further the study analyzed secondary data related with the trends of loan repayments. Quantitative data was edited, coded and entered into a computer and processed using SPSS Version 26.0 statistical software. The empirical analysis was conducted using both descriptive statistics and econometric regression analysis model. The results of secondary data analysis indicated that the trend of the nonperforming loan in Omo Bank of Tocha and Kechi branches has been highly risky during the five years (2019-2023). This study indicates that the rate of respondents who responded to the survey was 91.1%, which indicates that a large number of respondents participated in the data collection process. The study employed binary logistic regression for data analysis. The binary logistic econometric regression model was applied for analyzing the loan repayment performance in 11 explanatory variables included in this study. The results of the binary logistic model show that age, family size, loan size, a distance of borrowers from the institution, suitability of repayment period, loan diversion, the market value of the project, and loan training were important in influencing loan repayment performance of the borrower. The bank should adjust the important and significant factors affecting the probability of return so that it does not affect future operations. The same of the reverse was enhancing loan repayment performance.

Key Words: *Omo Bank, loan repayment performance, loan trend, socioeconomic factors, Institutional factors, Demographic factors.*

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ABBREVIATIONS AND ACRONYMS

FDRE	Federal Democracy Republic of Ethiopia
LR	Loan Ratio
LR	Loan Repayment
NPL	Non- Performing Loans
OB	Omo Bank
OMIs	Omo Micro Finance Institutions
SPSS	Statistical package software for social Science
SWERS	South West Ethiopia Region State
WB	World Bank

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Omo Bank is one of the strongest and most competent institutions in Ethiopia. It was established on June 2022, by Share Company with an initial capital of Birr 712,020,000. It began its operation in four pilot areas of the South, Nation Nationality, and People Regional States with the objective of providing efficient, effective, and sustainable financial services to low-income societies in the region. Currently, the bank's branches have reached 232. Omo Bank derived its name from the Omo River. Which is found in south-west Ethiopia; it is home to thousands of fishermen and others who use the lake water for their agriculture and livestock. It is also a guarantee for food security for the society. Similarly, Omo Bank has the indispensable role of serving and encouraging saving for low-income society by providing savings and loan services. A lot lots are changing their lives working with the institution.

The majority of developing countries continue to prioritize eradicating poverty at the top of their political agenda. The 1970s saw the biggest developments in microfinance for the underprivileged. Since Muhammad Yunus first donated money to Bangladesh's impoverished, the microfinance movement has made great strides. The World Bank (WB) estimates that over 9500 million people have seen improvements in their financial circumstances as a result of microfinance-related enterprises. But of the three billion individuals living in poverty worldwide, only around 20% are able to benefit from these microfinance initiatives,(Alemu,2021).

Omo Bank's loan repayment performance has become a major problem in agricultural credit management in developing countries, especially for smallholders with limited collateral resources. Due to high default rate of borrowers, lending institutions are not sure about lending to borrowers. For start-ups or for purposes related to working capital, for example, it suggests the purchase of furniture, materials and other materials,(EwunetuTekola, 2022).

Because they commonly lack collateral, a steady job, and a verifiable credit history, which makes it difficult for them to even meet the most basic standards to be approved for traditional banking, microfinance primarily targets the underprivileged. Additionally, it be able to stop those in poverty from lending money through in the shade financial businesses like loan sharks or moneylenders that charge exorbitant interest rates,(Binti e t al.2013).

The problem of loan defaulters lowers a financial institution's ability to lend money and prevents new applicants from being approved for credit since cases of cash flow issues rise in direct proportion to the problem of default. Stated differently, it tampers with the regular flow of cash that lenders need to maintain their position in the sustainable lending market. Examining client loan repayment factors is critical to the sustainability and goals of microfinance institutions because, should borrowers default on their loans, there may not be enough money to maintain the institutions' liquidity position, (, (Kebede, 2016).

Repayment performance acts as a signal that encourages lending to more sectors of the economy, (Acquah&Addo, 2011). Prior to the beneficiary receiving the loan, a number of criteria are taken into account, one of which is the recipient's capacity to repay the loan, which is also influenced by a number of other considerations. According to Ugbomeh, Achoja, Ideh, and Ofuoku (2008), (EwnetuTekola, 2022).

A number of variables, such as interest rates and the borrower's relationships and social responsibilities, may affect how well they repay their loans. The liability of Omo banks depends critically on their capacity to collect loans in an efficient and timely manner. In other words, Omo Bank need to thigh collection rates of loan through effective credit risk management methods in order to be financially practical or sustainable, (EwnetuTekola 2022).

The issue of loan defaulters lowers a financial institution's ability to lend money and prevents new applicants from being approved for credit. In addition, situations where cash flow is an issue increase in direct proportion to the problem of defaulting loans. Stated differently, it tampers with the regular flow of funds that a lending institution has to maintain in order to remain in a sustainable credit market. Examining client loan repayment factors is critical to the sustainability and goals of Omo Bank because, in the event that borrowers default on their loans, there may not be enough money to maintain the institutions' liquidity position, (Kebede.et.al, 2016).

Credit risk exists in most Omo Bank now days, increasing the likelihood of default. Therefore, this study aims to uncover the factors that influence loan repayment performance in Omo Bank's Tocha and Kechi branches in an effort to improve borrowers' payback performance. Research on debt repayment is not a recent field of study. In actuality, there have been several studies on loan repayment performance undertaken at various points in time, but the conclusions drawn by different experts remain doubtful. The results indicate a discrepancy in the outcomes with respect to the determinant factor variables, such as the borrower's gender, the borrower's distance from the

institution, and other borrower characteristics. The purpose of the current study is to investigate and examine loan repayment performance in order to close the above mentioned empirical literature gap.

1.2 Statement of Problem

Reducing poverty is one of developing countries' primary goals, although it has been difficult due to limited credit availability. Lenders actually set conditions before extending credit since it's more difficult to collect on a loan than it is to extend one. Even though it's not available to the poor, collateral is a costly method for guaranteeing loan repayment. As things stand, credit banks do not lend money to the underprivileged. Omo Bank is necessary in order to close this gap. Thus, there's a strong feeling that having financing available will make a big difference in reducing the challenges that farmers face. Furthermore, lending helps poor rural households maintain their productive capacity by helping individuals level down their expenditure patterns during the year's lean times,(Ovigwe et al.,2016).

One of the main issues facing formal banking organizations has been loan repayment. A rising default rate deters lenders from refinancing defaulting customers, which traps defaulters in a never-ending cycle of low productivity (Fitsum, 2014). Even though collateral-backed credit was alienating the poor, group-based microfinance systems with peer pressure and joint liability were developed to address these issues. However, many remain plagued by high default rates, an inability to reach a sufficient number of borrowers, and an apparently endless reliance on subsidies;(Fitsu, 2014).

Even though the main goal of Omo Bank is to provide financial services to underserved or unsaved poor people, the majority of Omo Bank in Ethiopia continue to face difficulties due to a growing percentage of defaulters Furthermore, the data overview from Omo Bank Dawuro Zone, Kechi and Tocha branches (2019-2023) shows the following rate by focusing on the defaulted amounts of last five years summarized as follows: respectively 4.40%,3.95%,1.01%,1.38% and 5.38% or by amount7,607,438.32, 7,607,438.32, 8,682,300.06, 10,515,407.61, and 11,250,820.48. From the five years of operations, that the default rate borrower of Omo Bank has been facing a harsh decline in repayment recovery rates, and it has been increasing for the last two years. According to this the current year report (2023) shows 5.38% loan default rate that is greater than 5%, which is the national bank of Ethiopia's minimum requirement for all financial institutions. These results indicated more than the required percentage. However, failure of customers to repay their loans on

time consists of the withdrawal number of active clients and affects the sustainability of the Omo Banks who has significant amounts of outstanding loans. The operational reports of certain lending Omo Bank indicate that while there have been some year-over-year improvements in payback performance; there remains a gap that has necessitated research into the main reasons that negatively impact repayment performance. Even though a number of studies have shown that socioeconomic characteristics (age, sex, family size, and education level) can have an impact on loan repayment performance, lending institutions must still identify the socioeconomic characteristics of each individual borrower and implement efficient lending procedures.

Omo Bank (henceforth, OBs) benefit greatly from having a solid understanding of the factors influencing loan repayment success. By identifying borrowers that pose a greater default risk, OBs can allocate loans more effectively and ultimately increase payback rates by understanding the primary factors that determine repayment. Since Omo Bank with greater payback rates can lower the interest rate charged, a higher repayment rate benefits both Omo Bank and borrowers. Reducing the loan's financial cost and giving borrowers the chance to obtain credit (Godquin, 2004). A deeper comprehension of these problems, as well as the other elements affecting the borrowers' behaviour, can help microfinance advance, (EwnetuTekola, 2022).

An empirical research study carried out in Pakistan found that debtors with a primary education do better on repayment than those without a formal education. According to Chaudhary (2003), education increases borrowers' output and makes it easier for them to understand microloan programs. Education is especially important for Omo Bank borrowers who reside in developed nations because of the more complicated goods and services found there (Bhatt et al., 1999). Furthermore, loan repayment performance differs throughout various industries. Chaudhary (2003) demonstrates that, in contrast to non-farmers, farmers' companies are more at risk to weather-related disruptions,(EwnetuTekola 2022).

There has been a lot of empirical research recently, both domestically and internationally, on the variables influencing Omo Bank loan payback performance; however, the field of study has seen relatively few studies. Even so, the results were analyzed using descriptive statistical analysis in Shashemene Town and at Addis Credit and Saving Institution of Ethiopia, respectively, using the studies of Bogale, (2019) and Aida et al., (2014). Furthermore, Udaykumar et al. (2018) employed the Chi square statistic to analyze the data and determine the difference between the actual and

anticipated numbers of cases in each category in Bengaluru, India. On these kinds of models, however, the relationships between the variables and the outcome are not used thus utilizing.

In order to close this methodological gap, this study attempt to identify of the variables that influence the loan repayment performance of Omo Bank in Tocha and Kechi Branch's. The aim of this study is to evaluate trends, identify the variables influencing loan repayment performance in Omo Bank, and evaluate loan repayment performance related obstacles in the research region. This gave the researcher the idea to start looking into what influences how well borrowers repay their loans from Omo Bank.

1.3. Research Questions

The study was aim to answer the following basic questions;

- ❖ How does the trend of nonperforming loans in the Omo Bank at Tocha and Kechi branches showed?
- ❖ What are the main socioeconomic factors that affect loan repayment performance of Borrowers in Omo Bank at Tocha and Kechi branches?
- ❖ What are the loans and lender related factors that affect loan repayment performance in the Omo Bank of Tocha and Kechi branches?

1.4. Objective of the Study

1.4.1. General Objective

The main objective of the study is to investigate of the factors affecting the loan repayment Performance Tocha and Kechi branches of the Omo Bank.

1.4.2. Specific Objectives

- ❖ To examine the trend of nonperforming loans in the Omo Bank at Tocha and Kechi branches showed
- ❖ To identify the main socioeconomic factors that affect loan repayment performance of Borrowers in Omo Bank at Tocha and Kechi branches
- ❖ To assess the loans and lender related factors that affect loan repayment performance in the Omo Bank of Tocha and Kechi branches

1.5. Hypothesis Test

- H1:** Age of the borrower significantly affecting loan repayment performance
- H2:** Sex of borrower significantly affects loan repayment performance
- H3:** Educational level significantly affecting loan repayment performance
- H4:** Family size significantly affects loan repayment performance
- H5:** Distance b/n institution and borrowers significantly affect loan repayment performance
- H6:** Loan size significantly affects loan repayment performance
- H7:** Timeless of loan significantly affect loan repayment performance
- H8:** Loan Training significantly affects loan repayment Performance
- H9:** Loan diversion significantly affects loan repayment performance
- H10:** Market value of projects significantly affects loan repayment performance
- H11:** Suitability of repayment period significantly affects loan repayment performance

1.6. Significance of the study

This study aids management in making unbiased, instantaneous credit choices. It imparts knowledge to industry branches and other related branches to control and manage default risk for sustainable development. It offers potential recommendations for issue areas and suggested fixes for relevant parties (lenders, creditors, borrowers, policymakers, and practitioners). The ultimate goal is to become impoverished, which can only be attained by properly repaying loans.

1.7. Scope and limitation of the Study

1.7. 1 Scope of the study

This study is conducted in south-west Ethiopia in the Dawuro Zone Districts of Tocha and Kechi branches. The major aim of this study is to examine socioeconomic factors, borrower factors, and institutional factors that affect loan repayment beneficiaries who served from formal credit sources. The target population samples of this study are customers of Omo Bank institutions selected branches of only five rounds of loan data were incorporated into the study starting in 2019–2023. Used descriptive statistics techniques and an economic model to analyze the primary data collected and give the appropriate results.

1.7.2 Limitation of the study

Time is the first limit after the research, which is academic research that meets the time limit set by the university. Secondly, the study has limited coverage, i.e., it covered only two districts. Finally, the problem of transportation access from the district branch to the service areas, that is, Keble, is highlighted.

1.8. Organization of the paper

This paper structured in five main chapters. The 1st chapter presents the introduction part; the second chapter presented the related literatures review. The third chapter deals with research method, population of the study, instrument of data collection and analysis. The fourth chapter deals with the result and discussion the paper. The fifth chapter forwarded conclusion and recommendation of the research.

CHAPTER TWO

2. REVIEW OF RELATED LITERATURE

The objective of this critical literature review is to examine the various works and writings of various authors and writers on the loan repayment performance of financial institutions, with particular emphasis on Omo Bank. It is in line with this that we look at the specific context of themes and sub-themes. For this study, the theoretical literature and the empirical studies in other countries are the developing world and Ethiopia within the loan repayment of Omo Banks. The goal of this chapter is to link the research questions and literature together.

2.1 Theoretical Literature review

With a focus on Omo Bank specifically, the goal of this critical literature study is to examine the numerous works and writings by different authors and writers regarding the loan repayment performance of financial institutions. This is why we examine the particular context of the themes and sub-themes. Theoretical literature and empirical research on OBI loan repayment conducted in Ethiopia and other developing nations were used for this investigation. This chapter aims to establish a connection between the research topics and the literature.

2.1.2 Theoretical Concept of Micro Finance and its importance

Theoretical and empirical evidence pertaining to the financial performance of microfinance institutions is covered in this particular chapter. As a result, the first section provides a general theoretical overview of ideas in microfinance, while the second segment reviews empirical research on the internal and external factors influencing MFIs' financial performance,(Abuye Ertiro & Jemal Mohammed, 2022).

Microfinance makes a significant contribution to the promotion of borrowers' income-generating activities. In addition to facilitating a wide range of financial services, it also provides appropriate training and capacity-building for the growth of borrowers' enterprises across all industries. These resources have a significant positive impact on entrepreneurship (Sussan and Obamuyi, 2018),(Kiros, 2021).

According to Lysander Spooner, a thinker, the origins of microfinance may be traced back to the mid-19th century. As a result, he wrote about how loan schemes affected the intended farmers and businesses while assisting the impoverished in escaping poverty. Mohammed Yunus, the pioneer of the current microfinance business, and Bangladesh's Grameen Bank launched it in 1970.

Established in Chicago in 1974, Shore Bank was the pioneer bank focused on microfinance and community development. According to Professor Mohammed Yunus and Grameen Banks, providing microcredit to the underprivileged could contribute to improvements in the economy and social welfare (Microfinance and Microcredit, 2016),(Abuye Ertiro & Jemal Mohammed, 2022).

Poor credit administration, which prioritized money disbursement over efficient loan utilization, and issues related to loan recovery were named as main causes by the World Bank (2002). On the other hand, single-market cash crops and financing programs based on community approval are typically linked to high repayment rates. Low repayment rates are typically associated with lending programs that lack specialist technical skills and depend on outside companies for loan recovery (Abuye Ertiro & Jemal Mohammed, 2022).

According to HorKimsay (2011), microfinance institutions were first founded as non-profit financial schemes that catered mostly to the underprivileged (low-income segments of society) in rural areas. As this module reported, over time, some Cambodians came to believe that helping the impoverished as a non-profit organization had an effect on the MFIs' ability to remain financially sustainable even though the services they provided would benefit a variety of the nation's impoverished people. Because of this, MFIs in Cambodia have reevaluated their lending programs and made an effort to make their services less accessible by offering lower interest rates on loans than those offered by commercial banks. The MFIs service is being made commercial in order to bring,(Abuye Ertiro & Jemal Mohammed, 2022).

Furthermore, according to the author, MFIs' typical loan sizes have occasionally increased gradually in response to borrower repayment histories. But over a few years, as the average loan size and the number of clients served increase, there are a few loans that default, which forces microfinance practitioners to re-evaluate their implementation strategies and consider the need for new credit assessment methodologies that prioritize micro and small businesses (MSE). The evaluation prioritized the borrowers' cash flow estimate over the collateral requirements, potentially meeting MSE needs. The enhanced ability to lend higher loan sizes resulted in an increase in the average loan size and a change in the loan approach to MSEs,(Abuye Ertiro & Jemal Mohammed, 2022).

In developing nations, microfinance organizations play a significant role in lowering poverty. It has been shown that microfinance services can be seen as an implementer of a developmental approach designed to empower low-income women entrepreneurs by enabling them to launch their

firms and educating them on risk management for their assets (Abdulfettah, 2013). Furthermore, the number of young, impoverished groups that are able to organize into micro- and small-scale firms has increased due to the availability of these microcredit programs and other financial schemes. As a result, the impoverished youth societies that have been devoid of national financial resources will have excellent employment chances (Abdulfettah, 2013),(Abuye Ertiro & Jemal Mohammed, 2022).

In contrast to traditional commercial banks, all microfinance institutions aim to offer financial services without any collateral values by offering a range of microfinance schemes, including microcredit, saving mobilization, and insurance programs for the underprivileged. Strengthening the economic foundation of the low-income-generating activities of the impoverished people residing in the nation's rural and urban areas is one of the main goals of these microfinance services (Fikirte, 2011),(Abuye Ertiro & Jemal Mohammed, 2022).

By producing money, providing jobs, enabling families to access health care, enabling children to attend school, and enabling people to make decisions that best suit their needs, sustained access to microfinance helps reduce poverty, (December 2003, Kofi Annan). As of right now, the idea of providing microloans to the underprivileged for self-employment has expanded throughout the globe (Kothari and Gupta, 2006)(Abuye Ertiro & Jemal Mohammed, 2022).

2.2 Empirical Study on Loan Repayment Performance Studies in Ethiopia

In North Gondar, Ethiopia, Berhanu (2005) conducted research on the factors influencing smallholder farmers' loan payback performance. He used the Tobit model to investigate the variables that impact loan repayment. 17 explanatory variables in all were taken into account in the econometric model. It was discovered that six of these seven factors had a substantial impact on the repayment performance. These included the family's land holding size, the agro-ecology of the region, the total amount of livestock owned, the years of experience, the number of contacts, the sources of financing, and the income from non-farm pursuits. It was discovered that the other factors—family size, distance from the main road to the home residence, reason for borrowing, loan amount, and expenditure on social festivals—had no bearing on how well smallholder farmers repaid their loans, (*EWUNETU TOLA*2022).

In addition to allowing them to lawfully accept deposits from the general public (thereby diversifying sources of funds), draw and accept drafts, and manage funds for the microfinance business, the government's Licensing and Supervision of Microfinance Institution Proclamation

encouraged the growth of MFIs in both rural and urban areas. (, Amina, Arega, Hamdu, and Saniya 2015).

The Federal Democratic Republic of Ethiopia's Proclamation No. 626/2009 Federal NegaritGazeta specifically addressed the following goals and activities that MFIs were permitted to undertake: Micro- and small-scale rural and urban entrepreneurs, as well as those involved in other related businesses, are the primary targets of MFIs, which also gather deposits and provide credit to them, (EWUNETU TOLA, 2022).

Background materials state that the country's 2003–2007 strategy An overview of Ethiopian microfinance in brief Like many MFIs globally, Ethiopian MFIs have not yet attained financial sustainability, but a number have accomplished operational sustainability, which allows them to pay for their running expenses. Scale, portfolio expansion, operating efficiency, and enough revenue from interest, fees, and other sources to pay expenses are all necessary to achieve sustainability. Access to capital funding, sound regulations, robust organizational and management capabilities, incentives, and goods and services that satisfy customer demands, preferences, and opportunities are all necessary for sustainability. Ethiopian MFIs are now striving to improve performance in each of these areas and are acutely aware of these problems. AEMFI1 has started a program to collect performance data on a regular basis in order to monitor MFIs' performance, (EWUNETU TOLA, 2022).

In 2011, Fikirte conducted research on the factors influencing loan repayment performance, specifically focusing on the Addis Credit and Savings Institution in Addis Ababa, Ethiopia. A study on the factors influencing loan repayment performance: the instance of Sidama Micro Financing Institution, Sidama Zone, SNNPR, Ethiopia, by GudataAbaraChali, ZerhunAsefa Ashe, and P.A.K. Reddy, (Chali & Ashe, 2016).

2.2.1 Overview of Omo Bank/OB

Omo Bank is one of the strongest and most competent institutions in Ethiopia. It was established on June 21, 2022, Omo Bank obtained license to operate nationwide after meeting the minimum requirements set by the National Bank of Ethiopia for upgrading micro financial institution to a Bank, by the registration number LLB/TM/030/2022. Currently, and bank is prepared to extend its services national wide, expanding from its previous operations in the SNNPR, Southwest Ethiopia and Sidama regions. The bank has already initiated this expansion by operating branches in Addis Ababa, with plans to continue operating branches throughout the entire country.

2.2.2 Definition of Omo Bank

. Omo Bank is one of the strongest and most competent institutions in Ethiopia. It was established on June 2022, by Share Company with an initial capital of Birr 712,020,000. It began its operation in four pilot areas of the South, Nation Nationality, and People Regional States with the objective of providing efficient, effective, and sustainable financial services to low-income societies in the region. Currently, the bank's branches have reached 232. Omo Bank derived its name from the Omo River. Which is found in south-west Ethiopia; it is home to thousands of fishermen and others who use the lake water for their agriculture and livestock. It is also a guarantee for food security for the society.

While social intermediation entails forming citizen groups to express goals, bring up issues for policymakers to address, and boost self-confidence, financial intermediation involves offering savings, credit, and insurance services, (, Amina, Arega, Hamdu, and Saniya 2015).

According to Robinson (2001), microfinance is a type of financial development that has mostly concentrated on reducing poverty by offering financial services to the underprivileged or members of lower-income societies. If microfinance is understood at all, people typically associate it with microcredit—small loans of money to the underprivileged. According to Schreiner and Colombet (2001), it is described as the provision of financial services to the poor that involve small deposits and loans. It gets over the screening, monitoring, and enforcement issues that traditional lending institutions frequently face by using peer monitoring and shared liability structures. Small-scale lending, (, Amina, Arega, Hamdu, and Saniya 2015).

Financial tools that are specifically designed for the poor, such as savings accounts, insurance, and loans, are also referred to as microfinance. Microfinance was introduced into the economy with the goal of reducing poverty and helping the impoverished. The lending portion of microfinance is called microcredit. Microcredit loans enable the underprivileged to engage in revenue-generating ventures, enabling them to amass savings and enhance their quality of life (Hanim, Gilbert, & Gan, 2007), (, Amina, Arega, Hamdu, and Saniya 2015).

2.2.3 The Objectives of Microfinance

Outreach to the Poor: In order to meet the needs of the impoverished, particularly the poorest of the poor, microfinance institutions should broaden their financial offerings. Having a beneficial effect, clients' social and financial circumstances ought to improve after receiving financial

services. Cost-effective operations and the capital source utilized by microfinance institutions are two key components that contribute to the financial viability of these organizations (, Amina, Arega, Hamdu, and Saniya 2015).

2.2.4 Characteristics of Microfinance

MFIs are first familiar with their market. The impoverished are prepared to pay for convenience and access. Although lending locations are close to the client, application processes are straightforward, and funds are disbursed promptly, interest rates are market-driven. Secondly, they employ unique methods to reduce administrative expenses. Approvals are disbursed, and simple procedures are followed. Often, borrower groups bear the majority of the processing costs for loans. Third, they employ unique strategies to encourage repayments. In order to guarantee high payback rates, MFIs have devised a variety of strategies. These strategies include the use of self-selected groups whose members guarantee each other's loans, close monitoring and motivating of borrowers, incentives for borrowers, progressive lending, and mandatory savings requirements, (M, Mengesha, 2017, Ahmed, A., & Batra, G. S. (2018)).

The understanding that micro-entrepreneurs and certain less fortunate consumers may be "bankable," meaning they could accumulate savings in addition to repaying principal and interest on time, gave rise to microfinance. This was possible as long as financial services were customized to meet their needs. The field of microfinance has produced financial services and products that have made it possible for those with low incomes to use banking intermediaries as clients. Microfinance products have the following features (Murray, U., & Boros, R., pp. 10–11, 2002), (ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022)).

2.2.5 The Need of Microfinance

The underprivileged groups in society, who are often shut out of the conventional banking system due to their inability to survive, are the ones who most urgently require microfinance. They lack access to the services of formal-sector financial intermediaries. Microfinance is necessary for them to engage in economic activity, manage consumption, reduce their susceptibility to income shocks during illness and natural catastrophes, boost their savings, and encourage self-empowerment. Under these circumstances, microfinance serves as the nation's glimmer of hope for the impoverished and extremely destitute. Microfinance institutions contribute to development in a variety of ways. In many nations, the demand for microfinance is also rising, Parker, Singh, and Hattel (2000) state that in the correct circumstances, microfinance can fulfil a variety of functions,

including financing people's financial decisions and diversifying. Enhance women's economic status and year-round quality of life to enable them to have more influence over life decisions and circumstances,(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022).

Furthermore, microfinance plays a role in the process of enhancing household assets. Additionally, it offers savings services that enable low-income households to build up flexible, safe cash accounts that they can access as needed. Microfinance services improve women's socioeconomic standing generally and their ability to make decisions for their households, which empowers women. The world's poorest 79 million people had access to microfinance services by the end of 2000. Therefore, microfinance has the potential to significantly advance sustainable livelihoods, improved working conditions for women, and gender equality (Noreen, 2011),(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022).

The Millennium Development Goals (MDGs) of the United Nations state that microfinance is a means of improving the lives of the impoverished by producing income to pay for essential expenses and enable institutions to satisfy demand (United Nations, 2011). Microfinances help the development process by improving the lives of the impoverished by enabling the various services that they require. Ahamad and Bano (2014) state that microfinance typically meets the requirements of the rural poor in the following ways:

Credit facilities to Rural Poor

The rural sector typically relies on non-institutional organizations to meet its financial needs. Microfinance has been effective in bringing organized credit to the impoverished and transforming them into socially and economically sound individuals. Furthermore, it strives to create a society where a large number of households, both rich and poor, have ongoing access to a suitable variety of high-quality financial services, such as fund transfers, savings accounts, insurance, and credit.

II. Poverty Alleviation

The ability to obtain small sums of finance at affordable interest rates allows those in poverty to launch their own small businesses. They are able to increase their income, accumulate possessions, and protect themselves from outside shocks. By investing in improved nutrition, housing, health care, and education, low-income households utilize microfinance to transition from daily survival to planning. This will be sufficient to lift individuals who use the microfinance facility out of poverty.

III. Women Empowerment

A significant fraction of microfinance recipients are women. Women have always been excluded from economic activities. Microfinance gives women the capital they need to launch their businesses and take an active role in the economy. They gain self-assurance, elevate their standing, and participate more actively in decision-making as a result. Typically, over 50% of self-help groups are made up of women. They now have easier access to economic and financial resources. It's a step in the direction of more security for women.

IV. Economic Development

Microfinance is a means of supporting small enterprises and micro-entrepreneurs in order to foster economic development, employment, and growth. An important factor in promoting long-term economic growth is finance. Microfinance helps the country's economy thrive by boosting the production of products and services, which raises GDP.

V. Skills Development

Teaching its recipients how to support their families and become self-sufficient is another goal of microfinance. The Microfinance Scheme's training providers help rural entrepreneurs hone their skills and abilities in starting or growing their businesses, whether they do so together or alone. In order to further their general development throughout society, the training providers also help individuals cultivate leadership qualities. Social Welfare: The goal of microfinance was to promote the welfare of society at large. An increase in employment raises people's income levels. Better health, education, family welfare, etc. may be their goals. Therefore, social welfare or societal improvement is a result of microfinance.

2.2.6 Lending Methodology

2.2.7 Individual Lending

Assessing each client's financial status, personality, ability to repay debt, and company and personal risks is necessary when providing individual loans. High transaction costs are implied by this method when granting the first loan, but loan officers may expect a decrease in MFI costs as they gather data for later loans. The size, duration, distribution, and repayment schedule of a loan are all determined by the client and household cash flow information. Loan officers need to be very skilled in estimating a farmer's predicted yields, production, cash flow, and managerial capacity. MFIs must consider how to attain high loan recovery rates without recurring group meetings and common liabilities while implementing individual lending. Some have eliminated

joint liability but maintained the requirement for group meetings because members of the group are under peer pressure to make payments on time when instalments are displayed publicly. MFIs frequently promote payback for individual loans by requiring collateral,(Chali& Ashe, 2016).

Decentralizing decision-making for individual lending to credit officers and managers at branches remote from headquarters is necessary to enable prompt judgments to be made on farmer loan applications before planting season, as well as in terms and quantities to accommodate a variety of needs. In group lending programs, paper-based recordkeeping systems may effectively handle thousands of standardized loans, but for individual lending, more flexible systems are needed to handle farm loans with different payback terms.

2.2.8 Village Banking Village

A financial services approach known as "village banking" helps underprivileged areas create their own village banks, or credit and savings clubs. Village Bank offers its members no-collateralized loans, an investment option for their funds, and a means of fostering community cohesion. The sponsoring organization finances the village banks, which then lend money to their respective members on an individual basis. Peer pressure and support among members are regarded as the bank guarantees of these loans, ensuring payback in cases where the borrowers repay the small amount of working capital every four to six months. Beginning with a very small loan, borrowers progressively increase the borrowing limit. Savings held by members with the intention of lending or investing them to expand the bank's resource base. Interest rates and fees are set using commercial norms (Murray &Boros 2002),(Chali& Ashe, 2016).

2.2.9 Group Lending Group-based

One of the most innovative ways to lend small sums of money to many consumers who are unable to provide collateral is through group-based lending. Although group sizes might vary, most groups consist of four to eight people. The group chooses its own members in advance of applying for a loan. Loans are given to the group's chosen member(s) first, and then to the remaining members. The majority of MFIs want a portion of the loan that is meant to be saved up front, indicating the borrower's capacity to make consistent payments and act as security. Members of the group typically get together once a week to collect loan repayments since they are all equally responsible for it. Peer pressure and mutual obligation are particularly effective ways to assure payback.

Therefore, rather than the MFI, the members evaluate the borrower's creditworthiness. Grameen Bank is among the most well-known financial institutions in Bangladesh for savings and loans. Given that women make up 98% of Grameen Bank's clientele and because they repay loans more successfully than males do due to oppression, the bank primarily targets women. It was believed that increasing loans to women would enhance food intake, health, and education for every member of the household. Typical loans have duration of three to twelve months and range from \$100 to \$200. Each country has a different loan amount. The average loan amount in nations transitioning to this tends to be higher (\$500 or more),(Chali& Ashe, 2016).

While the group formation helps MFIs reduce transaction costs, there are social costs associated with this process as well. These social costs—which include coercive peer pressure, loss of faith, and the possibility that the most vulnerable and impoverished may continue to be excluded or stigmatized—can negatively impede cooperative borrowing and joint liability approaches. Depending on underlying social interactions (which affect how easy or difficult it is for groups to form) and the distances people must travel to participate in group activities, these social costs can be greater in certain countries than in others. In rural regions, these expenses may be greater. Boros and Murray, 2002),(Chali& Ashe, 2016).

2.2.10 Credit Unions

Organizations known as credit unions were founded on the financial relationships between their members—savings and loans. They gather member money and give members who require short-term credit access to it. In general, there is a greater demand for loans than there is for savings. Aside from the unofficial financial market, credit unions continue to be the only source of deposits and credit services in the majority of rural communities. Credit unions may play a significant role in providing financial services that are beneficial to the poor since they have both social and commercial goals. It has been noted that, due to the excessive savings requirements, some women have not reaped the full benefits of credit union membership.

2.2.11Self Help Groups/Associations

There are Rotating Savings and Credit Associations (ROSCAs) around the world; however, they go by different names; in Ethiopia, they are known as ekub and eddir. Members can borrow from the common pool on a rotating basis, and they save a modest sum of money. MFI has occasionally employed these associations or self-help groups for member group lending.

2.3 Loan Collection Performance

A) Borrowers' Incentives to Repay Loan Borrowers'

If borrowers are aware that no significant attempts will be made to collect the debt and that default will not impact their ability to obtain other loans, their motivation to repay loans is reduced. Government indulgence in dealing with arrears has often led to an increase in new defaults. Low recovery rates were the result of these circumstances, as well as the insufficient incentives provided by government lenders to collect loan repayments in many developing nations.

According to Yaron (1992), collection rates have occasionally dropped below 20 percent, although they have typically been between 50 and 60 percent. For instance, in Bolivia during the 1970s, the delinquency rate was approximately 47%. In Thailand, throughout the 1980s, more than half of the loans granted via the cooperative system were delinquent. 50 percent of Indians were found to be delinquent, 40 percent in Malaysia and Nepal, and almost 80 percent in Bangladesh. For instance, after a protracted period of inflation, the government of Mexico paid more than one dollar for every \$1 lent through the official rural financial system. It is no surprise that Brazil, Mexico, and India—the three largest agricultural credit borrowers for the World Bank—have all had serious issues with their rural lending systems, which have put tremendous stress on government budgets and, to a lesser extent, the foreign debt position. The administration of One important takeaway from a credit experiment in Brazil, according to an OED assessment, is "the inappropriateness of subsidized credit as a tool for agricultural development," (Chali & Ashe, 2016).

B) Successful Credit Programs

Effective credit programs: South Korea's and Taiwan's agricultural credit systems stand out as notable exceptions, with over 90% of loans collected. Strong village cooperative systems and social cohesiveness, which have offered payback incentives and enforcement mechanisms, have typically been attributed to these systems' high recovery rates. These methods, along with a few successful programs in other regions of the world, have demonstrated that, despite agriculture being more risky than other industries, excellent payback rates are nevertheless achievable with the correct incentives and enforcement mechanisms in place,(Chali& Ashe, 2016).

C) Arrangements such as Lending Groups or Credit Cooperatives Arrangements

Lending groups and credit cooperatives are examples of arrangements that have the ability to lower the risks and transaction costs associated with lending to small farmers. The entire group

should any member default. Credit cooperatives rely on savings mobilization and equity contributions rather than outside funding, rigorous monitoring and auditing, bottom-up institutional growth, comprehensive training at all levels, and a gradual expansion of cooperative activities. Rather than being a product of their inherent design, the limited success that these arrangements have had thus far is primarily the result of general inadequacies, such as low interest rates and implementation errors,(Chali& Ashe, 2016).

D) Successful Rural Finance Institutions

Other effective models of rural financial institutions have surfaced in recent years. Their accomplishments might help us comprehend the rules, procedures, and rewards that produced substantial outreach and financial sustainability. Beginning in early 1984, Bank Rakyat Indonesia, Unit Desa (BUD), launched the Indonesian general rural lending program as a provided institution. It developed into a well-balanced financial organization in a relatively short amount of time, from 1984 to 1989, and became very effective in mobilizing and servicing deposits and savings. BUD has served a sizable clientele with deposit and savings services, and at the moment, its saving volume greatly surpasses its outstanding loan portfolio,(Chali& Ashe, 2016).

The success of BUD is a result of its efficient management techniques and strategies. The main initiatives have been:-

- applying market-rate interest rates that are high enough to pay the total cost of financing
 - High positive interest rates are being paid on savings.
 - Using mobile banking strategies that helped keep administrative expenses under control,
 - Offering large incentives, such as interest refunds, to borrowers in exchange for prompt repayment.
 - depending on the financial performance of the branch to promote employees and give bonuses,
- Utilizing straight forward, understandable and effective procedures for loan approval, disbursement, repayment, and saving mobilization, it is obvious that implementing these measures in a stable economy with inflation kept under control at less than 10% P.A. has been crucial to the program's success. BUD achieved subsidy independence over a few years while also obtaining a good return on equity in recent years, despite the outstanding loan portfolio's rapid annual growth rate. Subsidized financial resources played neither a critical nor a required role in the BUD's early operations. In research, one may contend that rather than receiving financial support, BUD really

required unsubsidized funding to address a negative cash flow issue during its initial years of operation,(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (202).

2.3.1 Loan Information Asymmetry

a. Problem Moral Hazard

When moral hazard was discussed ex post, it was associated with the "enforcement problem," or a circumstance in which the lender is unable to monitor the borrower's gains and demand repayment.

b. Adverse Selection

The issue of adverse selection emerges prior to the MFIs and the borrower finalizing the terms of the loan arrangement. Since the Omo Bank Institutions lack information about the borrowers, they are unable to distinguish between safe and dangerous borrowers.

2.3.2 Conceptual Framework for Loan Repayment Performance to OBI

2.3.3 Factors that Affect Loan Repayment

While research on the variables influencing loan repayment among microfinance institution borrowers has produced inconsistent and contradictory findings, the general consensus is that these factors include the borrowers' willingness, ability, and other characteristics; the lending institutions' business characteristics; and their product designs and suitability for the borrowers. Olotomola (2002) discovered that borrower, lender, and loan factors all had a substantial impact on repayment performance,(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022).

2.3.4 Borrower Based Factors Affecting Repayment Performance

Studies on the characteristics of borrowers have demonstrated that loan repayment is contingent upon the borrowers' willingness and capacity to repay. As a result, each borrower has the option of repaying their loan or going into default. Both planned and inadvertent defaults are possible (Bhole& Ogden, 2010). Any unanticipated event that has an impact on borrowers, their homes or businesses, and subsequently their capacity to repay Tedeschi (2006) could result in unintentional defaults. Conversely, deliberate or calculated default may occur as a result of the borrowers' moral hazard actions. This occurs when borrowers are able or have sufficient funds, but they choose not to pay back their loans,(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022).

The majority of literature also discusses the three Cs—character, capacity, and capital—that lenders should keep an eye on in order to lower default rates. Character, capability, and capital are the primary factors that determine a borrower's ability to repay a loan, according to Yunus (1999),(ALagasio, V., Pampurini, F., Pezzola, A., & Quaranta, A. G. (2022).

The majority of literature also discusses the three Cs—character, capacity, and capital—that lenders should keep in mind to lower default rates while extending microcredit. Character, capability, and capital are the primary factors that determine a borrower's ability to repay a loan, according to Yunus (1999),(Submitted et al., 2020).

Character: relates to a person's handling of the past debt obligation. Examining the borrower's credit history, personal past, honesty, and ability to repay credit debts are all part of paying attention to character.

Capacity: Determining a borrower's capacity is figuring out how much debt they can comfortably take on by looking at their revenue sources and identifying any responsibilities they may have that could get in the way of repayment.

Capital: In the event that income is not available, it refers to the borrower's present available assets, such as investments or savings in real estate. Some scholars like Naanyonga (2000), Arene (1992), and Oke et al. (2007), remark that a firm's profit greatly affects loan repayment and link repayment performance to firm features. In addition, Khandker et al. (1995) poses the question of whether default is determined by unpredictable behavior, random, or consistently impacted by region features that affect branch-level efficiency or local production conditions. Their analysis of German past-due loans lends credence to the notion that local variables have some influence. A low default rate and the expectation of management compensation were favourably connected with rural electricity, road width, primary school infrastructure, and commercial bank density, (Awoke 2004),(Submitted et al., 2020).

2.3.5 Lender and Loan Based Factors Affecting Repayment Performance

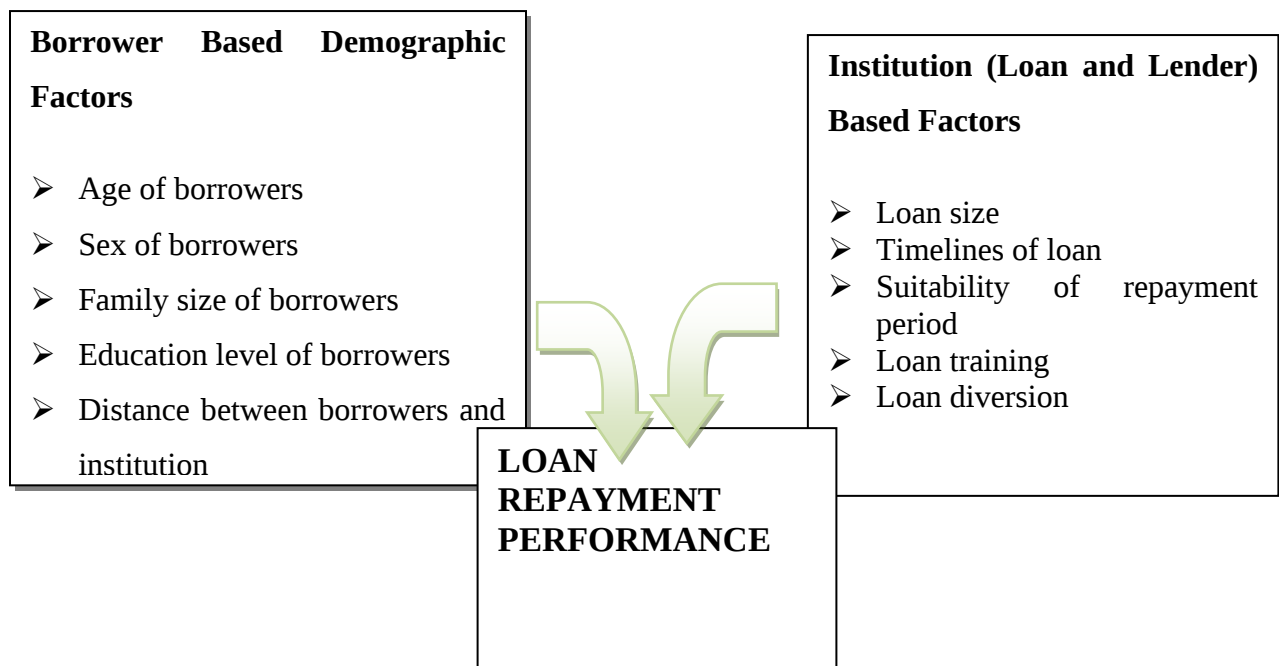
(Copisarow, 2000) discovered that program design or implementation errors typically result in default rather than any underlying borrower issues. (Derban and Mullineux, 2005) categorized the reasons for non-repayment into three primary rates: the borrowers' and their company's innate traits that reduce the likelihood of loan repayment. The second factor that reduces the likelihood of loan repayment is the lending institution's features and the loan product's sustainability for the borrower. Third, a consistent risk stems from outside variables, including the corporate, political, and economic context in which the borrower conducts its operations. According to Vigenina and Kritikos (2004), individual financing consists of three components: the requirement for non-traditional collateral and a screening process that blends new and traditional,(Submitted et al., 2020).

According to research by Roslan et al. (2007), close and informal ties between MFIs and borrowers may facilitate monitoring and the early identification of issues that could result in loan non-repayment. Additionally, collaboration and coordination between different organizations that give borrowers extra assistance could aid in their business success. In the study, the performance and good practices of a few chosen MFIs in Malesia—Amanah, Iktiar, Maleioia, TEKUN, KoperasiKredit Rakyat, and bank Pertanina—were compared. Programs that offer both financial and non-financial services, like training and health care, are more likely to have greater repayment rates than those that do not (Godquin, 2004),(Submitted et al., 2020).

These models range from cooperatives to village banks, ROSCAs, and group lending. Furthermore, Panda (2005) contends that the MFI may use the discrimination analysis technique, which is more objective in identifying good and bad customers, to determine the credit worthiness of borrowers,(Submitted et al., 2020).

Fading typically indicates inconsistent results with respect to the determining factors, despite the widespread assumption that the borrowers' willingness, aptitude, and other attributes, as well as the business and lending institution characteristics, will impact the outcome.

Figure 1 Conceptual Framework for Loan Repayment



Source: Adapted from Kohansal (2009), Afolabi (2010) and Aggarwal (2013).

CHAPTER THREE

3. RESEARCH DESIGN AND METHODOLOGY

3.1 Description of the study area

The Federal Democratic Republic of Ethiopia (FDRE) is administratively divided into twelve national regional states and two administrative councils. The South West Ethiopia Regional State (SWERS) is one of the twelve national regional states. The SWERS is again divided into six administrative zones and four districts, one of which is Dawuro Zone. Tocha and Kechi are bordered to the north by the Gojjeb River, which separates them from the Jimma zone of Oromia regional state, the West Konta zone district, the South Esera district of Dawuro zone, and the East Tercha city administration, the capital city of Dawuro zone, and Mareka district of Dawuro zone. The administrative centre for branch TochaIdiget and branch Kechi is the KechiMazegaja administrative centre.

3.2 Research Design

Zikmund (2010) defines research design as an arrangement of conditions for collection and analysis of data in a manner that it aims to combine relevance to research purpose with economy in procedure. Research design is the program that guides the researchers in the process of collecting, analyzing and interpreting the data.

Kothari (2008) defines research design as the plan and structure through which the answers to research questions obtained. A research plan is the general scheme of the research. In other word research design described as the general plan employed in data collection necessary for the fulfillment of research objectives.

Therefore the study was designed to loan repayment performance of the Omo Bank in Tocha and Kechi Branch in Dawro Zone District, South West Ethiopia. For this study Mixed research design and cross sectional survey data was implemented. Both qualitative and quantitative data was collect from secondary and primary sources. So, this study was used descriptive and inferential statistics' because the current condition of loan repayment performance of the Omo Bank for gathering detailed data or facts from large people below study in a specific time. Then, this study was describes and critically to loan repayment performance of the Omo Bank in Tocha and Kechi Branch's in Dawro Zone District.

3.3. Target Population & Sampling Methods

3.3.1 Study Population

A population can be defined as all people or items (unit of analysis) with the characteristics that the researchers wish to study. The unit analysis may be a person, group, country, organization, object, or any other entity that the researchers wish to draw scientific suggestions (Kothari, 2000). In this study, the respondents were borrowers and loan officers of Omo Bank in Tocha and Kechi branches. The number of borrower's data collected from borrower profile of the institution. The study populations consist of both defaulter and non-defaulter during the data collection period. Currently, the institution has 1052 clients. The researcher used a total number of six officers (the two branch managers and four loan officers) interviewed during the study period.

3.3.2. Sample Size Determination

The study was conducted in SWER, Dawuro Zone District, Tocha and Kechi Branch's which is a case study selected because there were problems related to the existence of loan repayment. The research employed stratified random sampling in selecting representative sample following the method of proportional allocation under which the sizes of the samples from different strata relatively kept proportional to the sizes of the strata. The strata sample for this study consisted of defaulter and non-defaulter Omo Bank loan beneficiary in responding the questionnaires.

Out of total population, 1052 (315 defaulter and 737 non-defaulter borrowers) are targeted in this study was (OB, 2024). To develop the sampling size, a list of borrowers acquired from Omo Bank borrowers profile list. The representative sample were selected from the total borrowers by using stratified sampling technique dividing the borrowers (population) into two strata, in terms of loan payment defaulters and non-defaulters. From the total 120 urban borrowers and 932 rural borrowers were targeted (OB, 2024). Kothari's (2000) Sample size determination formula was adopted for this study. The numbers of borrower's rural kebele 932 and Municipality 120, totally the study size comprised of 1052 beneficiaries, using the following scientific formula. To determine the sample size in estimating the mean or the proportion of the finite population:

$$n = \frac{Z^2 NPQ}{e^2(n-1)pq} = (1.96)^2 * 1052 * 0.5 * \frac{0.5}{(0.05)^2(1052-1)} + (1.96)^2 * 0.5 * 0.5 = \frac{1010.3408}{3.5879} = 281$$

Is total sample size of survey?

Where z= value for selected alpha leve

l of 0.025 in each tail (for 95% degree of confidence) =1.96

$(p)(q) = \text{estimate of variance} = 0.25$

$E = \text{acceptable margin of error for proportion being estimated } 5\% = 0.05$

These samples were selected from each Stratum using relatively proportionate allocation in relation to the percentage of total population. In respect of the respondent's selection from strata, we used simple random sampling.

Table 1 Proportionate Sample Size from Each Stratum

Loan repayment Status	Number of Borrowers	Proportionate sample size from stratum
Defaulters	315	$315/1052 \times 281 = 84$
Non defaulters	737	$737/1052 \times 281 = 197$
Total	1052	281

Source: own research compilation, (2024)

3.4. Types and Sources of Data

For this study both primary and secondary data were used. The primary data was collected from sample respondents' using questionnaire and key informant interview (KII). The questions was includes both closed ended question and open ended question with a few option for response, because it makes it simpler for respondent to answer and for data analysis. The open ended questions was used to obtain detailed information from the respondents.

Secondary data was collected from different materials from both published and unpublished document which is based on information like: the audited financial statements and annual reports of district Omo Bank Institution for the past five years, Books from different publications, Journals, articles and other relevant materials.

3.5. Method of Data Collection

1) Questionnaires: the data was collected through by structured questionnaire both closed ended and open ended questions ways. The interview was conducted by four enumerators who is train on the subject matter of the questionnaires.

2) Key informants interview (KII): The gap of quantitative data was filled and strengthens by qualitative data with the intention of obtaining in-depth information and cross-checking key informant interviews (KII) was conducted. In this case, one (1), branch manager, two (2) customer services employees and totally six (6) participants were selected for interview.

3) Secondary data: the data was collected from variety of published and/or unpublished

Heed government documents, websites, reports and newsletters were reviewed to make the study fruitful.

3.6. Methods of Data Analysis

The collected data was analyzed by using both descriptive and inferential statistics. Descriptive statistics is one of the techniques used to summarize the data collected from the respondents. By applying descriptive statistics such as, frequencies, percentages, and chi-square by compare and contrast different categories of sample borrowers with respect to the desired characters to draw some important conclusions. The quantitative data was gathered through survey questionnaire, then coding, edited and entered in Microsoft office Excel 2010 and IBM SPSS version 26 software was used to analyze and interpreted using by tables and figures.

3.7. Econometric Models

3.7.1. Post Estimation of Variables

Before analysing and estimating the models to check the normality of data, multicollinearity of continuous and Coefficients explanatory variables, heteroscedascity, non-linearity and model specification problems was conducted.

3.7.2. Model Specification

The appropriate econometric model for dichotomous dependent variable would logit or probit. The logit and probit models are comparable, the main difference being that the logistic function has slightly fatter tails that is, the normal curve approaches the axis more quickly than in the case of logistic function. According to Lio (1994) reported that the logit model has the advantage that these predicted probabilities could be arrived at easily and when there are many observations at the extremes of the distribution, then the logit model is preferred over the probity model. Therefore, the study adopted binary logistic regressions was employed to estimate the strength of the relationship of each factor with the likelihood of loan repayment performances. It would a dummy variable, which takes a value of one for non-defaulter borrowers or zero for defaulter. Therefore, binary logistic regression model was used to assess the loan repayment performances.

3.8. Definition of Variables with Expected Sign

3.8.1. Dependent Variable

The dependent variable is the predictable of the independent variable operated and whose value depends on the value of independent or explanatory variables. It measures to express the effect of independent variable. In the study, the dependent variable is Loan repayment (LR) for the nth borrowers (If LR=1), borrowers repaying the loan on time and (If LR= 0) borrowers do not repay the loan on time. The borrowers that did not repay the amount of money they borrowed as per credit schedules are considered as defaulters (denoted by zero). Similarly, borrowers that repaid the amount they borrowed per credit schedules will consider as non- defaulters denoted by one.

3.8.2. Independent Variables

The independent variable is usually the variable indicative of the value manipulated or changed and used to explain the dependent variable. For the purpose of this study has included 11 independent variables under the bold that is best to explain the determinants of loan repayment performance of Omo Bank borrowers in Tocha and Kechi Branch's. Description of the explanatory variable together with their expected sign given below;

AGE (AGE BORR): Asnake, Tesfatsion and Rahwa (2014), Dechasa, 2018; Mulugeta and Leyla, 2022). Stated at a younger stage, people have the ability to work and they are expected to generate a higher income in the future. However, they have no stability and business experience. On the reverse, people as become older and older, they develop more experience to run a business and have stability. They feel a sense of responsibility; this may seem older people positively related to loan repayment or negatively related to default. Older farmers are less capable of carrying out physical activities while younger ones are capable. Younger farmers are more ready to adopt modern technology. This is because younger people may be more adaptive and more willing than older people to try new methods. Age is expected to be an influencing factor. Although there is no consensus, in this study it was expected a positive sign since majority of researchers tend find to positive relationship.

2, Sex of Borrowers (SEXBORR): There is a belief among many Microfinance specialists that female borrowers are better payers than male taking into consideration their being more entrepreneurial that results from assuming more responsibilities in the internal affairs of a household (Vigano, 1993). In addition, Khandker, et al (1995),(Vigano, 1993; Abafita, 2003; Abreham, 2017),explains that loan recovery rates have been higher for women than for men in the

case of Grameen Bank. Nevertheless, some researchers have found the opposite result; there is no agreed sign for this variable in a priori studies.

3. Educational Level of Borrowers (EDUCLEVEL): According to Jemal (2003) this variable is expected to have a positive impact on repayment performance in general. Considering normal circumstances, a more educated borrower is expected to use the loan effectively as compared to a less educated one. In this case, it was expected a positive sign for the variable.

4. Loan Size (LOANSIZ): VonPischke (1991) cited by Tenishu (2014) and Jemal (2003) noted that efficient loan sizes fit borrowers' repayment capacity and stimulate enterprise. If the amount of loan released is enough for the purposes intended, it will have a positive impact on the borrower's capacity to repay. If on the other hand, the amount of loan exceeds what the borrower needs and can handle, it will be more of a burden than a help, thereby undermining repayment performance. In addition, the positive or negative sign may be 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). However, the too small loan may not bring commitment on borrowers to use the loan productively (Von Pischke, 1991). It may also encourage borrowers to divert the loan to other purposes, increasing credit risk and undermining performance, in which case a negative sign for the variable is expected (Vigano, 1993). Even though there is no one common consensus, in this study it was projected to be positive sign depending on majority of researcher's finding.

5. Loan Diversion (LOANDIVERS): According to (Abreham, 2002), the impact of this Variable depends to what use the diverted loan is put. If they used for productive purposes than the intended purpose then repayment will be enhanced, if on the other hand, the loan diverted to non-productive uses, it will have a negative impact. Therefore, the sign of this variable is expected to be positive.

6. Family Size (FAMILYsiz): Define as the total number of household in the family and elsewhere that depend on the borrower for their livelihood. If a number of household increases, the borrower will need more money to fulfil their requirements in addition to the obligation of loan repayment. As a result, he/she may divert the loan to meet the needs of the dependents (Kamu, 2012; Ume et al., 2018). Hence, we expected this variable to have a positive impact on loan repayment.

7. Loan Training (LOANTRG): Roslan and Karim (2009) found training received by microcredit beneficiaries in Malaysia to have a negative and significant effect on repayment default. It is expected that those who have access to training are less likely to default (Firafis, 2015; Abreham,

2016; Abreham, 2017). Hence, the coefficient of training variable in this study is expected to be positive.

8. Timeliness of loan release (TIMELR): If loan is disbursed in time, it is unlikely that it will be diverted to non-intended purposes. Timeliness of loan disbursement is important when a loan is used for seasonal activities such as agriculture. Johnson and Rogaley (1997),(Abreham, 2016; Abreham, 2017; Yitbarek, 2020),argued that complicated appraisal and approval procedures, which might delay disbursement, influence a program of seasonal loans for farmers who use to buy inputs like fertilizers and seeds. Further, they noted that this could, in turn, worsen the prospects of repayment by diverting loan to non- intended purpose.

9. Suitability of repayment period (SUITBILTYRP): become defaulters) (Firafis, 2015; Abreham, 2016; Abreham, 2017; Yitbarek, 2020), If the borrowers find the repayment period suitable, he/she will perform better. Hence, we expected a positive sign for this variable in this case.

10. The distance of Borrower from Institution (DISTANCEBI): Average distance expressed by kilometres between the borrowers and the lender institution. Non-defaulter respondents travelled on average less distance than defaulter (Abebe, 2002). In this study, we consider, as the distance is less than 5km it is nearest otherwise far from the institutions. Awunyo-Vitor (2012) stated that if a borrower is located near to the lender, it is easier for the lender to get information, monitor borrowers, and provide appropriate assistance to reduce loan repayment default. Thus, borrowers who lived closer to their lenders are less likely to default on loan repayment. Hence, from the variable, we expected positive sign.

11. The market value of the project (MVP): Some studies show that the more livestock a borrower have, the higher capacity he/she has to settle loan obligation in face of income fluctuation. Bekele and Gebrehiwot (2003) cited by Tenishu (2014) found out that farmers who owned more livestock were able to repay their loans even when their crops failed due to a natural disaster. Some researchers have arrived at a positive relationship, for instance, Vigano (1993) while others found a negative relationship On the other hand, according to Onyeagocha, Chidebelu, and Okorji (2011), the coefficient of profitability index was positive and significant at 5% level, which stated that profitability index (ratio of income to costs) had a direct and strong relationship with repayment. This β_i was because difficulties in repayment arose whenever a business in unprofitable. It is an indication or index of management ability. In the event of not

making a profit, enterprises including NGOs (which are expected to break-even), become unsustainable. Therefore, the sign of this variable can be positive.

Table 2, the summary of explanatory variables with their expected signs

Dependent variables	Symbol	Measurements	Coefficients	Expected sign
Loan repayment	LR	1, Fully repaid on due date and other not repay ,0		
Independent variables				
AGE	AG	Age in years	β_1	+ve
Sex	SX	0=if male 1=if female	β_2	+ve
Educational Level of Borrowers	EDL	1= diplomas and above, Borrower 2=TVET and certificate, 3= grade9-12, 4= grade 1-8 and, 5=uneducated	β_3	+ve
Family Size	FSZ	Family size in number	β_4	+ve
Distance of Borrower from Institution	DIS	0=if>5km from from Institution institution 1=if <=5km	β_5	+ve
Loan size	LS	Loan size in Birr	β_6	+ve
Timeliness of loan Release	TMLR	0=if not released on time Release1= if released on time	β_7	+ve
Loan Training	LT	0=if not adequately trained 1=if adequately trained	β_8	+ve
Loan diversion	LD	0=if not diverted 1=if diverted	β_9	+ve
Market value of project	MVP	1= if increased, 2= stayed the same 3=decreased	β_{10}	+ve
Suitability of Repayment Period	SRP	0= if not suitable repayment period 1=if suitable	β_{11}	+ve

Sources: own research compilation (2024)

The binary logistic econometric regression model was applied for analysing the data based on which deal with loan repayment performance in 11 explanatory variables included in this study. Loan repayment status is a dependent variable, while different borrower socioeconomic, loan and lender-related factors considered as independent variables. In this case, the value of this dependent variable is zero and one, one stands for borrowers paid credit timely and zero otherwise. Therefore, loan repayment treated as a dichotomous dependent variable. Chi-square test is used for comparing defaulter and non-defaulter borrowers in various explanatory variables. Chi-square test, determine whether frequency distributions differ significantly. When using χ^2 we first prepare a cross-tabulation of the variables. The chi-square test can then apply to the cross-tabulation to determine whether there is a significant difference between distributions (Kothari, 2004), the joint effects of all explanatory variables put together on the odds is (HosainJ.Hossain, 2008).

$$\text{Odds} = \frac{p}{1-p} = e^{B_0 + B_1X_1 + B_2X_2 + \dots + B_PX_P} \quad (1)$$

Multiplying both sides by logarithms

Log

$$\frac{P}{1} - P = \log B_0 + B_1X_1 + B_2X_2 + \dots + B_PX_P \quad (2)$$

$$\text{LR} = \text{LogitP}(\beta_0\beta_1AG + \beta_2SX + \beta_3EDL + \beta_4FSZ + \beta_5DIS + \beta_6LSZ + \beta_7TMLR + \beta_8TRG + \beta_9LD + \beta_{10}MVP + \beta_{11}SRP + \epsilon) \quad (3)$$

Where, LR=1, is the probability that borrowers will pay back its loan; otherwise LR=0

β_0 =is the intercept coefficients and ϵ is the error term

The coefficient of each $\beta_1 - \dots - 12$, are the independent variables.

AG=Age of Borrower

SX=Sex of Borrower (0=male 1=female)

EDL=Education level of Borrower

LSZ=Loan size (in Birr)

LD=Loan diversion to other unintended program

FSZ=Family size i.e. dependency ratio

TRG=Loan training

1=if adequate 0=otherwise

TMLR=Timeliness of loan release

1=if timely released 0=otherwise

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results of data analysis. In the first part of this section, the relationship between borrowers based factors, and institutional based factors with respect to successful loan repayment performance of borrowers are described.

Following the above section, this chapter depicts the findings that seek to answer the research questions against the background of the objectives of the study i.e. the trend of a nonperforming loan of Omo Bank of Tocha and Kechi Branch's first by using descriptive analysis then finally econometric results with its discussions comes soon.

4.2 Descriptive Analysis

In this research, the questionnaire was dispatched to 281 borrowers, but only 256 borrowers responded and submitted it to the researcher, while the remaining 25 were left without volunteers to respond or enumerators failed to facilitate efficiently. This implies that the response rate for this study was ninety-one point one percent (91.1%), which implies that the highest proportion of respondents participated in the process of data collection. This study employed binary logistic regression for data analysis.

4.3 Trend of Non-Performing Loan in Omo Bank (2019-2023)

It is a technique of studying the operational results and financial position over a series of years. Using the previous years' data of a firm, trend analysis can be done to observe the percentage changes over time in the selected data. The trend percentage is the percentage relationship, which each item of different years bears to the same item in the base year. Trend analysis is essential because, with its long-run view, it may point to basic changes in the nature of the business. By observing at a trend in a particular ratio, one may find whether the ratio is falling, rising, or remaining relatively constant. From this observation, a problem is detected or the sign of good management is found. For calculating trend percentages, the base year may be any one of the periods involved in the analysis but the earliest period is mostly taken as the base year. Each item of the base year is assumed to be equal to 100 and on that basis, the percentage of an item of each year calculated. In trend analysis, ratios are compared over periods, typically years. Year to- year

comparisons can highlight trends and point up possible need for action. Trend analysis works best with three and above years of ratios.

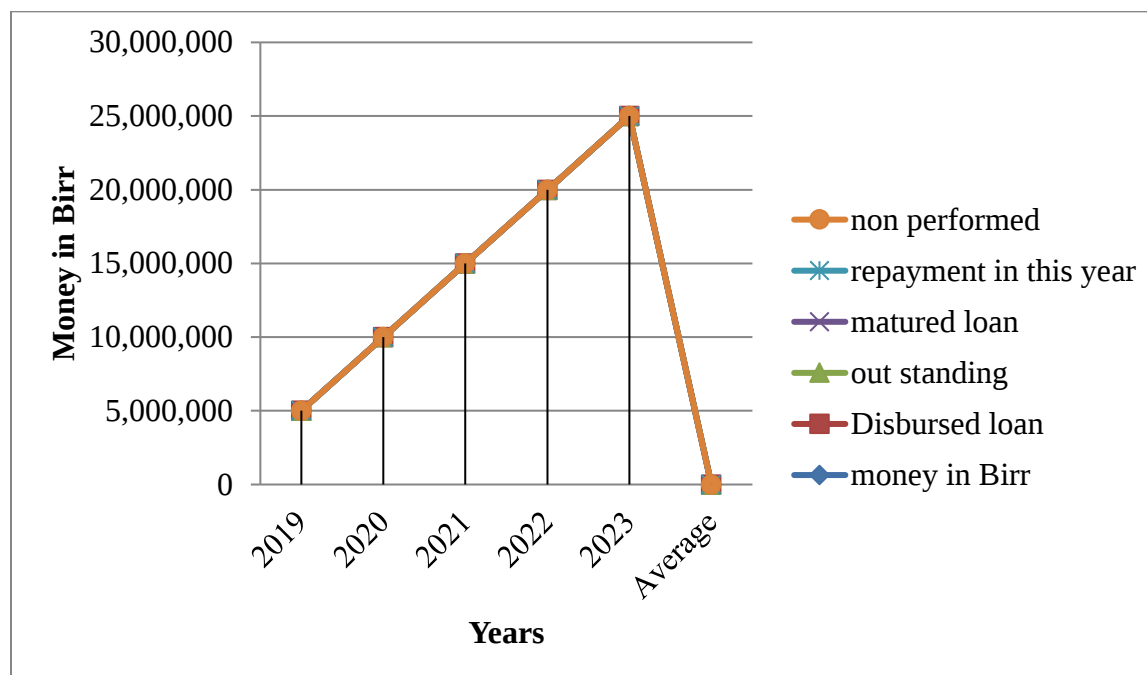
The theory behind time-series analysis is that the company must be evaluated in relation to its past performance, developing trends must be isolated, and appropriate action must be taken to direct the firm towards immediate long term goals. Time-series analysis is often help full in checking the reasonableness of a firm's projected financial statements.

Table 4.1, loan trend of OB Tocha and Kechi branch (amount of birr in millions)

Year	2011/2019	2012/2020	2013/2021	2014/2022	2015/2023	Average
Disbursed	Br 9.37	Br12.24	Br17.53	Br 25.50	Br 31.45	19.21
Outstanding	Br 4.27	Br 5.08	Br 8.17	Br 13.12	Br 13.84	8.89
Repayment From this year	Br 1.44	Br 1.69	Br 2.71	Br 5.23	Br 6.42	3.49
Matured loan	Br 5.09	Br 7.15	Br 9.35	Br 12.38	Br 17.61	10.51
Non performed loan	Br 3.66	Br 5.46	Br 6.64	Br 7.15	Br 11.19	6.82
Repayment Performance	28%	23.6%	29%	42%	36%	35.24%
Default rate %	72%	76.4%	71%	58%	64%	64.76%

Source: Researcher's calculation, from the annual report of OB Tocha and Kechi branch's, 2019-2023.

Figure 4.1-loan trend of Tocha and Kechi OB branches



Source: From the annual report of OB Tocha and Kechi branches, 2019-2023

The average credit provided over the study period by Omo Bank was 19, 211,450.69 Eth birr. Loan disbursement, outstanding, yearly repayment, and matured loan trend were increasing over the years. The Performance from 2019 to 2023 was a bit fluctuating; however, the trend was almost rising. As the repayment performance trend indicates that out of matured loan (35.24%) loan repaid averagely within a year.

Table 4.1 and figure 4.1, shows the institution's performance in 2019, 2020, 2021, 2022, and 2023 by comparing total disbursements with total repayments and outstanding balances at the ends of the loan agreement periods. The default rate, therefore, is based on the ratio of repayment of that year to matured balances at the ends of the agreed repayment periods. It is clear from the outstanding balances and amounts disbursed that the institution experienced default rates of 72 percent, 76.4 percent, 71 percent, 58 percent and 64 percent for 2019, 2020, 2021, 2022, and 2023 respectively. The results give rise to an overall average default rate of approximately 64.76 percent.

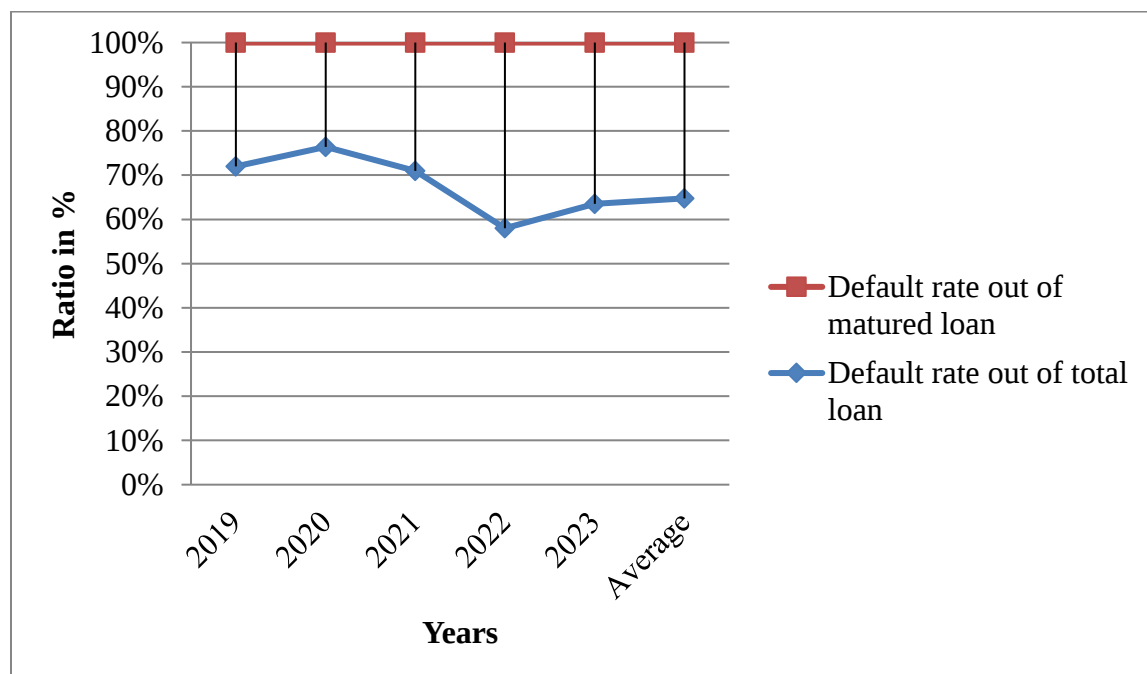
4.3.1 Non- Performing Loans to Loan Ratio (NPL)-

Nonperforming loans, or NPL, are one of credit risk and solvency ratios measurement tool that is no longer producing income for the institution that owns them. Loans become nonperforming

when borrowers stop making payments and the loans enter default. The exact classification can vary from institution to institution, but a loan is usually considered non-performing after it has been in default for three consecutive months (Dufera, 2010).

Banks often report their ratio of nonperforming loans to total loans as a measure of the quality of their outstanding loans. A smaller NPL ratio indicates smaller losses for the bank, while a larger (or increasing) NPL ratio can mean larger losses for the bank as it writes off bad loans.

Figure 4.2 -Trend of Non-Performing based on either matured or total loan



Source: From the annual report of OB Tocha and Kechi branch, 2019-2023

NPTL is calculated as under:

NPTL = Non-performing Loans/Total Loans

NPML = Non-performing Loans/Matured Loans

From figure 4.2, the provision for default loans expressed as a percentage of the total matured loan portfolio was 72%, 76.4%, 71%, 58%, and 64% for 2019, 2020, 2021, 2022, and 2023, respectively. On the other hand, as a percentage of total disbursed loan portfolios, they were 39%, 44.6%, 37.9%, 28%, and 35.5% in 2019, 2020, 2021, 2022, and 2023, respectively. These ratios are worrying because, according to the data captured in the in the annual and financial reports of OB Tocha and Kechi (2019–2023). It is seen from the figure that the ratio of NPLs increased from 72% in 2019 to 76.4% in 2023. The ratio, however, declined significantly from the previous figure

of 76.4% in 2020 to just 58% in 2022. This massive decline in the ratio represents an improvement in the quality of the loan. In 2022, the ratio rose sharply from 58% in 2023 to 64%. Overall analysis of the results of risk and solvency measures indicates the OB of the Tocha and Kechi branches' to be highly risky and less solvent during the five years (2019–2023) of study.

4.3.2 Mean Comparison of Non-Defaulter and Defaulter Borrowers

Table 4.2 Comparison of defaulter and Non defaulter

		Frequency	Court Percent	Valid Percent	Cumulative Percent
Valid	Defaulter	59	23.0	23.0	23.0
	non defaulter	197	77.0	77.0	77.0
	Total	256	100.0	100.0	100.0

Source: ‘Survey results and own computation, 2024.

In Table 4.2 above, there are 197 was existing borrowers who successfully repay their loans, which is 77% of 256 borrowers, while the number of non-defaulter borrowers who have not successfully paid their loans is 59, which defaulter representing 23% of the sample borrowers.

4.4. Loan repayment performance and Borrower Demographic Characteristics

In this section, based on summary of descriptive statistics of respondents the borrower's characteristics (age, sex, education level, dependent family size, Distance b/n institution and borrower, and Loan size) discussed in the crosstab as follows by comparing chi-square with significance level.

Age of respondent is a continuous variable, hence the minimum age of the sample successful borrowers (Age of Respondents) as depicted in Table 4.3.

Table 4.3 Age of respondent* loan repayment of respondent Cross tabulation

		Frequency	Court Percent	Valid Percent
Valid	18-36	153	59.8	59.8
	37-74	86	33.6	33.6
	75 above	17	6.6	6.6
	Total	256	100.0	100.0

Source: ‘Survey results and own computation, 2024.

Table 4.3 shows that the results ranged from 18 to 37 years old, with a maximum age of 75. In addition, the mean age of the sample of successful borrowers (respondents) is 35.9. The proportion of defaulters' age was highest in the age range of 18–36, constituting 80.6%, and lower in the age range of 75 ages and above, representing 19.4% of respondents. While the non-defaulters respondents comprise 27% in the age range of 18–29 and 73% in the range of 37–74.

Table 4.4 Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	118.765 ^a	3	.000
Likelihood Ratio	126.233	3	.000
Linear-by-Linear Association	33.244	1	.000
N of Valid Cases	256		

Source: ‘Survey results and own computation, 2024.

The P value of the result is 0.000, which is less than the minimum standard for a P value of 0.05 at a significant level. This means there is a very strong difference in significance between the ages of defaulters and non-defaulters at the five percent significance level.

2, Sex is as shown in Table 4.5, the sampled borrowers (sex of respondents) are as follows.

Table 4.5 Sex of respondent* loan repayment of respondent Cross tabulation

		loan repayment of respondent		Total	Court percent
		non defaulter	Defaulter		
Sex of respondent	Male	31	172	203	79.3
	Female	41	12	53	20.7
Total		72	184	256	100

Source: Survey results and own computation, 2024.

Out of the total 256 sample respondents, 20.7% are female borrowers, and the rest, 79.3%, are male borrowers, as shown in Table 4.5. Accordingly, a percent of female borrowers repay their loan successfully, and out of the male borrowers, not a full percent of them repay their loan successfully. This discloses that, from their respective sex compositions, female' respondents were found to have better repayment performance than male respondents were, although their number in this research is not comparable to that of male borrowers.

Table 4.3 Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	80.144 ^a	1	.000
Continuity Correction	77.102	1	.000
Likelihood Ratio	73.978	1	.000
Fisher's Exact Test			
Linear-by-Linear Association	79.831	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024.

The Pearson chi-square, or P value, of the result is 0.000, which is less than the minimum standard for a P value of 0.05 at a significant level. This means there is a very strong difference in significance between the sexes of defaulters and non-defaulters at the five percent significance level.

3, Education level is as shown in Table 4.7, the sampled borrowers (Education level of respondents) are as follows.

Table 4.7 Education level of respondent* loan repayment of respondent Cross tabulation

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	diploma and above	4	1.6	1.6	1.6
	TVET and certificate	13	5.1	5.1	6.6
	grade 9-12	40	15.6	15.6	22.3
	grade 1-8	139	54.3	54.3	76.6
	Uneducated	60	23.4	23.4	100.0
	Total	256	100.0	100.0	

Source: Survey results and own computation, 2024.

In terms of educational level (Table 4.7), about 23.4% of the respondents have never attended school, 54.3% of them have grades 1–8, 15.6% have attended grade 9–12, and 5.1% are certificate holders. Only 1.6% of the respondents have completed a college diploma and above. In the survey, about 88% of the respondents paid their loan successfully. In table 4.5, 88% uneducated, 88% of grade 1-8, 83% of grade 9-12, 92% of TVET certificate, and full coverage of diploma and above respondents paid their loan successfully. This indicates that being either educated or not did not determine the loan repayment rate.

Table 4.4 Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	57.030 ^a	4	.000
Likelihood Ratio	67.974	4	.000
Linear-by-Linear Association	.520	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024.

According to the above table, the education level of the respondents is divided into five parts. The P value of the result is 0.000, which is less than the minimum standard for a P value of 0.05 or significant at one percent (Pearson Chi-square = 0.000). Further percentage of the loan repayment status decreases when the level of education increases and the defaulter's rate decreases. These findings indicated that as one's level of education increases, so does their ability to repay loans within a given time frame. This indicates that as their level of education increases, borrowers will probably enhance their ability to access, evaluate, and manage their revenue and expenses, improving customer handling to meet market demand or generate more income.

4, Family size is as shown in Table 4.9, the sampled borrowers (Family size of respondents) are as follows.

Table 4.9 Family size of respondent of * loan repayment of respondent Cross tabulation

		loan repayment of respondent		Total	Court percent
		non defaulter	Defaulter		
Family size of respondent	1-4	49	59	108	42.18
	5-10	23	112	135	52.73
	11-22	0	13	13	5
Total		72	184	256	100

Source: Survey results and own computation, 2024.

From the above table, almost 42.18% of respondents have 1-4 family members, 52.73% have 5-10 family members, and 5% have 11–22 family members. With regard to the number of dependent household families, having five or more dependent family members was higher in the defaulters group than in the non-defaulters group. Households with a higher dependent family were more likely to be defaulters; however, it depends on the work activity of dependents.

Table 4.5 Chi-Square Tests			
	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	29.186 ^a	2	.000
Likelihood Ratio	32.154	2	.000
Linear-by-Linear Association	28.530	1	.000
N of Valid Cases	256		

The Pearson Chi-square, or P value, is 0.000, which is greater than the minimum standard for a P value of 0.05 or significant. This means the proportion of dependent family size defaulters is significantly different from the proportion of defaulters with dependent family size.

5, Distance b/n institution and borrower is as shown in Table 4.11, the sampled borrowers (Distance b/n institution and borrower of respondents) are as follows.

Table 4.11, Distance b/n institution and borrower of respondent of * loan repayment of respondent
Cross tabulation

		loan repayment of respondent		Total	Court percent
		non defaulter	Defaulter		
Distance b/n institution and borrower	>5km	0	65	65	25.40
	<5km	72	119	191	74.60
Total		72	184	256	100

Source: Survey results and own computation, 2024.

In this finding, borrower performance is measured in terms of the repayment performance of borrower status. Regarding location of borrowers, 74.6% distances ≤ 5 km residences non-defaulters borrowers, which is higher than the corresponding 25.40 percent for the defaulters. Moreover, 25.40 percent of the respondents with distances > 5 km were non-defaulters and defaulters, respectively, which shows distance is an influential variable for loan repayment performance (table 4.11).

Borrowers can spend more time running their businesses by being closer and spending less time commuting to the lender. Being closer also gives lenders more information about the day-to-day situation of borrowers and allows Omo Bank to provide the needed technical assistance to borrowers. In any event, reducing transaction costs by being close to the lender increases a borrower's chance of repayment.

Table 4.6 Chi-Square Tests

	Value	Df	Asymptotic Significance(2sided)
Pearson Chi-Square	34.091 ^a	1	.000
Continuity Correction	32.251	1	.000
Likelihood Ratio	51.097	1	.000
Fisher's Exact Test			.000
Linear-by-Linear Association	33.957	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024.

The P value results show 0.00, which is less than 0.05, which is significant at one percent. This means that the proportion of defaulter borrowers who have a dependent distance between the Institution and them differs significantly from the proportion of defaulter borrowers who have a dependent distance between them.

6, Loan size is as shown in Table 4.13, the sampled borrowers (Loan size of respondents) are as follows.

Table 4.13 Loan size of respondent of * loan repayment of respondent Cross tabulation

		Frequency	Court Percent	Valid Percent
Valid	10,000-40,000	100	39.1	39.1
	41,000-60,000	53	20.7	20.7
	61,000-100,000	53	20.7	20.7
	101,000 above	50	19.5	19.5
	Total	256	100.0	100.0

Source: Survey results and own computation, 2024.

Among the 256 sample borrowers, 100 (39.1%) of the loan size is Birr 10,000–40,000, 53 (20.7%) of the loan size is Birr 41,000–60,000, 53 (20.7%) of the loan size is Birr 61,000–100,000, and 50 (19.5%) of the loan size is Birr 101,000 and above, so the maximum loan size was 101,000 and the minimum borrower of the loan size was 10,000–40,000.

Table 4.7 Chi-Square Tests			
	Value	Df	Asymptotic Significance(2sided)
Pearson Chi-Square	146.422 ^a	3	.000
Likelihood Ratio	175.556	3	.000
Linear-by-Linear Association	3.732	1	.034
N of Valid Cases	256		

Source: Survey results and own computation, 2024.

The P value is 0.034, which is less than the minimum standard for a P value of 0.05, which is significant at five percent (Pearson Chi2 = 3.4). This result indicated that loan size has a positive effect on loan repayment performances or increases defaulter borrowers at Omo Bank.

A loan from Omo Bank is targeted for agricultural products, micro business loans, and household consumption like home building, with a minimum loan amount ranging from ETB 10,000.00. The maximum loan size for this loan product is ETB 101,000.00 and above. A small business loan is disbursed relatively for business, with a loan size usually greater than ETB 10,000.00 and less than 101,000.00 for each borrower. Whereas, agricultural loans have a maximum loan size of ETB 10,000.00 with a loan term of one repayable year. Besides, the customer loan product targets government and related employees that have a fixed monthly salary; the loan is guaranteed by employers and deducted from payroll on a monthly basis. The loan size depends on the borrower's salary and loan term.

4.5, Loan repayment performance and Institutional based Factors

1, Timeliness of loan is as shown in Table 4.15, the sampled borrowers (Timeliness of respondents) are as follows.

Table 4.15 Timeliness of Loan * loan repayment of respondent Cross tabulation

		loan repayment of respondent		Total	Court percent
		non defaulter	Defaulter		
Timeliness of loan respondent	not released on time	72	129	201	78.51
	released on time	0	55	55	21.49
Total		72	184	256	100

Source: Survey results and own computation, 2024.

This study has considered the attitude of borrowers towards the timeliness of loan release issuance as an important variable affecting loan repayment performance. The impact is higher on seasonal loans, especially in agriculture. In this study, out of 256 respondents, 78.51% responded that the loan was not released on time, which is 21.49%. According to the institution's regulations, borrowers should request the amount of money within a month. In this study, over a month is considered a delay in loan release.

Table 4.8 Chi-Square Tests

	Value	Df	Asymptotic Significance(2sided)
Pearson Chi-Square	27.411 ^a	1	.000
Continuity Correction	25.667	1	.000
Likelihood Ratio	41.938	1	.000
Fisher's Exact Test			
Linear-by-Linear Association	27.304	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024.

The Pearson Chi-Square significant to.000 or P value is 0.000, which is less than the minimum standard for a P value of 0.05 or significant. This means there is significance to the timeliness of loan repayment between the lender institution of defaulters and non-defaulters.

2, Training on Loan Use: -Training increases the awareness of the borrowers and would increase their exposure to information, opportunities, and the working environment. Moreover, it is expected to have a positive impact on loan repayment.

Table 4.17 Training on Loan Use* loan repayment of respondent Cross tabulation

		loan repayment of respondent		Total	Court percent
		non defaulter	Defaulter		
Loan Training of respondent	not adequately training	72	130	202	78.90
	adequately training	0	54	54	21.10
Total		72	184	256	100

Source: Survey results and own computation, 2024

The above table 4.17 compares average clients who attended or loaned training that Omo Bank provided to adequately train the respondent to 21.1% and those who did not adequately train the

respondent to 78.9%. In this regard, the relative probability of being defaulters rather than non-defaulters for clients who did not attend training was higher than the corresponding relative probability for clients who attended training. On the other hand, the relative probability of being non-default rather than default clients who did not attend training was greater than the corresponding relative probability of clients who did.

Table 4.9 Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	26.779 ^a	1	.000
Continuity Correction	25.045	1	.000
Likelihood Ratio	41.053	1	.000
Linear-by-Linear Association	26.675	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024

Significant at 5 percent, and Pearson Chi2 = 0.000. However, this finding indicates that the delivery of organized and sufficient training by lenders or Omo Bank institutions is probably increasing the loan repayment performance of borrowers.

3, Loan diversion is as shown in Table 4.19, the sampled borrowers (Loan diversion of respondents) are as follows.

Table 4.19 Loan diversion of respondent* loan repayment of respondent Cross tabulation

		Frequency	Court Percent	Valid Percent
Valid	to buy fertilizer and agriculture	50	19.5	19.5
	for animal fattening	96	37.5	37.5
	purchase of form oxen	48	18.8	18.8
	for participating in MSE program	52	20.3	20.3
	for house hold consumption	6	2.3	2.3
	Other	4	1.6	1.6
	Total	256	100.0	100.0

Source: Survey results and own computation, 2024

As we see in this survey shown in Table 4.19, With respect to the purpose for which credit or loan was taken, the author observes that the majority of the borrowers, i.e., 194 (75.78%), took the total credit for agriculture and the purchasing of agricultural inputs such as fertilizers (50 (19.5%), animal fattening (96 (37.5%)), and farm oxen (18.8%). The lower frequency was given for

household consumption, i.e., six (2.3%), and others are four (1.6%). The participants in the Omo Bank and small-scale program are given credit for the purpose of retail trade, production of construction inputs like metal, woodwork, and hotel and catering services, with a particular percentage of 20.3%. However, 88% of the respondents repaid their loans according to the loan repayment period. In loan repayment performance, agricultural, Omo Bank, and small-scale programs are 88% and 87%, respectively, but household consumption is only 67%.

Table 4.10 Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	98.319 ^a	5	.000
Likelihood Ratio	121.448	5	.000
Fisher's Exact Test	109.612		
Linear-by-Linear Association	1.934 ^b	1	.042
N of Valid Cases	256		

Source: Survey results and own computation, 2024

The Pearson Chi-Square, or P value, is 0.042, which is less than the minimum standard for a P value of 0.05, which is significant at five percent ($\chi^2 = 42\%$). This result indicated that loan diversion during the repayment period has a positive effect on loan repayment performance.

4, Market value of project is as shown in Table 4.21, the sampled borrowers (Loan diversion of respondents) are as follows.

Table 4.21 Market value of project* loan repayment of respondent Cross tabulation

		Frequency	Court Percent	Valid Percent	Cumulative Percent
Valid	Increased	33	12.9	12.9	12.9
	stayed the same	158	61.7	61.7	74.6
	Decreased	65	25.4	25.4	12.8
	Total	256	100.0	100.0	100.0

Source: Survey results and own computation, 2024

Concerning the market value of projects owned by borrowers, the mean value of the project (product or service) is categorized into increased, stayed, and decreased. For credit-worthy borrowers, the value of projects 33 (12.28%) is increased, 158 (61.71%) stays the same, and 65 (25.39%) decreases, respectively. Among non-defaulter borrowers, 12.9% increased, 74% stayed the same, and 12.8% decreased the market value of the project after paying their loan successfully, i.e., a higher value of the project improves the loan repayment performance of borrowers.

Table 4.11 Chi-Square Tests

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	62.133 ^a	2	.000
Likelihood Ratio	86.402	2	.000
Fisher's Exact Test	78.458		
Linear-by-Linear Association	4.246 ^b	1	.026
N of Valid Cases	256		

Source: Survey results and own computation, 2024

The Pearson Chi-Square, or P value, is 0.026, which is less than the minimum standard for a P value of 0.05, which is significant at five percent (Chi2 = 26%). This result indicated that loan diversion during the repayment period has a positive effect on loan repayment performance.

5, Suitability of Repayment Periods as shown in Table 4.23, the sampled borrowers (Suitability of respondents) is as follows

Table 4.23 Suitability of Repayment Periods* loan repayment of respondent Cross tabulation

			loan repayment of respondent		Total	Court percent
			non defaulter	Defaulter		
Suitability of repayment period	No	0	86		86	33.60
	Yes	72	98		170	66.40
Total			72	184	256	100

Source: Survey results and own computation, 2024

In Table 4.23 above, regarding the opinion of respondents on the suitability of the loan installment period, 66.4% of the respondents consider it suitable, and 33.6% say it is not suitable. Based on the results, although 86 (33.6%) of defaulter respondents were suitable or gave the answer "yes" and found that in the group that replied period was not suitable or gave the answer "no," out of them, 60 (69.7%) were paid their loan timely, while respondents responded monthly, quarterly, semi-annually, and annually, respectively.

Table 4.12 Chi-Square Tests

	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	50.676 ^a	1	.000
Continuity Correction	48.603	1	.000
Likelihood Ratio	72.517	1	.000
Fisher's Exact Test			
Linear-by-Linear Association	50.478	1	.000
N of Valid Cases	256		

Source: Survey results and own computation, 2024

The Pearson Chi-Square, or P value, is 0.000, which is less than the minimum standard for a P value of 0.05, which is significant at five percent ($\chi^2 = 0$). This result indicated that the suitability of the repayment period has a positive effect on loan repayment performance.

4.6, Econometric Results and Discussions

In this section, model tests and econometric analysis are performed using either STATA or SPSS software to identify borrower's characteristics and lending institution-based characteristics that determine loan repayment performance of borrowers quantitatively. Logistic regression was used to investigate the factors influencing loan repayment problems among borrowers in Omo Bank's Tocha and Kechi branches.

4.6.1 Model tests

1. Multicollinearity

1, Correlation matrix between independent variables

Before running a model, the logit and explanatory variables can be checked for multicollinearity (Verbeek, 2008). When the independent variables are correlated, it is regarded as a problem in the model, and this problem is called multicollinearity. Since multicollinearity is a problem when the explanatory variables in the in the logit model are highly correlated and provide redundant information about the response, Therefore, in order to check the existence of multicollinearity among the 11 independent variables, correlation coefficients among the variables were calculated and presented in a matrix, as shown in the following table.

Table 4.25 Correlation matrix between independent variables

Correlation Matrix													
		LRP	AG	SX	EDL	FSZ	DIS	LS	TMLS	LT	LD	MVP	SLP
Step 1	LRP	1.00											
	AG	.000**	1.00										
	SX	.000*	.000*	1.00									
	EDL	.000**	.028	.046**	1.000								
	FSZ	.000*	.012**	.042**	.000	1.000							
	DIS	.000	.043	.000**	.000	.000	1.000						
	LS	.0003	.022**	.081**	.000	.000	.000	1.000					
	TMLS	.000**	.021**	.000**	.000	.000	.000	.000	1.000				
	LT	.000	.000	.000**	.000	.000	.000	.000	.000	1.000			
	LD	.086*	.034*	.031**	.000	.000	.000	.000	.000	.000	1.000		
	MVP	.015**	.027**	.046**	.000	.000	.000	.000	.000	.000	.000	1.000	
	SRP	.000**	.000**	.000	.000	.000	.000	.000	.001	.000	.000	.000	1.000
	N	256	256	256	256	256	256	256	256	256	256	256	256

Source: Binary logistic regression output

Accordingly, the test result shows that the correlation coefficient between all variables under consideration is less than 0.05 (Table 4.25), implying that the explanatory variables can separately contribute to the variation in the dependent variable. In a similar manner, the correlation coefficients between loan repayment and AG, SX, EDL, FSZ, DIS, LS, TMLR, LT, MVP, and SRP were: .000, .000, .046, .000, .000, .000, .000, .000, .000, .000, .000, .000, .000, .000, respectively, with all being strongly significant. The results of the correlation coefficients of all predictor variables with loan repayment performance are depicted in the following topics one by one.

2. The Goodness-of-Fit Model

The results of the binary logistic regression model revealed that borrower's loan repayment performance was affected by the interaction of different borrower's factors, lender-related factors, loan factors, and socio-economic factors.

Hosmer and Lemeshow (1980) showed by simulation that (provided $p+1 < g$) their test statistic approximately followed a chi-squared distribution on $g-2$ (g =number of groups) degrees of freedom when the model is correctly specified. This means that given our fitted model, the p value is calculated as the right-hand tail probability of the corresponding chi-squared distribution using the calculated test statistic. If the p-value is small, this is indicative of poor fit. The null hypothesis

for the test is that “there is evidence of missing specification.” The inferential goodness-of-fit test is the H-L statistic that yielded a χ^2 as shown in the following table.

Table 4.26 Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	.000	7	1.000

Source: Binary logistic regression output

The results shown in Table 4.26, headed Hosmer and Lemeshow Tests, support our model as being worthwhile. This test, as stated by Pillant (2005), is the most reliable test of model fit available in SPSS and is interpreted very differently from the omnibus test discussed above. For the Hosmer-Lemeshow Goodness of Fit Test, poor fit is indicated by a significance value less than .05, so to support our model, we actually want a value greater than 0.05. In our case, the chi-square value for the Hosmer-Lemeshow test is 0.000, with a significance level of 1%. This value is less than .05, therefore indicating support for the model.

Table 4.27 Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	249.531	21	.000
	Block	249.531	21	.000
	Model	249.531	21	.000

Source: Binary logistic regression output

From Table 4.27 above, to test the measure of goodness of fit in logistic regression analysis, the chi-square was computed and showed that the model was significant at the 1% significance level. Consequently, the null hypothesis stating the coefficients of independent variables to be equal to zero was rejected, and the alternative hypothesis of the non-zero slope was accepted. The value is given in the Sig. column, which is the probability of obtaining the chi-square statistic given that the null hypothesis is true. In other words, this is the probability of obtaining this chi-square statistic (249.531) if there is, in fact, no effect of the independent variables, taken together, on the dependent variable. This is, of course, the p-value, which is compared to a critical value, possibly .05 or .01, to determine if the overall model is statistically significant. In this case, the model is statistically significant because the p-value is less than 0.05% (Table 4.27).

Model summary: gives us another piece of information about the usefulness of the model. The

Cox and Snell R square and the Nagelkerke R square values provide an indication of the amount of variation in the dependent variable explained by the model (from a minimum value of zero to a maximum of approximately 1) (Julie, 2007).

Table 4.28 Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	54.001 ^a	.691	.921

Source: Binary logistic regression output

Regression analysis in the model (20) variables' (+) value indicates a significant increase in the chances of loan repayment or non-defaulters. Whereas variables having a (-) value indicate their significant decrease in chances of loan repayment or increase in default. Nagelkerke R Square and Cox & Snell R Square at a 95 percent confidence level approximate 69.1 percent and 92.1 percent, respectively, showing the model's goodness of fit was good.

4.6.2 Model Output and Hypothesis test results

4.6.2.1 Model Output

In the preceding section, variables characterizing the loan repayment performance and their differences among the defaulters and non-defaulters were identified. However, binary logistic model analysis emphasizes considering the combined effect of variables between defaulter and non-defaulter borrowers in the study area, and their p-value of less than five percent was declared as a sig statistical relationship between dependent (loan repayment) and independent variables associated with loan repayment in binary logistic regression with values of $P < 0.05$ and $P < 0.01$.

The binary logit model result and the maximum likelihood estimates revealed that Omo Bank borrower's loan repayment is affected by the interaction of different potential institutional-related and non-institutional-related factors. To test the measure of goodness of fit in logistic regression analysis, the likelihood ratio test says the chi square distribution with degree of freedom (df) equals the number of independent variables included in the model (Gujarat, 2003). Consequently, the chi-square computed indicated that the model was significant at the one percent significance level.

4.6.2.2 Hypothesis test result

Loan repayment is a dependent variable, which begins by adding independent variables to the categorical variable list in SPSS version 26 and coded on the date set for 0 and 1 for dependent

variables. The study ensures that the independent variable is a categorical variable, as declared in this analysis.

Factory affecting loan repayment performances borrowers of Omo Bank in Tocha and Kechi Branches, Dawuro Zone District of South West Ethiopia summarized in the following table

Table 4.29 Hypothesis test result factors affecting loan repayment performances of borrowers

Independent Variables	Symbol	Expected sign/ Hypotheses	Result from binomial logistic regression Model
Age	AG	+ve	β of 3.422, positive, positive association b/n Age and loan repayment of OBs borrowers
Sex	SX	+ve	β of 4.949, positive association b/n Sex and loan repayment of OBs borrowers
Education level of borrows	EDL	+ve	β of 36.384; positive association between education level and loan repayment of OBs' borrowers
Family size	FSZ	+ve	β of 3.281, positive association b/n Family size and loan repayment of OBs borrowers
Distance of Borrower from Institution	DIS	+ve	β of 2.833, positive association b/n Distance of Borrower fro Institution and loan repayment of OBs borrowers
Loan size	LS	+ve	β of 53.645, positive association b/n loan size and loan repayment of OBs borrowers
Timeliness of loan Release	TMLR	+ve	β of .000, positive ,association b/n Timeliness of loan release and loan repayment of OBs borrowers
Loan Training	LT	+ve	β of 36.320, positive ,association between training and loan repayment of OBs' borrowers
Loan diversion	LD	+ve	β of 2.107, positive association between loan diversion and loan repayment of borrowers of OBs
Market value of project	MVP	+ve	β of .000, positive association b/n Market value of project and loan repayment of OBs borrowers
Suitability of repayment period	SRP	+ve	β of .000, positive association b/n Suitability of repayment period and loan repayment of OBs borrowers

The above table shows that out of all the independent variables, those stated under the null hypothesis were found to be strong significantly affecting the loan repayment performance at the one percent and five percent significance levels. That means all independent variables were found to be strongly high significant and affect the loan repayment performance of Omo Bank's borrower at the one percent significance level.

4.6.2.3 Binary Logistic Regression Results

The logistic regression model output of the variables included in this study is presented as follows: The variable in the equation table gives information about the contribution or importance of each of the model predictor variables. The test that is used here is known as the Wald test, and the value of the statistics for each predictor is in the column labeled Wald. Values less than 0.05 in the sig. column are the variables that contribute significantly to the predictive ability of the model (Julie, 2007).

Table 4.30 Summary of Variables in the Equation

		B	S.E.	Wald	Df	Sig.	Exp(B)
	AG	3.422	29412.784	.000	1	.000	30.617
	SX	4.949	43275.816	.000	1	.000	141.043
	EDL	36.384	27819.178	.000	4	.000	1.00
	FSZ	3.281	29347.298	.000	1	.000	26.597
	DIS	2.833	35613.375	.000	1	.000	16.993
	LS	53.645	46673.043	.000	1	.000	19.84164909253
	TMLR	.000	30699.052	.000	1	.064	1.000
	LT	36.320	30784.117	.000	1	.047	.000
	LD	2.107	37584.305	.000	1	.001	8.222
	MVP	.000	13587.725	.000	1	.000	1.000
	SRP	.000	13867.896	.000	1	.000	1.000
	Constant	64.011	89426.864	.000	1	.000	63.000
a. Variable(s) entered on step 1: AG, SX, EDL, FSX, DIS, LS, TMLR, LT, LD, MVP, and SRP.							

Source: Binary logistic regression output

Number of observation: 256 B=regression coefficient Exp (B) = odds ratio

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

*and**indicate that the coefficients are statistically significant at 0.05 or five percent level respectively.

Wald statistic: Alternatively, when assessing the contribution of individual predictors or independent variables in a binomial logistic regression model, one may examine the significance of the Wald statistic. The Wald statistic, analogous or comparable to the t-test in linear regression, is used to assess the significance of coefficients, i.e., to test the effect of individual predictors while controlling other predictors. Wald statistic is located outside the lower and upper limits of a given confidence interval (99, 95, or 90 percent), the null hypothesis is rejected and the independent variable is significant. The reverse is true when the Wald statistic is located within the interval. In this model, the Wald statistic test is used to assess the significance of an individual predictor.

The Wald statistic is the ratio of the square of the regression coefficient to the square of the standard error of the coefficient and asymptotically distributed as a chi-square distribution. Although several statistical packages report the Wald statistic to assess the contribution of individual predictors, the Wald statistic has limitations. When the regression coefficient is large, the standard error of the regression coefficient also tends to be large increasing the probability of type-II error. The Wald statistic also tends to be biased when data are sparse.

B: This is the coefficient for the constant (also called the “intercept”) and the independent variables of the model. In binomial logistic regression, the regression coefficients represent the change in the logit for each unit change in the predictor. Given that the logit is not intuitive, focus is given for a predictor's effect on the exponential function of the regression coefficient – the odds ratio.

S.E.: This is the standard error around the coefficient for the constant.

Sig.: This is the chi-square test that determines whether the association between independent variable and dependent variable is statistically significant by comparing the p-value (sometimes called prob-value) of independent variable with the chosen significance level. The association is statistically significant and null hypothesis rejected when the p-value (value listed in the column called “Sig.”) is smaller than or equals to the specified significance level or 0.05. Whereas, when p-value listed in the sig. column is greater than the specified significance level, the association between the independent variable and dependent variable is statistically insignificant.

Exp (B): This is the exponentiation of the B coefficient, which is an odds ratio. This odds ratio is easier to interpret than the coefficient. It is used to interpret the relation between the independent variables and the probability that the dependent variable. The odds in favour of an event occurring is defined as the probability the event will occur divided by the probability the event will not occur. The odds ratio measures the impact on the odds of a one-unit increase in only one of the independent variables.

As presented in the table 4.25 above, at the top of the output we see that 256 observations in this data set used for analysis. The likelihood ratio Chi-square (4.27) of 249.531 with p-value of 0.0000 tells us that this model composed of more suitable significant variables comparative insignificant predictors and this indicates that whether the combined effect of all the variables in the model is different from zero or not. Also, tell us how the model as a whole is significantly fit. The log likelihood 54.001^a indicated how quickly the model converged.

4.7, Interview

In order to get a deep understanding of the factors affecting nonperforming loans; an in-depth interview was conducted with senior officials in Omo Bank Institutions.

The respondents have in common, as to what they believed cause occurrence of nonperforming loans. All of the interviewees have had over four years' credit experience in addition to their several years of experience. In terms of profile, a sub-branch manager and two senior customer service employees were participated. The interview in-depth insights concerning the contribution of the institution services to borrowers and legal issues concerning repayment;

- Screening borrowers and fulfilling documents
- Disbursing loans
- Training borrowers before loan release
- Supervising and follow up
- Collecting matured loan
- Accusation of borrowers who have resource capacity but intentional or wilful defaulters

The section that follows present factors believed to cause occurrences of NPL by the interviewees. Respondents indicated that several factors contribute to loan default.

- Fund being directed to unintended purpose,
- Borrowers not making competitive analysis before engaging in a particular sector,

- Poor record keeping by businesses,
- Intentional or wilful default, Intervention of external bodies in credit decision making
- Poor credit culture,
- Remoteness of borrowers

4.8. Interpretation of the model results

The estimated of binary logit model are shown below in table 31, the 11 explanatory variables were considered in the economic model. Out of these all 11 of the variables were found to be significant at one percent significant level and five percent significant level.

4.8.1. The borrowers' characteristics of respondents that affecting repayment

Performance

In this case, the effects of the variables listed under the borrower's characteristics of respondents' factors interpreted based on the sign of each independent variable.

1) Age

The age coefficient was positive and significant at the 0.05 or 5% level of significance. The result from the binomial logistic regression model indicates a positive sign for the age variable (β of 30.617), which implies a positive association between age and loan repayment performance of borrowers. This result shows that as the borrower's level of age increases, their ability to access, evaluate, and understand customer handling increases, leading to high market demand. Since the significant p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), this finding is similar to those of Fikirte (2011), Mukono (2015), and Mesele (2016).

2, Sex

The result from the binomial logistic regression model indicates a positive sign for the sex variable ($\beta = 4.949$), which implies a positive association between sex and the loan repayment performance of borrowers. Since the significant or p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), this finding is similar to those of Fikirte (2011), Mukono (2015), and Mesele (2016).

3. Family size

The result from the binomial logistic regression model indicates a positive sign for the family size variable ($\beta = 26.597$), which implies a positive association between family size and the loan repayment performance of borrowers. Result shows that as the family size increases, the

borrower's ability to access, evaluate, and understand customer handling increases, resulting in high market demand. Since the significant or p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), this finding is similar to those of Fikirte (2011), Mukono (2015), and Mesele (2016).

4, Educational level:

The result from the binomial logistic regression model indicates a positive sign for the education level variable (β of 1.00), which implies a positive association between education level and loan repayment performance of borrowers. Result shows that as the level of education increases, the borrower's ability to access, evaluate, and understand customer handling increases, resulting in high market demand. Since the significant or p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), this finding is similar to those of Fikirte (2011), Mukono (2015), and Mesele (2016).

5. Distance of borrower from institution

The distance of the borrower from the institution coefficient was positive and significant at the 5% level of significance. These findings support the argument that borrowers who live near Omo Bank would be more able to repay their loans than far-away borrowers. A nearness of borrower distance increased the loan repayment by (β of 16.993). Since the significant p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), the finding of the borrower's distance from the institution coincides with that of Oke, Adeyemo, and Agbonlahor (2007).

6. Market value of project

The market value of a project from a loan is highly significant at the 5% level and positively related to borrowers' ability to repay their loans. An increase in the market value of a project from the use of the loan by one will increase the likelihood of being able to repay one's loan by 1.000%. Since the sig, statistic, or p-value (.000) is smaller than the chosen significance level (0.05 or 5 percent), the finding coincides with that of Oladeebo and Oladeebo (2008), conducted in Nigeria, and Wongnaa and Awunyo-Vitor (2013), conducted in Ghana.

4.8.2 Institutional characteristics of respondents that affecting repayment

Performance

1) Loan size: The result from the binomial logistic regression model indicates a positive sign for the loan size variable (β of 19.84164909253), which implies a positive association between loan size and the loan repayment performance of borrowers. This result shows that as the level of loan

size increases, the borrower's ability to access, evaluate, and understand customer handling increases, resulting in high market demand. Since the sig, statistic or p-value in some other statistical application (.000) is smaller than the chosen significance level (0.05 or 5 percent), This finding is similar to those of Fikirte (2011), Mukono (2015), and Mesele (2016).

2, Loan Diversion: The loan diversion statuses of borrowers are significant and positively related to the loan repayment rate. The P value of the result is 0.001, which is less than the minimum standard for a P value of 0.05. The relationship between the status of the loan repayment and loan diversion from the intended purpose of the borrowers is positive. This finding is similar to the result of Yilkal (2015).

3) Loan Trainings: As stated earlier, loan training influenced the dependent variable positively and significantly at the 5% level. The implication was that if loan training was sufficient, borrowers could have better knowledge of marketing, business, bookkeeping, and savings. Increasing the number of days of training by one day increases the probability of a borrower being able to repay his or her loan by.000%. Since the sig, statistic, or p-value in some other statistical application (.000) is smaller than the chosen significance level (0.05 or 5 percent), this means that the more credit officers train borrowers to learn how the loan is used, the better the borrowers' repayment abilities, and vice versa. This will motivate the borrowers to work harder, and there will be less likelihood of borrowers diverting the loans for unintended purposes.

4) Suitability of repayment period

The variable suitable repayment period has a positive sign as expected, and it is statistically highly significant at 5%. The estimation indicates that as the borrower takes a loan to be repaid within the suitable repayment period; his or her probability of repaying his or her loan will increase by 1.000%. Roslan and Zaini (2009) in Malaysia and Kibrom (2010) in Ethiopia also came up with similar results in their study on micro-credit schemes. In summary, loan training, loan diversion, loan size, timeliness of loan, and suitability of repayment period are significant institution-based factors that have a significant impact on repayment performance, while age, sex of borrower, family size, education level of borrower, borrower's distance from the institution, and market value project are borrower-based. The bank should adjust the important and significant factors affecting the probability of return so that it does not affect future operations.

CHAPTER FIVE

5. CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion

Omo Bank programs are now a key objective of poverty mitigation strategies by providing loans to the poorest members of society. This study was conducted to identify borrowers-based and institutional-based factors affecting loan repayment performance and to determine the trend of non-performing loans in Tocha and Kechi OB branches. Primary and secondary sources of data were used to carry out the study. A multi-stage sampling procedure was used, and 281 household heads were selected by a simple random sampling method from two branches of the district. The poor loan repayment performance weakens the financial position of OB, which further hampers the cyclical flow of funds between the institution and borrowers. The financial data of OB indicates that the default rate of the institution has shown an increasing rate since 2019 to 2020 and from 2021 to 2023. However, in the years 2020–2022, the default rate will again decrease.

The primary data were collected from 59 defaulters and 197 non-defaulters, totaling 256 respondents of the 281 projected samples, and the logit model was used for analysis. The descriptive statistics results showed that about 23 and 77 percent of sample households were defaulters and non-defaulters, respectively. The descriptive statistics show that only 20.3% of the respondents are female. This indicates that little is done on the part of the lending institutions in terms of women's participation.

The percentage of youth in the defaulter group was higher than in non-defaulter groups. According to the respondent educational background, 23.4% have never attended school, 54.3% are from a primary school, 15.6% are from a secondary school, 5.1% are certificate holders, and the rest, 1.6%, have completed a college diploma or higher. In terms of the residence of the borrower, 74.6% of respondents in the sample lived less than or equal to 5 km, and 25.39% of respondents lived greater than 5 km. of OB. Almost 42.18% of respondents have 1-4 family members, 52.73% have 5-10 family members, and 5% have 11–22 family members per household. Particularly, loan diversion was found to be one of the important and significant factors influencing loan repayment performance positively, which means it increases default significantly.

Regarding loan size, 85 percent of respondents got sufficient loans for their intended purposes, while 15 percent did not get sufficient loan amounts. For credit-worthy borrowers the market value

of projects 33 (12.89%), 158 (61.71%), and 65 (25.39%) increased, stayed, and decreased, respectively. Regarding the opinion of respondents on the suitability of the loan installment period, 66.4% of the respondents consider it suitable, and 33.6% say it is not suitable. Based on the results, although 86 (33.6%) of defaulter respondents were suitable or gave the answer "yes" and found in the group that replied period was not suitable or gave the answer "no," out of them 60 (69.7%) were paid their loan timely, while respondents responded monthly, quarterly, semi-annually, and annually, respectively.

According to the logit model, the main socio-economic factors that influence loan repayment performance of the borrowers are age, sex, education level, family size, the market value of their projects, loan size, and the distance of borrowers from OB, whereas institutionally related factors that affect loan repayment performance in OB are timeliness of loan release, loan size, loan diversion, loan training, and suitability of loan repayment period. The age of respondents positively and significantly determines the loan repayment performance of borrowers. This shows that the older respondents have better repayment performance than the younger respondents. Moreover, the elders were more responsible for repaying the loan than the youths were.

The other significant factor that was found to improve the repayment performance was loan size. The size of the loan approved by OBs is decided based on many factors, primarily based on the experience of the borrower and the size of the guarantee offered by the borrower. This will limit the access to the loan required for the sought-after business, even though it is mostly within the OBIs' credit range. Subsequently, this will lead to limited operation size and a lower return on business activity, which may lead to non-performance.

Loan diversion was also found to be a critical and significant factor in affecting the loan repayment rate negatively. This means that diverting loans into non-income-generating activities raises the default rate and lowers repayment performance. Repayment is highly influenced by loan deviation at the time of approval.

Business performance in this study is viewed in terms of product or service market value. Therefore, institutions' clients who had high-market value businesses were able to repay their loans, whereas businesses with low-market value led clients to default or repay slowly.

The repayment period is also found to be a significant factor in the loan repayment performance of borrowers. The suitability of the loan repayment period for borrowers was found to significantly increase the probability of repaying the loan. To sum up, younger borrowers, high family size

borrowers, borrowers who had taken low loan sizes, borrowers who live far from institutions, borrowers who had not taken loan training, borrowers who diverted their loans, and borrowers whose market value of products or services was not increasing were undermining loan repayment performance, while the reverse was attractive loan repayment performance.

5.2 Recommendations

Based on the results of the study the possible recommendations that emanate from this study are presented as follows.

- ❖ The age of the borrowers is a significant factor in loan repayment performance. The older borrowers have expressed concern about repaying their loan. It is not recommended to exclude them from young age groups, but the institution should give special consideration to those borrowers through continuous follow-up and supervision.
- ❖ Increase the staffing levels in the branch office for distance customers to facilitate efficient service delivery in terms of quick processing of applications, disbursement of loans, monitoring of loan usage. The Institution should add the bank number and use motorcycle and car transportation. Also, since the geographical location of the study area is not suitable for the user community, the government should study the feasibility of the respected shareholders and start one or more branches in each cluster if possible.
- ❖ The loan size of the borrowers is approved by the institution, but most borrowers said that the loan size is not enough for the intended purpose. Because of this, the institution should increase the size of the loan for the borrowers by considering the purchasing power of money, and the size of the loan should be flexible.
- ❖ Furthermore, lenders should attempt to train loan beneficiaries to improve loan repayment.
- ❖ Loan diversion was found to influence loan repayment performance positively. This is because most households in the default category divert loans for nonproductive purposes and are unable to repay the loans on time. Hence, it is important to come up with a reliable and sound business plan rather than changing plans after receiving the loan. The lenders should provide training, strictly evaluate the borrowers' business plans, and provide manageable loans based on the cost-benefit analysis. The institution should work to release a sufficient amount of loan to safeguard borrowers from divert.

- ❖ An increased market value of a product or service was found to significantly increase the probability of repaying the loan in full. However, it is not recommended to reject those with low income hoping to reduce loan default, in view of the fact that this contradicts the very objective of Omo Bank, but the institutionalized sectors should support the borrowers during business plan working.
- ❖ Sometimes the repayment periods for borrowers are not suitable, and they are not matched with the cash availability of the client. Sometimes, during the repayment period, agriculture products are not demanded by the market, and not all products are harvested. By considering this, the institution should search for a suitable repayment period according to the client's needs. The institution has to give adequate time to customers so that they will be able to work with the loans they have borrowed and arrange the time to collect loans that will be suitable for them to sell their business output.

5.3 Limitations and Suggestion for Further Study

The main objective of the study was to target the borrowers of the Tocha and Kechi Omo Bank branches. As a result, it helps both the bank's managers and stakeholders quickly see the shortcomings in the performance of the loan. It cannot be generalized to other Omo Bank branches. Therefore, more research can be done by collecting samples from all branches in order to fully see the defects in credit delivery.

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Asnake, Tesfatsion and Rahwa (2014), Dechasa, 2018; Mulugeta and Leyla, 2022) Stated at a younger stage, people have the ability to work and they are expected to generate a higher income in the future,

Khandker, et al (1995),(Vigano, 1993; Abafita, 2003; Abreham, 2017),explains that loan recovery rates have been higher for women than for men in the case of Grameen Bank.

According to Jemal (2003) this variable is expected to have a positive impact on repayment performance in general. Considering normal circumstances, a more educated borrower is expected to use the loan effectively as compared to a less educated one.

VonPischke (1991) cited by Tenishu (2014) and Jemal (2003) noted that efficient loan sizes fit borrowers’ repayment capacity and stimulate enterprise.

According to, (Abreham, 2002), the impact of this Variable depends to what use the diverted loan is put.

(Kamu, 2012; Ume et al., 2018), As a result, he/she may divert the loan to meet the needs of the dependents; hence, we expected this variable to have a negative impact on loan repayment.

(Firafis, 2015; Abreham, 2016; Abreham, 2017), Hence, the coefficient of training variable in this study is expected to be positive.

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Appendix 1

በጂማዩኒቨርሲቲ የማስተርስተማሪ በሆኑት በአቶ አስረስ አሸሮ በደቡብ ምዕራብ ኢትዮጵያ ክልል በዳዊ ሮዞን በቶጫ እና ከጨው ረዳላሚ ገኙ

የአሞባን ክተቋም ብድር ተጠቃሚዎች የተዘጋጀ ጥናታዊ ጽሁፍ ቃሌ መጠይቅ መመሪያ፡ ለሚከተሉት ጥያቄዎች በአሞባን ክካለዎት ደንቦች ነት ልምድ ዎበመነሳት አስተያየት ዎን ባለዉክ ፍትቦታ በጭረት (✓)

ያመልክቱ፡፡ አስፈላጊ ሁኖ ሲገኝ ከአንድ በላይ አማራጮችን መምረጥ ይቻላል፡፡

1. ዕድሜ.....

2. ፆታ () ወንድ () ሴት

3. የጋብቻ ሁኔታ () ያላገባ () ያገባ () አግብቶ የፈታ () ምስቱ የሞተ በት () ባሏ የሞተ በት ()

4. የት/ት ደረጃ () ያልተማረ () አንደኛ ደረጃ ት/ት (1-8) () ሁለተኛ ደረጃ ት/ት (9-12) () ከ12ኛ ክፍል በላይ () ሌላ ካሌ ይገለጽ.....

5. የቤተሰብ ብዛት.....

6. የሥዓይነት.....

7. የመኖሪያ ቦታ ከአሞባን ክያለው ርቁት () ከ5 ኪ.ሜ በላይ () ከ5 ኪ.ሜ በታች

8. ከአሞባን ክተቋም በተበደሩት ገንዘብ ምን ዓይነት ምርት/አገልግሎት ይመረታል/ይሰጣል/?.....

9. ለምረተዎ ያለው የገበያ ፍላጎት ምን ያክል ነው? () ከፈተኛ () መካከለኛ () ዝቅተኛ

10. ላለፉት 2 ዓመታት የምርት ዎ/አገልግሎት ዎ ርፍ አዝማሚያ ዝንባሌ በየትኛው ደረጃ ይመደባል?

() እያደገው () እየቀነሰው () ባለበት ቦታ ነው

11. ለጥያቄ ር.10 ምላሽ ዎ እያደገው ካሉ የእድገቱ ምክንያት ምን ድነው? የምርት/አገልግሎት ጥራት ስላለው ነው (

) በቂ ገንዘብ ስላሌ ነው () ምቹ ገበያ ስላለው ነው () ጥሩ ዋጋ ስላለው ነው ()

ሌላ ካሌ ይጥቀሱ.....

12. ብድር ከአሞባን ክ የተበደሩት ለምን ዓላማ ነው? () ለእርሻ ግብዓት ግዥ () ለድለባ

() ለእርሻ በሬ ግዥ () ለጥቃቅንና አነስተኛ ሥራዎች () ለቤት ግንባታ

() ለቤት ፍጆታ () ሌላ ካሌ ይጥቀሱ.....

13. የጠየቁት ብድር በጊዜ ተለቀዋል? () አዎን () አይደለም

14. ያገኙትን ብድር ለታለመው ዓላማ አውለዋሉ? () አዎን () አይደለም

15.ለጥያቄቁ.ር16ምላሽዎአይደለምከሆነለታለሙውዓላማእንዳያውሉየከለከለውምክንያትምንድነው? -----

16. ብድርየተሰጥዎትበተገቢኒዜነው?() አዎን() አይደለም

17. ለጥያቄቁ.ር18 ምላሽዎአይደለምከሆነየብድርመዘግየቱምክንያትምንድነው?()
የአሞባንክተቋምየግዜሂደትርዝመት() የብድርዎቡድንያለመሟላት()
የቀበሌዎየአሞኤጀንትሰነዶችንበጊዜያለማቅረብ() የበፍትብድርበጊዜባለመመለስዎችግር()
ሌላካሌይጥቀሱ.....

18. ከአሞባንክለስንትጊዜብድርወስደዋሉ?.....

19. በቅርብጊዜከአሞባንክተቋምየወሰዱትብድርካለሙትዓላማአንጻርምንያክልነው?() በቂነው()
መካከለኛነው() በቂአይደለም

20.ከአሞባንክለብድርየጠየቁትንገንዘብመጠንምንያክልነበር?.....

21. ብድርዎንበወቅቱከፍለዋሉ? () አዎን() አይደለም

22.ብድርዎንለመክፈልያነሳሳዎትምክንያትምንድነው? () የቡድንግፍት() የህዝብተቀባይነትላለማጣት()
ሌላብድርለማግኘትበመፈለግ() ብድርዎንበጊዜመመለስግዴታዎመሆኑንስለሚያውቁነው()
ሌላካሌይጥቀሱ.....

23. የቅርብጊዜብድርአመላለስዎበምንደረጃላይደገኛል?() ሙሉበሙሉከፍያለዉ()
በመርሃግብሩመሠረትእየከፈልኩኝ() በማወዘፍእየከፈልኩኝ

24. ብድርለአሞባንክየምመልሱበትወቅትመቼመቼነው? () በየወሩ() በየሩብዓመቱ() በየግማሽዓመቱ()
በየዓመቱ

25. ብድርእንዲመልሱየተቀመጠውወቅት/ጊዜተመችቶታል?() አዎን() አይደለም

26. ለጥያቄቁጥር25 ምላሽዎአይደለምከሆነየትኛውወቅት/ጊዜይመችቶታል? () በየወሩ() በየሩብዓመቱ()
በየግማሽዓመቱ() በየዓመቱ

27. የብድርአመላለሱምቼእንዲሆንበእርሳስተያየትእንዴትብሆንይመርጣሉ?()
ለብድርመመለሻበቂጅይታጊዜቢሰጥ() ብድርየምመለስበትጊዜረጅምብሆ()
ሌላምካሌይጥቀሱ.....

28.የአሞባንክተቋምባለሙያስለብድርአጠቃቀምናአመላለስድጋፍናክትትልያደርጋሉ?()አዎን() አይደለም

29. ለጥያቄጥር28 ምላሽዎአዎንከሆነየተሰጥዎትድጋፍበቂነውብለውያስባሉ?-----

Appendix 2

Questionnaire for Interview: prepared for Omo Bank Institution employers my name is **AsresAshiro** I am a postgraduate student of Jimma University. You Purposely selected for this interview questionnaire and your response to this questionnaire will serve as a resource of information to this research paper to do. Your response provides strictly Confidential and use exclusively for the research purpose. **Thank you!**

KEY GUIDE QUESTIONS

1. What are the main factors that affect loan repayment performance of your institution?
2. Do you think which loan distribution area (from rural and urban) effectively paid loan repayment?
3. What kind of service given in your institution to borrowers?
4. What challenges faced by borrowers towards loan collection performance during collection period?
5. What measures taken to improve the repayment situation of borrowers?
6. is there support from stakeholders when your institution legal issues concerning repayment?
7. Have you any other suggestions beyond these questionnaires that strength this research?