DETERMINANTS OF LOAN REPAYEMENT PERPORMANCE OF WISDOM MICROFINANCE INSTITUTION

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By: DEJENE KEBEDE

ADVISOR: KASU BIRBIRSA. (M.SC)

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING AND FINANCE

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Abstract

Microfinance institution are important tools in poverty alleviation through employment creation and income generation for low income groups with limited opportunities. This study would be conduct to show the direct relation effect of socio-economic, institutions and demographic on loan repayment performance of wisdom microfinance institution. In the study the explanatory research design would be used to examine the relationship of the dependent and independent variables. In order to achieve this objective primarily data was be collected from clients and manager of wisdom microfinance institution by using interview, questionnaires. The data would be collected from active total population of 1379 by using yemane formula take 94 simple size of population of wisdom microfinance institution. The result of the cross tabulation analysis show that sex, age, educational level, family size, income level, loan size, interest rate were found influencing loan repayment performance. Based on the findings of the study, some recommendations were made to improve loan repayment performance in the study area. Wisdom microfinance institution should be strengthen and support the poor women and should provide trainings to the borrowers before they deliver the loan, the Youngers aged group has more defaulters compared to elders. It is not recommended to exclude the youngers age groups but the institution should give special attention to those borrowers by providing awareness creation training, continuous follow up and supervision, provide loan for those borrowers who have small family sizes with proper supervision, Provide loan for those borrowers who have higher education level with proper supervision, reduce the timeliness of loan release to increase loan repayment performance, encouraged to take up loan and taught how to save and boost their income levels for those borrowers who have low level of income, to give enough time to clients so that they will be able to work with the loan they have borrowed and arrange the time to collect loan that will be suitable for them and give balance of interest rate to borrowers.

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Acronym

AEMFI	Association of Ethiopian Microfinance Institutions
MFI	Microfinance Institution
MIX	Microfinance Information Exchange
NBE	National Bank of Ethiopia
NGO	Non-Governmental Organization
SNNPR	Southern Nation, Nationalities and Peoples Region

CHAPTER ONE:

Introduction

1.1 Background of the study

Microfinance is an important strategy to alleviating poverty in developing countries. It has grown in prominence since Muhammad Yunus started the Grameen Bank Project in 1976 (Cabraal, et al. 2006). The Grameen bank of Bangladesh, which was founded by Mohammad Yunus, was one of the first microfinance institutions (MFIs). Mohammad Yunus came upon a group of villagers that were unable to pay off their debt to a money collector. Mohammed was able to lend them what they needed out of pocket. Moved by this situation, mohammed started a lending service that avoid high interest rates that the traditional moneylenders charged. The moneylenders charge rates were as high as 100% per month on the loans they give.

A microfinance institution (MFI) is an organization that offers financial services to low-income population to reduce poverty. Almost all give loans to their clients, and many offer insurance, deposit and other services (Mulugeta, 2010).

Most microfinance institutions provide collateral-free small loans to low income households. These loans are generally expected to use for self-employment and income-generating activities (Kono and Takahashi, 2010). Microfinance can be a critical element of an effective poverty reduction strategy. Improved access and efficient provision of saving, credit and insurance facilities in particular can enable the poor to smooth their consumption, manage their risks better, build their assets gradually, develop their microenterprise, and enhance their income earning capacity. Thus microfinance helps to promote economic growth and development (ADB, 2000).

As Microfinance Institutions have become more efficient and increased their client based service, they have begun to expand their services through different product offerings such as micro-savings, flexible loan repayment, and insurance. The theories of joint liability contracts, progressive lending, frequent repayments, and flexible collateral adequately explain the high rates of repayment (Sengupta and Aubuchon, 2008).

Currently, there are a growing number of successful microfinance institutions worldwide. These are primarily local institutions that are reaching a significant number of poor people and becoming commercially viable (Fikirte k Reta 2011). Most of the microfinance institutions have development objectives like poverty alleviation. Therefore, Nongovernmental

Organization (NGO) and donors have tended to focus on social programs and services for which they have particular expertise, including programs aimed at reducing poverty (Basu, et al. 2004).

People living in poverty, like in Ethiopia, need a wide range of financial services for consumption smoothing, running their business and building assets. But due to collateral problems, poor people in most cases have no credit access from Banks. Microfinance offers financial services such as loans, savings and micro insurance to the poor people either in individual or in a group basis. Lending to the poor usually means that a lender will not be able to get any collateral to secure the loan (Njoroge, and Eff 2009). Moreover, Kimentyi et al. (1998) argues that the most difficult aspects of lending to poor clients are borrower selection and repayment enforcement.

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

The establishment of sustainable microfinance institutions that reach a large number of rural and urban poor, who are not served by the conventional financial institutions (such as the Commercial Banks) has been a prime component of the new development strategy of Ethiopia. Although the development of microfinance institutions in Ethiopia started very recently, the industry has shown a remarkable growth in terms of outreach, particularly in number of clients (Amha, 2000).

Despite the obvious disadvantages of the microfinance industry in Ethiopia such as poor communication and infrastructure, weak legal systems, banking sector and lack of technical Capacity as compared with other Sub-Saharan countries, the sector has been growing at a significant rate (Amha, 2000: MIX and CGAP, 2010).

1.2 Statement of the problem

The primary objective of MFIs is to provide financial services (credit and saving) to the poor in order to relieve financial constraints and help alleviate poverty. Each MFI tries to maximize its repayment performance, whether it is profit oriented or not. One indicator of effective MFIs is the loan repayment performance of the borrowers (Sengupta and Aubuchon, 2008). High repayment rates are associated with benefits both for the MFI and the borrowers (Godquin, 2004). If there is high repayment rate, the relationship between the MFI and their client will be good, as Bond and Rai (2009) argues that high repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. In this case the borrowers will not be able to obtain the next higher loan and the lender will also lose their clients.

Loans taken from credit institutions vary from country to country, region to region, sector to sector. But most credits of developing countries were found to share one common characteristic: suffer from a considerable amount of default rate (the amount of loans not collected on current and past due loans for the reference period) (Kashuliza 1993).

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

There are many demographic, socio-economic and institutional factors influencing loan repayment performance in the MFIs. The main factors from the lender side are loan size, interest rate charged by the lender (Oke, et al, 2007). The main factors from the borrower side include demographic and socio-economic characteristics such as, sex, age, educational level, income level, family size. Most MFIs in Ethiopia are experiencing default problems as can be observed from their declining repayment rates (Abafita, 2003).

The empirical study on the area of determinant of loan repayment performance of microfinances institutions of the Ethiopia was studied by different researchers in varies period of times and on different microfinances institutions. Mulugeta (2010) on Wisdom microfinance, Fikrite (2011) on the determinants of loan repayment performance of Addis Credit and Saving Institution (AdCSI), Berhanu (2005) studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Abafita (2003) analysed the

microfinance repayment performance of Oromia credit and saving institution in Kuyu, and Abreham (2002) studied on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia around Zeway area.

All researchers were conducted on the area of determinant of loan repayment performance of microfinances institutions in the Ethiopia before two years ago and there is no many researchers who conducted on the determinant of loan repayment performance of microfinances institutions in the current periods of times. Since the major determinant of loan repayment performance of microfinances institutions not more studied in the current period of times, and the findings of some researchers were inconsistent. There is a research gap and the researcher try to contribute idea in literature to updating the study and to examining the determinants of loan repayment performance in MFI in Ethiopia, specifically focus on Wisdom microfinance institution.

Therefore, this study intended to identify and evaluate socio economic, demographic and institutions determine that affect the loan repayment performance of microfinance institution.

1.3 Objective of the study

1.3.1 General objective

The general objective of the study is to analyse and identify the major determinants of loan repayment performance of wisdom MFI.

1.3.2 Specific objective

The specific objectives the study are as follows

- ✓ To determine the demographic factors that influence loan repayments performance of the borrowers of Wisdom MFI.
- ✓ To examine socio- economic factors that influence loan repayment performance of the borrowers of wisdom MFI.
- ✓ To determine institutions factors that influence loan repayment performance of the borrower s wisdom MFI.

1.4 Hypotheses of the Study

The hypotheses of this study will be formulated by referring the existing theories and past empirical studies that have been conducted on the determinant of loan repayment performance .The hypotheses of this particular study will be intends to catch the determinant of loan repayment performances quantitatively through structured review of documents. In line with the objective of the study the following seven hypotheses will be formulated.

Age Respondent

According to Abafita (2003) studied the determinants of loan repayment. The age of the borrower showed the positive impact on the repayment performance.

H1: There is positive relationship between age and loan repayment performance.

Sex

According to Abafita (2003); sex and loan repayment performance have negative relationship.

H2: There is a negative relationship between sex and loan repayment performance.

Educational Level

According to Abreham (2002) studied on the loan repayment performance he is found out other sources of education level and loan repayment period is influence the repayment performance positively.

H3: There is a positive relationship between education level and loan repayment performance.

Family Size

According to Berhanu (2005) studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia, family size have insignificant effect on loan repayment performance.

H4: There is a negative relationship between family size and loan repayment performance.

Income Level

According to Abafita (2003) analysed the microfinance repayment performance Income from activities financed repayment period suitability and loan are positively and related to loan repayment performance.

H5: There is positive relationship between income level and loan repayment performance.

Loan Size

According to Abafita (2003); loan size are negatively related to loan repayment performance.

H6: There is negative relationship between loan size and loan repayment performance

Interest Rate

According to stiglitz and wiss(1981) ;interest rate and loan repayment performance have negative relationship.

H7: There is a negative relationship between interest rates and loan repayment performance.

1.5 Significance of the study

The finding of the study would dimensional significance among this significance

- The study would be analysing social-economic factors influence in loan repayment performance and give appropriate solutions to expand the activities of MFIs in sustainable manner.
- This study tries to provide better information for understanding on the determinants of loan repayment performance of the wisdom MFI from both lender and borrowers side.
- This study is used to create good understanding about loan repayment performance of wisdom microfinance institution.
- Enrich the knowledge of the reader on the determinant of loan repayment performance.
- It would help to the ground for other potential researcher.

1.6 Scope of the study

The study focuses on the determinant of loan repayment performance of wisdom MFI and also focus on performance of loan repayment socio-economic factors, demographic, and institutions faced by the borrowers and lenders and businesses and loan related factors that influence wisdom MFI. Which is operating in Wolkite town.

1.7. Limitation of the Study

There were challenges that affect the fullness of this study. Among these challenges of the study, the major one are, Lack of reference materials such as a book and sample research, Lack of money, Lack of time, lack of the clients give the real information. Thus, the limiting factors may negatively impact the findings of this study in one or another way.

1.8. Organization of the Study

The research paper is organized into five chapters including the introduction Part of the study. The first chapter deals with the background of the study, statement of the problem, objectives of the study, hypotheses of the Study ,the significance of the study, scope of the study and organization of proposal. The second chapter, literature review, deals with the reviews of related literatures, where challenges of microfinance and the functioning of credit market in developing country are discussed, the third chapter deals with the methodology of the study which consists description of study area, research design, source of data, data collection method, target population, sample sizes and methods of data analysis. In the fourth chapter, *Data analysis and interpretation, deals with cross tabulation analysis, Demographic Characteristics of the borrowers***,** *socio-economic Characteristics of the borrowers and* institutional *Characteristics of the borrowers***.** The fifth chapter consists of the conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2. INTRODUCTION

This chapter presents review of literature related to loan repayment performance. It consists of general overview about functioning of credit market in developing countries, empirical studies on loan repayment performance and ends by summarizing the review and identifying gap in the existing literature.

2.1 Theoretical literature

2.1.1 The functioning of credit market in developing countries

The fundamental feature that creates imperfection in credit markets is informational constraints. Ray (1998) stated that informational gap occur at two basic levels. First, there is lack of information regarding the use to which a loan will be put. Second, there is lack of information regarding the repayment decision of borrowers, as well as limited knowledge of the defaulter's subsequent needs and activities. All the important features of credit markets can be understood as responses to one or the other of these informational problems. In addition, Behrman and Srinivasan (1995) stated about the arising of agency problem in the functioning of credit market. This problem exists when there are different goals between creditors, shareholders and management. Financial intermediaries may reduce agency problem by monitoring borrowers and make wise investment choices.

Adverse selection and moral hazard are the two most important problems in the functioning of credit market; both are driving from the imperfect information. Kono and Takahashi (2010) also stated that imperfect information significantly increase default risks caused by adverse selection, moral hazard and strategic default. These are the theoretical micro foundations that have motivated the microfinance movement to fight poverty and promote growth by expanding access to credit. Billions of dollars of subsidies, and countless other resources, have been allocated to such efforts (Karlan and Zinman 2006). According to Armendariz and Morduch, (2010), both problems are made worse by the difficulty of enforcing contracts in regions with weak judicial systems.

The adverse selection occurs when the lender cannot easily determine which customers are likely to be more risky than others. Therefore, the lenders would like to charge riskier customers more than safer customers in order to compensate for the added probability of default. But the problem is the lender does not know who is who, and raising average interest

rates for everyone often drives safer customers out of the credit market (Armendariz and Morduch, 2010). Those who are willing to repay high interest rate may, on average, be worse risky; they are willing to borrow at high interest rates because they perceive their probability of repaying the loan to be low (stiglitz and wiss, 1981).

Moral hazard, arises because banks are unable to ensure that customers are making the full effort required for their investment projects to be successful. Moral hazard also arises when customers try to abscond with the bank's money (Armendariz and Morduch, 2010). In the absence of collateral, the lender and borrower do not have the same objectives because the borrower does not fully internalize the cost of project failure. Moreover the lender cannot stipulate perfectly how the borrower should run the project (Berhanu, 2005).

When the clients' borrow money from the lender, they were made promise to work hard and repay a loan. But, once the loan is disbursed the borrower might not be kept their promise and they were changing their behaviour. On the other hand, during the activities the borrower's business was fails and he/she declared as a defaulter. In this case, a lender may not be able to know whether this failure was due to the uncontrollable factors or putting less effort on the business activities and borrowers mishandling of the loan.

Karlan and Zinman (2006) stated that better understandings of information asymmetries are critical for both lenders and policymakers. For instance, adverse selection problems should motivate policymakers and lenders to consider subsidies, loan guarantees, information coordination, and enhanced screening strategies. On the other hand, moral hazard problems should also motivate policymakers and lenders to consider legal reforms in the areas of liability and enhanced dynamic contracting schemes.

Armendariz and Morduch (2010) stated that the information asymmetry problems could potentially be eliminated if lenders had cheap ways to gather and evaluate information on their clients and to enforce contracts. However, lenders typically face relatively high transactions costs when working in poor communities since handling many small transactions is far more expensive than servicing one large transaction for a richer borrower. Another potential solution would be available if borrowers had marketable assets to offer as collateral. In this sense, any problem on the loan was covered by the borrower's asset. Thus, the lender could lend without risk. But the starting point for microfinance is that new ways of delivering loans are needed precisely because borrowers are too poor to have much in the way of marketable assets. However, Behrman and Srinivasan (1995) stated that one way for

the government to improve enforcement conditions for credit markets is to improve the possibilities for usable sources of collateral like implementation of land registration.

In addition, Mohiuddin (1993, cited by Berhanu, 2005) stated that the problem of moral hazard is solved in formal sector poverty lending by tying credit and saving together, by having a built-in mechanism for emergency fund to handle unforeseen shocks due to market failure and price changes, and by its emphasis on borrower-initiated lending to avoid loan use in risky unknown ventures where markets or input supplies are uncertain.

In order to overcome the problems associated with the lack of information, the group lending scheme takes an advantage of local information, peer support, and, if needed, peer pressure. The group members may have better information about individuals' efforts and/or abilities than the lender (Besley and Coate, 1995). Besides, the joint liability element generates individual incentives to screen (mitigating adverse selection), monitor each other (mitigating moral hazard) and enforces repayment (Tesfay, 2009). Moreover, dynamic incentives are also helps to generate information by starting with small loans and gradually increasing loan size as customers demonstrate reliability (Armendariz and Morduch, 2010).

2.1.2 Causes and the possible solutions of default

Default on borrowed funds could be voluntary and involuntary. Involuntary default on borrowed funds could arise from unfavourable circumstances that may affect the ability of the borrower to repay. On the other hand, voluntary default, whereby a borrower does not repay even if he/she is able to do so (Stigliz and Weiss 1981). Therefore, the lender must understand the causes and the possible solutions of default. According to Norell, (2001) the most common reasons for the existence of defaults are the following: if the MFI is not serious on loan repayment, the borrowers are not willing to repay their loan; the MFI staffs are not responsible to shareholders to make a profit; clients' lives are often full of unpredictable crises, such as illness or death in the family; if loans are too large for the cash needs of the business, extra funds may go toward personal use; and if loans are given without the proper evaluation of the business (Norell, 2001).

In order to achieve self-sufficiency, reducing default rate is very crucial for any MFIs. MFIs can take a number of actions to reduce default rate or the amount of arrears. Norell (2001) writes about some strategies for preventing or reducing default. Giving training to the clients prior to the transaction of each loan and financial incentives for the credit officers can be

used to lower the default rates. Vento (2004) also defined the incentives from the promise to access to the subsequent loans is also helps to timely repayment and reducing default.

In addition, quick follow-up visits right after a missed payment and the formation of strong solidarity groups are also key to preventing high default rate. Limiting geographic scope reduces time and money wasted traveling from the office to clients' businesses. If credit officers have a specific geographic region, they can visit clients more often and it helps to develop relationships in their neighbourhoods. Loan should be given to the borrowers who have been in business at least twelve months. Businesses are most likely to fail within the first year of operation. If the business existed for at least one year on the Owner's equity, the loan from MFI should be a lower risk than if the business is a start-up. Some MFIs use six months as a minimum, others three. The lower the number of months, the higher the risk for the MFI Norell (2001).

Norell agree on the four categories of client in the MFIs: (1) willing and able to repay, (2) willing but unable to repay, (3) unwilling but able to repay, and (4) unwilling and unable to repay. For very late loans (group loans over five weeks without payment, individual loans at sixty days without payment), credit officers should visit each late payer and the credit officer should classify the client into one of the above four categories of client. Based on the classification of borrowers, the loan officer should take corrective action. The appropriate action taken by loan officer in each category are: (1) having the credit officer and the supervisor visit the client's business, (2) rescheduling should be considered for clients with a very good excuse, (3) the institution can pursue legal action or inform the community and influential persons of clients' unwillingness to repay. Because religious and community leaders can push them to pay. Moreover, their names can be publicly posted and (4) following up on such groups is a poor use of staff time. They are best referred to debt collectors or written off the loan (Norell, 2001).

2.1.3 Characteristics of Microfinance products

Microfinance gives access to financial and non-financial services to low-income people wishing to access money for starting or developing income generation activities. Murray and Boros (2002) stated that the characteristics of microfinance products include: small amounts of loans and savings, short loan terms, payment schedules featuring frequent instalments, easy access to the microfinance intermediary, simple application forms which

are easy to complete, availability of repeat loans in higher amounts for clients who pay on time.

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

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

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

And business development training is aims to make the borrower's business more effective. In line with this, Admassie et al (2005) agree on the loan utilization and technical training should be given to improve the skill of potential and actual clients. Technical support is important to increase the productivity of borrowers

In addition to clients, it is important to provide training for loan officers. By giving various kinds of training for field officers, it will increase the skill and ability of the field officer. This leads to motivate the loan officers knowing that the MFI is concerned for their welfare and ongoing training requirements; thus they are less likely want to work for a competitor MFIs. The MFI will increase their capacity through training field officers (Statham, 2008).

2.1.4 Other Challenges of Microfinance

The first most typical challenges faced by any Microfinance institution is credit risk as mentioned earlier. Moreover, the cost of debt collection per loan amount is, on average, higher than in formal intermediation, especially in developing countries lending (Vento 2004). Similarly, high cost of service associated with the low-value, high volume and cash intensive nature of the business and also high fixed and variable costs (Basu, 2005).

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

Another sources of challenges in MFIs is ownership and governance risk. This risk concerns the weakness in internal control systems, which play an important role especially in case of lack of external regulation (Vento 2004). In addition, limited management capacity in MFIs and institutional inefficiencies also challenges (Campion, 2002). Moreover, inadequacy of well-trained personnel in their rolls and staff incentives within any formal organisation paradigm (private or public) that seeks to deliver these services is challenges for Microfinance institutions (Basu, 2005).

2.2 Empirical studies on loan repayment performance

Loan repayment performance is affected by a number of socio-economic and institutional factors. While some of the factors positively influence the loan repayment, the other factors are negatively affect the repayment rate. Regarding to the loan repayment performance of borrowers several studies have been conducted in many countries by different authors. Some of the studies are summarized below.

2.2.1 Studies in other countries

Bhatt and Tang (2002) studied the determinants of loan repayment in microcredit evidence from programs in the United States. Their study showed that women has low repayment rate because some women entrepreneur in the study might have been engaged in high risk and low return activities.

Godquin (2004) also examined the microfinance repayment performance in Bangladesh. His result is female borrowers did not proven to have a significant better repayment performance. The size of loan and the age of the borrower showed the negative impact on the repayment performance. On the contrast, Abreham (2002) showed in his study male borrowers are the undermining factors for repayment.

Zeller (1996) analyzed the determinants of repayment performance of credit groups in Madagascar. His finding is groups with higher level of social cohesion have a better repayment rate. Moreover, the programs that provide saving service to their members have a significantly higher repayment rate. Olagunju and Adeyemo (2007) and Oke et.al. (2007) also analysed the determinants of repayment decision among small holder farmers in south-western Nigeria. The result showed that the number of visits made by loan officers to the borrowers, higher level of education, and time of loan disbursement would have a better repayment performance. Moreover, borrowers with lower number of household members would meet their repayment obligation better than those with high number of household members. And having access to business related information and providing training to the clients are increasing the loan repayment rate of the borrowers.

2. 2.2 Studies in Ethiopia

Berhanu (2005) studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. In order to analyse the factors that affect loan repayment, he employed the tobit model. A total of 17 explanatory variables were considered in the econometric model. Out of these seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers.

Abafita (2003) analysed the microfinance repayment performance of Oromia credit and saving institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependants are negatively related to loan repayment. On the other hand age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to

loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes.

Assefa (2002) employed a logit model to estimate the effects of hypothesized explanatory variables on the repayment performance of rural women credit beneficiaries in Dire Dewa, Ethiopia. Out of the twelve variables hypothesized to influence the loan repayment performance of borrowers, six variables were found to be statistically significant. Some of these variables are farm size, annual farm revenue, celebration of social ceremonies, loan diversion, group effect and location of borrowers from lending institution.

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

Fikirte (2011) studied on the loan repayment and its determinants in Addis Credit and Saving Institution, Addis Ababa, Ethiopia. The objective of this study was to identify and examine the determinants of loan repayment in AdCSI, Ethiopia. The total of twelve explanatory variables were included in the Fikirte's study. Out of these, six variables were found to be significant for the probability of being defaulter. Age were important in influencing loan repayment performance of the borrower. In addition, sex and business experience of the respondents were found to be significant determinants of loan repayment rate.

2.3 Summary of Literature

As studied in the theoretical and empirical literature review the Loan repayment performance is affected by a number of socio-economic and institutional factors. As mentioned above, various studies were conducted on the determinants of loan repayment performance in different countries. As Bhatt and Tang (2002) studied the determinants of loan repayment in microcredit evidence from programs in the United States. Their study showed that women has low repayment rate. Godquin (2004) also examined the microfinance repayment performance in Bangladesh, His result is female borrowers have a significant better repayment performance and the size of loan and the age of the borrower showed the negative impact on the repayment performance. Zeller (1996) analysed the determinants of repayment performance of credit

groups in Madagascar. His finding is groups with higher level of social cohesion have a better repayment rate. Olagunju and Adeyemo (2007) and Oke et.al. (2007) also analysed the determinants of repayment decision among small holder farmers in south-western Nigeria. The result showed that the number of visits made by loan officers to the borrowers, higher level of education, and time of loan disbursement would have a better repayment performance.

Berhanu (2005) studied on the determinants of loan repayment performance of smallholder farmers in Ethiopia. In order to analyse the factors that affect loan repayment, he employed the tobit model. A total of 17 explanatory variables were considered in the econometric model. Out of these seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers. Abafita (2003) analysed the microfinance repayment performance of Oromia credit and saving institution in Ethiopia. According to his finding; sex, loan size and number of dependants are negatively related to loan repayment. Abreham (2002) studied on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia. He is found out other sources of income, education, and work experience related economic activities before the loan are enhancing loan repayment. While extended loan repayment period is influence the repayment performance negatively.

Fikirte (2011) studied on the loan repayment and its determinants in Addis Credit and Saving Institution, Addis Ababa, Ethiopia, Age were important in influencing loan repayment performance of the borrower. In addition, sex and business experience of the respondents were found to be significant determinants of loan repayment rate.

As it was discussed in the literature review part, Most of study undertaken in others and our country related to the topic of determinates of loan repayment that are reviewed by different researchers in different research techniques also showed different effect on loan repayment. As Berhanu (2005), Godquin (2004) and Abafita (2003) age have negatively related with loan repayment, while as Fikirte (2011) is that the borrowers were becomes elder, they might be more aware on the financial management and they feel responsibility, Age has positively related with the loan repayment performance.

Thus, the inconsistency funding among researchers and little attention given by researcher on the determinate of the determinant of loan repayment performance of microfinances institutions in the Ethiopia before two years ago. Since the major determinant of loan repayment performance of microfinances institutions not studied in the current period of times, there is a research gap and the researcher try to contribute idea in literature to updating the study by adding additional variable to fill these gap

CHAPTER THREE

METHODOLOGY OF THE STDUY

3. INTRODUCTION

Designing appropriate research methodology is a prerequisite in order to conduct a good Research work. Accordingly, this chapter focused about the methodology by which the researcher was used to conduct this study. Thus, description of the study area, research design, data type, and source of data, methods of data collection, population and sample design and approach, sample size, methods of data analysis, and model specification were presented below respectively.

3.1 Description of The study area

The study area was located in Southern Nation, Nationalities and Peoples Region (SNNPR), Wolkite town, and which is at 154 km south west of Addis Ababa. Wisdom MFI Wolkite branch started its operation in 2004. According to official statistics (2007) which has a population of 28,866 and lies at an altitude of 1910m above sea level. The annual average temperature was 18.6^{o}C. The economic activities in Wolkite town were diverse.

3.2 Research Design and Approach

The primary aim of this study would be to examine the determinants of loan repayment performance of wisdom microfinance institution. To achieve the objective explanatory type of research design would be used. This type of research design helps to identify and evaluate the causal relationships between the different variables under consideration (Creswell, 2008). So that, the explanatory research design would be used to examine the relationship of the dependent and independent variables. Data are analysis by both quantitative and qualitative approach. Quantitative approach is measurement of quantity or amount. On other hand qualitative approach involving quality or kind us explanatory type of research design depending up on the above definitions.

3.3 Data Type, Source and Methods of Collection

3.3.1 Data type

To achieve the objectives of the study primary data type was used. Because the researcher would go to the organization to collect the information due to the nature of the variable. The survey questionnaires would help us to collect a primary source of data. That helps the

researcher to have more insights about factors that determine the loan payment performance at the study area of Wisdom MFI.

3.3.2 Source of Data

While conducting the study the researcher would be used primary sources of data. In primary sources of data, the researcher would be collect data from client and MFI.

3.3.3 Methods of Data collection

To undertake this study, the researcher was used both interview and questionnaires that contain closed-ended and open ended questions to collect primary data. The open ended was used to clarify the answers given by respondent in close –ended questions. Interview would be arranged to the Wisdom MFI manager.

3.4 Population and Sample Design

As the primary objective of this study was focused on the determinant of loan repayment performance of wisdom MFI for this reason clients have been taken as a target population for the study.

3.5 Sample size

In wisdom microfinance institutions there were 1379 the active client's population of wisdom microfinance institution. In case of this study, the researcher would be used Yemen formula: n=N/1+N (e)

n=sample size

N=total population

e=errors are 100 percent minus level of confidence is 90 percent. Errors term is 10 because the active clients is very large in numbers.

n=1379/1+1379(0.1) 2=94

Therefore, the sample size of clients is 94.

3.6 Methods of data analysis

After collecting the raw data through different instruments mentioned above the collected data would be analysis and interpret in quantitative data and qualitative data, and the following activities on data processing would be carried out. The raw data would be converted into suitable form for analysis and interpretation. This would be achieved through sequences of

activities including editing, coding, entry, and tabulation. The objectives would be to check the completeness, consistency and appropriateness of the answers to each of the questions. Moreover, the descriptive method of data analysis was important to analysis the demographic, socio economic and institutions of the respondents and overall population as well as the descriptive methods of statistical analysis like percentage, measures of central tendency and measures of dispersion were used to analysis the data after that inferential statistics would be conducted to analyze and interpret the cause and effect relationship between the above variables.

3.7 Model specification

Regression model is the most powerful technique for analysis the associative relationship between dependant variables and one or more independent variables (Malhotra, 2009). Statistical is regression is a method of estimating or predicting the association or relationship between variables. Econometrics model may be defined as the quantitative model which analysis of actual economic phenomena based on the concurrent development of theory and observation, linear models estimated are presented as follows:

$$DLRP_{it} = \alpha i + \beta_1 SEi_t + \beta_2 AGi_t + \beta_3 ELi_t + \beta_4 FSi_t + \beta_5 ILi_t + \beta_6 LSi_t + \beta_7 IRi_t + \varepsilon i_t$$

Whereas:

DLRP: Determinant of loan repayment performance

αi : a constant term

SE: Sex

AG: Age

EDL: educational level

FS: family size

IL: income level

LS: Loan size

IR: interest rate

CHAPTER FOUR

4. DATA ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

The main purpose of this chapter is to analyse data collected through questionnaires related to determinants of loan repayment performance of wisdom microfinance institution the questionnaires conducted for wisdom microfinance institution customers and interview for the manager. This study mainly concerned with the problem of loan repayment performance. In general, as clearly stated in the study, the collected data by using questionnaire analysed through quantitative research method of data analysed through quantitative research method of data analysis including tables and percentages were presented in the preceding section of this chapter

4.2 Cross tabulation analysis

The socioeconomic, demographic and institutional characteristics of the respondents such as sex, age, level of education, family size, level of income, loan size, interest rate and other variables related to loan repayment of the borrowers were analysed using descriptive statistics

4.2.1. Demographic Characteristics of the borrowers

The total number of sex are 86 from this 54 are male and 32 are female.

Table: 4.1. Sex structure of the borrowers.

Sex	Defaults		Non-default		Total	
	Number	Percent	Number	Percent	Number	Percent
Male	10	31%	44	81%	54	63%
Female	22	69%	10	19%	32	37%
Total	32	100%	54	100%	86	100%

Source; Researcher own survey (2019)

From the above table can indicate that 32 of borrowers are defaults and from these 10(31%) of male default and 22(69%) are female defaults. This indicate from the 32 of defaults borrowers female are more default than male as we can obtain information from the respondents. We can also indicate that from 54 the non-defaults borrowers, 44(81%) were male and 10(19%) were female borrowers non-defaults. In general from the 86 borrowers 32 are defaults and 54 are non-defaults. According to data obtained from the manager of wisdom microfinance institution

by using interview methods of data collection the demographic factors that influence loan repayments performance of the borrowers of wisdom microfinance. From those Sex affect loan repayment performance (The female borrowers are more default than male)

Table: 4.2. Age structure of the borrowers.

Age	Defaults		Non-default		Total	
	Number	Percent	Number	Percent	Number	Percent
Below 25	13	42%	7	13%	20	23%
26-30	9	29%	11	20%	20	23%
31-35	7	23%	17	31%	24	28%
Above 35	2	6%	20	36%	22	26%
Total	31	100%	55	100%	86	100%

Source; Researcher own survey (2019)

Table 4.2 Indicates that of the total sample respondents 55 were non-defaulters, whereas 31 were defaulters. Similarly, the table shows clearly that 13 (42%) of respondents are defaults their loan were they are below of 25 age, 9(29%) of respondents are defaults loan the customers between 26 and 30 age, 7(23%) of respondents are defaults loan between 31 and 35 age, and 2(6%) of respondents are defaults loan above 35 age. This indicate that as age increase the ability of loan repayment is increase (above 35 age are high non- default) and below of 25 age are high default rate. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection the demographic factors that influence loan repayments performance of the borrowers of wisdom microfinance. From those age affect loan repayment performance (As age increase the ability of loan repayment is also increase (older age are high non-default) and younger age are high default rate).

Table: 4.3. Educational level structure of the borrowers.

Education level	Defaults		Non-default		Total	
	Number	Percent	Number	Percent	Number	Percent
Primary school completed	12	34%	4	8%	16	18
Junior completed	9	26%	7	14%	16	19

Secondary school completed	**7**	**20%**	**11**	**22%**	**18**	**21**
Certificate	**5**	**14%**	**13**	**25%**	**18**	**21**
Diploma	**2**	**6%**	**16**	**31%**	**18**	**21**
Degree and above	**0**	**0%**	**0**	**0%**	**0**	**0**
Total	**35**	**100%**	**51**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

Table 4.3 indicates that in terms of educational background most of the borrowers in the sample are default and non-default from 86 respondents 35 respondents are default and 51 respondents are non-default this indicate from 35 default respondents 12(34%) can primary school completed, 9(26%) can junior completed,7(20%) can secondary school completed,5(14%) can certificate, and the remains 2(6%) are diploma completed and also from 51 non-default 4(8%) can primary school completed,7(14%) can junior completed,11(22%) can secondary school completed,13(25%) can certificate, and the remain16(31%) can diploma completed. Generally as education level increase the loan repayment performance is also increase. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection the demographic factors that influence loan repayments performance of the borrowers of wisdom microfinance. From those education level affect loan repayment performance level (As education level increase the loan repayment performance is also increase).

Table: 4.4. Marital status structure of the borrowers.

Marital status	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Single	**3**	**8%**	**17**	**34%**	**20**	**24%**
Married	**7**	**19%**	**18**	**36%**	**25**	**29%**
Divorced	**11**	**31%**	**9**	**18%**	**20**	**23%**
Widowed	**15**	**42%**	**6**	**12%**	**21**	**24%**
Total	**36**	**100%**	**50**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

Table 4.4 indicates that in terms of marital status from 86 total respondents 36 default respondents and 50 non-default respondents from 36 default respondents 3(8%) can single ,7(19%) can married,11(31%) can divorced and the remain 15(42%) can widowed. And from 50 non-default respondents 17(34%) can single, 18(36%) can married, 9(18%) can divorced and the remains 6(12%) can widowed. Generally widowed are more or high default loan and single marital status are less default loan. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection the demographic factors that influence loan repayments performance of the borrowers of wisdom microfinance. From those demographic factor marital status (Divorced and widowed are more or high default loan).

4.2.2 Socio-economic factor Characteristics of the borrowers

There are different times of respondent's borrowed from wisdom microfinance institutions

Table 4.5 Time Varies

Time	Defaults		Non-default		Total	
	Number	Percent	Number	Percent	Number	Percent
One	14	42%	8	15%	22	26%
Two	10	30%	11	21%	21	24%
Three	7	21%	15	28%	22	26%
Many	2	7%	19	36%	21	24%
Total	33	100%	53	100%	86	100%

Source; Researcher own survey (2019)

Table 4.5 indicates that from 86 total respondent's 33 default responses are 14(42%) can borrowed once from wisdom microfinance, 10(30%) can borrowed two time from wisdom microfinance institutions, 7(21%) can borrowed three times from microfinance institution and the remain2 (7%) can borrowed many times. Generally we understand from above table when customer borrowed once the default is higher than who can take many time.

Table 4.6. The time take of first application and loan collection

Times take	Frequency	Percentage (%)
One week	15	18%
Two weeks	45	52%
One month	26	30%
Others	0	0%
Total	86	100%

Source; Researcher own survey (2019)

From the above table, 18% of the respondents answered that one week time take of first application and loan collection, 52% of respondents answered that two week time take of first application and loan collection , and 30% of respondents answered that one month time take of first application and loan collection. From the above response, the researcher observe that the borrower's time take of first application and loan collection in two week from the wisdom microfinance institution.

Table 4.7.Family size Characteristics of the borrowers

Family size	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
One-three	**5**	**13%**	**19**	**40%**	**24**	**28%**
Four-six	**8**	**21%**	**13**	**27%**	**21**	**24%**
Seven-ten	**11**	**29%**	**9**	**19%**	**20**	**23%**
Above ten	**14**	**37%**	**7**	**14%**	**21**	**25%**
Total	**38**	**100%**	**48**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

From above table that indicate 86 total respondents 38 of respondents are default their loan and 48 of respondents are non-default. Out of 38 respondents 5(13%) their family size have one-three, 8(21%) their family size have four-six, 11(29%) their family size have seven-ten, 14(37%) family size have above ten. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection the socio economic factors that influence on the loan repayments performance of the borrowers of wisdom

microfinance. From those family size affect loan repayment performance which means large family size are high default loan.

Table 4.8. Income level Characteristics of the borrowers

Source of income	Defaults		Non-default		Total	
	Number	Percent	Number	Percent	Number	Percent
From additional(more) business	2	6%	21	43%	23	27%
From one business	6	16%	15	31%	21	24%
From monthly salary	13	35%	9	18%	22	26%
From weekly/monthly wage	16	43%	4	8%	20	23%
Other	0	0%	0	0%	0	0%
Total	37	100%	49	100%	86	100%

Source; Researcher own survey (2019)

From above table we conclude that 37 respondents are default their loan and 49 respondents are non-default their loan from total sample of 86 respondents. Those who have been defaults are 2(6%) of respondents source of income is from additional (more) business, 6(16%) of respondents source of income from one business,13(35%) of respondents source of income from monthly salary ,and the remain 16(43%) of respondents sources of income from weekly/monthly wage .Generally a respondent who have different source of income are less default loan and the other whose source of income are from weekly/monthly wage are high default loan.

Table 4.9. Spend the loan for intended purpose

	Respondents		
		Frequency	Percentages

Did you spend the entire loan for intended purpose?	Yes	54	63%
	No	32	37%
	Total	86	100%

Source; Researcher own survey (2019)

The above table indicates that 63% of the respondents answered that spend the entire loan for intended purpose and 37% of the respondents answered that does not spend the entire loan for intended purpose. From this researcher observe that the most borrowers are spend their entire loan for intended purpose.

Table 4.10. Purpose of loan Characteristics of the borrowers

Purpose	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Consumption	**13**	**35%**	**5**	**10%**	**18**	**21%**
Health	**11**	**30%**	**10**	**20%**	**21**	**24%**
Education for children	**9**	**24%**	**12**	**25%**	**21**	**25%**
For doing new business	**4**	**11%**	**22**	**45%**	**26**	**30%**
Other	**0**	**0%**	**0**	**0%**	**0**	**0%**
Total	**37**	**100%**	**49**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

From above table we conclude that from total respondents 37 respondents are default of their loan and the remain 49 respondents are non-default from 37 default 13(35%) are from consumption, 11(30%) are from health, 9(24%) are from education for children, and the remain 4(11%) are from doing new business. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection the borrowers who borrowing money for the purpose consumption, for health, and for education of children are not repaying the loan or default, because they do not expanding business or not gaining income rather than consumption.

Table 4.11. Institutional factor Characteristics

Do you take the preferred amount of loan from wisdom microfinance institutions as you requested?	Respondents		
		Frequency	Percentages
	Yes	67	78%
	No	19	22%
	Total	86	100%

Source; Researcher own survey (2019)

The above table indicates that 78% of the respondents answered that the respondents take the preferred amount of loan from wisdom microfinance institutions as they requested and 22% of respondents answered that they does not take the preferred amount of loan from wisdom microfinance institutions as they requested. From this researcher observe that the most borrowers are take the preferred amount of loan from wisdom microfinance institutions as they requested.

Table 4.12. Loan size Characteristics of the borrowers

Loan size	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Higher	**14**	**56%**	**26**	**43%**	**40**	**47%**
Lower	**11**	**44%**	**35**	**57%**	**46**	**53%**
Total	**25**	**100%**	**61**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

From above table can indicate that from total sample respondent 25 respondents are default of their loan and 61 respondents are non-default and from 25 defaults 14(56%) have higher loan size, 11(44%) have lower loan size. Generally we can see that a customer who have borrowed high loan size are high default loan and lower loan size borrower are low loan default.

Table 4.13. Interest rate Characteristics of the borrowers

Interest rate	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**

Higher	**19**	**56%**	**6**	**11%**	**25**	**29%**
Medium	**11**	**32%**	**15**	**29%**	**26**	**30%**
Lower	**4**	**12%**	**31**	**60%**	**35**	**41%**
Total	**34**	**100%**	**52**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

From above table can indicate that from total respondents 34 respondents are default which are 19(56%) in case of high interest rate, 11(32%) can default in case of medium interest rate, and the remains 4(12%) can default their loan. when interest rate is high the amount of loan repayment by borrowers are very low or the default rate is very high and when the interest rate is low the amount of default loan is very low. According to data obtained from the manager of wisdom microfinance institution by using interview methods of data collection as microfinance institution Wisdom microfinance institution interest rate is low but the clients' still demand low interest rates. The interest rate of wisdom microfinance institution is consideration of customer interest give balance of interest.

Table 4.14. Repaying loan on time

Do you repaying your loan on time?	Respondents		
		Frequency	Percentages
	Yes	72	84%
	No	14	16%
	Total	86	100%

Source; Researcher own survey (2019)

From the above table, 84% of the respondents are repaying their loan on time and also 16% of respondents are does not repaying their loan on time. From this the researcher observe that the most borrowers repaying their loan on time.

Table 4.15. Benefited by fully repaying your loan

Do you benefited by fully repaying your loan?	Respondents		
		Frequency	Percentages
	Yes	79	92%

	No	7	8%
	Total	86	100%

Source; Researcher own survey (2019)

The above table indicates that 92% of the respondents answered that they benefited by fully repaying their loan and 8% of respondents answered that they does not benefited by fully repaying their loan. From this researcher observe that the most borrowers are benefited by fully repaying their loan.

Table 4.16. The varies of benefits of fully repaying loan

Benefits of fully repaying loan	**Defaults**		**Non-default**		**Total**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
Access to the next higher loan	**2**	**13%**	**34**	**48%**	**37**	**43%**
Build good relationship with the loan provider	**4**	**27%**	**26**	**37%**	**30**	**35%**
Make the family stable	**9**	**60%**	**11**	**15%**	**19**	**22%**
Other	**0**	**0%**		**0%**	**0**	**0%**
Total	**15**	**100%**	**71**	**100%**	**86**	**100%**

Source; Researcher own survey (2019)

The above table indicates that from total respondents of 71 respondents are non-default of their loan and the remain 15 respondents are default from 71 non- default 34(48%) are access to the next higher loan, 26(37%) are build good relationship with the loan provider and the remain 11(15%) are make the family stable .Generally from non- default more of non- default are access to the next higher loan. According to data obtained from the manager of wisdom

microfinance institution by using interview methods of data collection a borrowers who repaying their loan fully they obtain the next high loan and build good relationship with microfinance institution.

4.3. Correlation

The Pearson's correlation coefficient (r) was run to determine the relationship between the variables. A correlation coefficient measures the strength and direction of a linear association between two variables, and in this study between the independent & the dependent variables. And at the same time it satisfies the research questions. As noted in Brooks (2008), correlation between two variables measures the degree of linear association between them. Values of the correlation coefficient are always range between positive one and negative one.

A correlation coefficient of positive one indicates that a perfect positive association between the two variables; while a correlation coefficient of negative one indicates that a perfect negative association between the two variables. A correlation coefficient of zero, on the other hand, indicates that there is no linear relationship between the two variables.

Table 4.17 Correlation

		DLRP	SX	AG	EDL	FS	IL	LS
DLRP	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	86						
SX	Pearson Correlation	-.011	1					
	Sig. (2-tailed)	.922						
	N	86	86					
AG	Pearson Correlation	.051	.018	1				
	Sig. (2-tailed)	.640	.867					
	N	86	86	86				
EDL	Pearson Correlation	.167	.154	.215*	1			
	Sig. (2-tailed)	.125	.157	.046				
	N	86	86	86	86			
FS	Pearson Correlation	-.036	.064	-.055	-.073	1		
	Sig. (2-tailed)	.742	.561	.612	.506			
	N	86	86	86	86	86		
IL	Pearson Correlation	.132	.058	.173	-.019	-.194	1	
	Sig. (2-tailed)	.999	.595	.111	.860	.074		

	N	86	86	86	86	86	86	
	Pearson Correlation	-.154	-.035	.000	.023	.201	-.163	1
LS	Sig. (2-tailed)	.158	.746	1.000	.832	.063	.134	
	N	86	86	86	86	86	86	86
	Pearson Correlation	-.138	-.045	.135	.001	.211	.015	.175
IR	Sig. (2-tailed)	.205	.681	.217	.991	.052	.893	.107
	N	86	86	86	86	86	86	86

*. Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS20

Table 4.17. Presents the Pearson's correlation statistics between dependent and independent variables. Among the Independent variables such as sex, Family size, Loan size and Interest rate are negatively correlated with by -.011, -.36, -.154 and -.138 respectively and Age, Education level, and Income level are positive correlated with by .051, .167 and .132 respectively. From these observation we can interpreted that the level of correlation between dependent and independent variables are negative and positive relation with dependent variable.

Table 4.18 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.713	.454		3.773	.000
	SX	-.052	.116	-.050	-.450	.654
	AG	.019	.059	.037	.319	.750
	EDL	.071	.047	.172	1.513	.134
	FS	-.019	.064	-.035	-.301	.764
	IL	.005	.039	.016	.136	.892
	LS	-.030	.023	-.147	-1.291	.201
	IR	-.045	.040	-.127	-1.110	.270

Source: SPSS20

a. Dependent Variable: DLRP

From the above table we can indicate that the coefficients of variables that dependent (Determinant of loan repayment performance) and all of independent variables. The established regression becomes;

$DLRP_{it} = \alpha i + \beta_1 SEi_t + \beta_2 AGi_t + \beta_3 ELi_t + \beta_4 FSi_t + \beta_5 ILi_t + \beta_6 LSi_t + \beta_7 IRi_t + \varepsilon i_t$

$DLRP=1.713-.050+.037+.172-.035+.016-.147-.127 +\varepsilon i_t$

Whereas:

DLRP: Determinant of loan repayment performance

αi : a constant term

SE: Sex

AG: Age

EDL: educational level

FS: family size

IL: income level

LS: Loan size

IR: interest rate

From the findings of regression analysis, if all independent variables (sex, Age, Education level, Family size, Income level, loan size and Interest rate) are held constant, the loan repayment performance was constant. An increase in the constant variables would lead to decrease in the second variables. All variables are significant as the t values are less than 0.05 which indicate that all the factors considered were statistically significant. The coefficient had statistically significant value with at T statistically value of -.450, .319, 1.513, -.301, .136 -1.291and -1.110 respectively.

CHAPTER FIVE

CONCLUSIONS AND RECOMMENDATIONS

5. INTRODUCTION

The previous chapter presented the analysis of the findings, while this chapter deals with the conclusions and recommendations provided based on the findings of the study. Accordingly this chapter is organized into two subsections. The first section presents the conclusions while, the second section presents the recommendations.

5.1 Conclusions

Based on the analysis made in chapter four, the following conclusions are made on demographic factor, socio-economic factor and institutional related factor were as follows:

The finding of this study has shown that more male clients borrowed and repaid loan to wisdom microfinance institution than females did, this indicated that male borrowers have better understanding in loan usage and repayment, this enabling them to pay loan than females. The correlation analysis result indicated that sex has negative relationship with loan repayment performance.

The correlation analysis reveals that the age of the borrowers of loan is positive relationship with loan repayment. The elder borrowers have better repayment performance than Youngers and the elder were more responsible to repay loan than youngsters. Education level of clients are one of the important base to support loan repayment performance than illiterate clients. The correlation analysis reveals that education level of the borrowers of loan is positive relationship with loan repayment performance. The educational level coefficient had a positive sign indicating that education has direct relationship to the repayment rate and this showed that as level of education increases, borrowers enhances their ability to loan repayment performance is also increase.

The variable family size has negative relationship effect on loan repayment performance of wisdom microfinance institution borrowers. As the number of family size increases, the borrower needs more money to full-fill their requirements in addition to the obligation of loan repayment. As a result, they might divert the loan to meet the needs of those dependent families. This implies that borrowers of larger family size could high default than those with small number of family size.

The variable loan size to have a negative relationship with loan repayment performance of borrowers. In other words, the higher the loan size given by the institution have lower repayment performance of the clients. The correlation analysis result indicated that interest rate has negative relationship with loan repayment performance. The high interest rate caused delay in repayments of microfinance institution. By another way, as the loan interest rate increases the probability of loan default increases.

In general, the model output shows that, education level, income level of loan repayment period were significant and positively related with loan repayment performance. However, sex, age, family size, loan size, interest rate and other source of credit were significant and have negative relationship with loan repayment performance of borrowers. Therefore, those determinant variables have to be give emphasis by microfinance institution and concerned bodies.

5.2 Recommendations

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

The model result shows that female borrowers are defaulter than male borrowers; therefore, microfinance institutions should strengthen and support the poor women and should provide trainings to the borrowers before they deliver the loan, because this is likely to enable them to have some level of managing ability in their business. It is better to monitor the women borrowers regularly to ensure that they use the loans they received for the agreed and intended purpose.

The age of respondents significantly determines the loan repayment performance of borrowers. The Youngers aged group has more defaulters compared to elder. It is not recommended to exclude the Youngers age groups but the institution should give special attention to those borrowers by providing awareness creation training, continuous follow up and supervision.

The model output shows that age were positive relationship with loan repayment performance of borrowers.

Since borrowers who have small number of family in the household perform better in loan repayment and borrowers who have large number of family in the borrowers have performed less in loan repayment, wisdom microfinance institutions should provide loan for those borrowers who have small family sizes with proper supervision.

The borrowers who have higher education level perform better in loan repayment performance and borrowers who have lower education level are performed worst in loan repayment performance, wisdom microfinance institutions should provide loan for those borrowers who have higher education level with proper supervision.

It is better to reduce the timeliness of loan release to increase loan repayment performance. If the borrowers get loan on time, they can utilize the loan effectively and get better output. Therefore, a timely credit service help borrowers to use the loan in appropriate way and perceived importance of loan by the borrower and accelerates the chance of the repayment of the loan at proper time. For this reason, the lending institution has to provide the loan on time when the borrower needs it; because complicated loan processing procedures might lead to delay in disbursement will further increase default rate.

The borrowers who have other source of credit meet their loan repayment obligation than those who has no other source of credit this indicates that they might have additional source of income. Wisdom microfinance institution should be encouraged to take up loan and taught how to save and boost their income levels for those borrowers who have low level of income. Suitability of loan repayment period for borrowers was found to significantly increase the probability of repaying loan. Therefore, the institution has to give enough time to clients so that they will be able to work with the loan they have borrowed and arrange the time to collect loan that will be suitable for them to sell their business output. It is better to set business and income based suitable of loan repayment period. (i.e., enough grace period, amount repayment and repayment time as per the type of business),because some loan financed activities require more than a year to get return from investment and other may require short period to get return on investment, flexible repayment period should be designed in order to improve default rate. The borrowers not undertake market assessment before receiving loan from wisdom microfinance institution not repays their loan on timely basis. Therefore, it is better to compare business plan of borrowers with current market and current economic condition of the country before releasing loan to clients. Regarding to interest rate wisdom microfinance institution give balance of interest rate to borrowers.

Lastly, the institution should focus on the demographic, socio-economic and institutional factor consideration, wisdom microfinance institution should strive to increase the loan repayment performance of the borrowers.

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APPENDEX

WOLKITE UNIVERSITY

COLLEGE OF BUSINESS AND ECONOMICS

DEPARTMENT O F ACCOUNTING AND FINANCE

Questionnaire for customers of wisdom microfinance institution.

Dear respondent

This questionnaire is prepared by under graduate Accounting and finance students of Wolkite University to gather relevant information for the study entitled determinant of loan repayment performance of wisdom microfinance institution. In order to achieve the state object of the study the given response is require. I would also like to assure you that the information you provide will be accessible only to the undersigned researcher only.

INSTRUCTION:
put your answer (x) in the box that belongs to your answer
don't write your name

I. Personal Details

1. Sex Male ☐ Female ☐

2. Age, Below 25 ☐ 25-30 ☐ 31- 35 ☐ Above 35 ☐

3. Educational level

Primary School completed ☐

Junior completed ☐

Secondary School completed ☐

Certificate ☐

Diploma ☐

Degree& above ☐

Other……...

4. Marital status; Single ☐ Married ☐ Divorced ☐ Widowed ☐

Part Two. Socio-economic factor:

1. Do you borrow from wisdom microfinance institution?

Yes ☐ No ☐

2. How many times did you borrow from wisdom microfinance institution?
   One ☐ two ☐ three ☐
   Many times ☐
3. How long it takes the first application and loan collection?
   One week ☐ Two week ☐ One month ☐
   Other _____
4. Total number of family members (Family size) _____

One –three ☐ four-six ☐ seven-ten ☐ above ten ☐

4. Total number of family members (Family size) _____

One –three ☐ four-six ☐ seven-ten ☐ above ten ☐

5. What is/are your sources of income in the household?

From one business ☐

From additional (more) business ☐

From monthly salary ☐

From weekly/monthly wage ☐

Others _____

6. Did you spend the entire loan for intended purpose? Yes ☐ No ☐

7. If yes, for what purpose do you spent? Consumption ☐ Education for children ☐

Health ☐ for doing new business ☐

Others _____

Institutional factor

1. Do you take the preferred amount of loan from wisdom microfinance institutions as you requested? Yes ☐ No ☐

2. If yes, is it Lower ☐ Higher ☐

3. What is Interest rate on loan received from wisdom microfinance institution?

High ☐ Medium ☐ Low ☐

4. Do you repaying your loan on time? Yes ☐ No ☐

5. Do you benefited by fully repaying your loan? Yes ☐ No ☐

6. If yes, what are the benefits?

Access to the next higher loan ☐

Build good relationship with the loan provider ☐

To make the family stable ☐

Others_____

Part- three: Interview question to the manager;

1. What are the demographic factors that influence loan repayments performance of the borrowers of your MFI?
2. What are the characteristics of people who are not repaying the loan?
3. Why would someone not repaying the loan?
4. What are the socio- economic factors that influence loan repayment of the borrowers of wisdom MFI?
5. What is the interest rate that your MFI give on the loan provide for customer relation to other MFI?