WOLKITE UNIVERSITY

SCHOOL OF GRADUATE STUDIES

COMPARATIVE STUDY ON THE DETERMENTS OF LOAN REPAYMENT PERFORMANCE AMONG MICROFINANCE INSTITUTIONS OPERATING IN BUTAJIRA TOWN

BY:

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A THESIS SUBMITTED TO DEPARTMENT OF MANAGEMENT, COLLEGE OF BUSINESS AND ECONOMICS, SCHOOL OF GRADUATE STUDIES WOLKITE UNIVERSITY IN PARTIALS FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

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Wolkite, Ethiopia

DECLARATION

I, Negalegn Alemu, declare that this thesis entitled: "***Comparative study on the determents of loan repayment performance among microfinance institutions operating in Butajira town***" is outcome of my own effort and study and that all sources of materials used for the study have been duly acknowledged.

To the best of my knowledge, this study has not been submitted for any degree in this University or any other University. It is offered for the partial fulfillment of the Degree of Masters of Business Administration.

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This is to certify that the thesis entitled "***Comparative study on the determents of loan repayment performance among microfinance institutions operating in Butajira town***" "submitted in partial fulfillment of the requirements for the degree of **Master's** with specialization in Business Administration, the Graduate Program of the ***Department/School of Management, College Of Business And Economics***, and has been carried out by Negalegn Alemu, under my/our supervision. To the best of my knowledge, is an original work and not submitted earlier for any degree either at this University or any other University.

Therefore I/we recommend that the student has fulfilled the requirements and hence here by can submit the thesis to the department.

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We, the undersigned, members of the Board of Examiners of the final open defense by Negalegn Alemu have read and evaluated his/her thesis entitled ***Comparative study on the determents of loan repayment performance among microfinance institutions operating in Butajira town***", and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the degree of Master's with specialization in Business Administration.

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SGS Approval

Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the School of Graduate Studies (SGS) through the Department/School Graduate Committee (DGC/SGC) of the candidate's department.

Stamp of SGS Date

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Table of Contents

Declaration i

advisors' Approval Sheet ii

examiners' Approval Sheet iii

acknowledgment iv

Acronyms And Abbreviations vii

Lists Of Tables viii

Lists Of Figure ix

Abstract x

CHAPTER ONE 1

1. INTRODUCTION 1

1.1. Background of the Study 1

1.2. Statement of the problem 3

1.3. Research Question 5

1.4. Objective of the study 5

1.4.1. General objective of the study 5

1.4.2. Specific objectives of the study 5

1.5. Significance of the Study 5

1.6. Delimitation of the Study 6

1.7. Limitations of the study 6

1.8. Organization of the Study 7

1.9. Definition of Terms Used In the Study 7

CHAPTER TWO 8

2. LITERATURE REVIEW 8

2.1. Theoretical Literature Review 8

2.1.1. The Need for MFI 8

2.1.2. Theories on lending 9

2.1.3. Repayment performance of microcredit programs 10

2.1.4. Factors which affect loan repayment performance 10

2.1.5. Challenges of Microfinance 12

2.2. Reviews of Empirical Literature 13

2.2.1. Empirical Evidence in the World 13
2.2.2. Empirical Evidence in Africa 15
2.2.3. Empirical Studies in Ethiopia 17
2.4. Conceptual Framework of the Study 19
CHAPTER THREE 20
3. Research Methodology 20
3.1. Description of the Study Area 20
3.2. Research Design 21
3.3. Research Approach 22
3.4. Types and Source of data 22
3.5. Methods of Data Collections 22
3.6. Population of the Study 23
3.7. Sampling techniques and sample size of the study 23
3.8. Methods of data analysis 25
3.8.1. Descriptive Analysis 25
3.8.2. Inferential Analysis 25
3.9. Instrument Validity 27
3.10. Instrument Reliability 27
CHAPTER FOUR 28
4. Result and Discussion 29
4.1. The Respondents Profile 29
4.2. Descriptive Analysis 31
4.3. Correlation Analysis 35
4.4. Regression Analysis 36
CHAPTER FIVE 40
5. Summary, Conclusion and Recommendations 40
5.1. Summary of Major Findings 40
5.2. Conclusions 42
5.3. Recommendations 43
Reference 44
Appendix: 1A 50
Appendix: 1B 53

Acronyms and Abbreviations

MFIs	Microfinance Institutions
CGAP	Consultative Group to Assist the Poor
MCIs	Microcredit Institutions
DBE	Development Bank of Ethiopia
SPSS	Statistical Package for the Social Sciences

Lists of Tables

Table 1. Determination of Sample size from each stratum by applying Formula 24
Table 2: Reliability of the Survey Questionnaire 28
Table 3. The respondent's profile 29
Table 4. Response on source of family income 31
Table 5: Mean Score Range for Five Scale Likert's Response 31
Table 6: Borrower related factors 32
Table 7: Institutional related questions 32
Table 8: Social related factors 33
Table 9: Cultural Factors 33
Table 10: Loan Repayment Performance 34
Table 11: Descriptive summary of study variables 35
Table 12: Rule of Thumb for about the Strength of Correlation of Coefficient 35
Table 13: Correlation Analysis Result 36
Table 14: Multicollinearity assumption 37
Table 15 : Results of Regression Analysis Model Summary 37
Table 16: Results of ANOVA Output 38
Table 17: Results of Multiple Linear Regression Analysis 38

Lists of Figure

Figure 1.Conceptual Framework 19
Figure 2. Map of Butajira City..... 21

Abstract

This study was conducted with the aim of analyzing the factors that influence loan repayment performance of borrowers in Butajira town of microfinance institution. A total of 559 respondents were involved in this study, of this 550 were borrowers and 9 were managers and credit officers. A questionnaire was used to collect data. Descriptive statistics such as frequencies, means and percentages was used to summarize the data and standard deviation was used to analyze the background characteristics of sampled respondents and descriptive summary of both dependent and independent variables. Inferential statistics such as correlation and multiple linear regression analysis were employed to identify the factors that affect the loan repayment performance of borrowers. The result of the multiple linear regression models indicated that five variables included in regression model and all variables had showed significant relationship with the loan repayment performance of borrower in the study area. These variables are borrower related factors, institutional, social, and cultural factors were found to influence the loan repayment performance of borrower significantly. Borrower related factors such as borrowing experience and literacy of borrowers have positive effect on loan repayment performance of borrowers. Literate borrowers are better loan repayment rate than illiterates'. Such borrowers cannot read and write. They have inadequate knowledge of loan acquisition and management, thereby making them unable to repay the loans. Regarding institution related factors, the study results revealed that supervision made for loan utilization and loan repayment by credit officers was inadequate and borrowers 'feeling toward repayment period in this study, market problem, lack of adequate man power and shortage of resources were identified as the main repayment challenges from the forgoing it can be concluded that both barrowers and institution related factors are affecting loan repayment performance in the branch. In order to develop effective credit rationing system, microfinance institutions are recommended to visit borrower's business premises, verify borrower's asset collateral and enquire borrower's additional information during screening process so as to ensure that only credit worthy borrowers are granted loans.

Key words: Borrower related factors, Institutional factors, Social factors, Cultural factors and loan repayment performance.

CHAPTER ONE

1. INTRODUCTION

1.1. Background of the Study

Microfinance institutions are found among the institutions which provide different financial service for the poor who are out of the conventional banking system particularly in developing countries. Microfinance Institutions (MFIs) provide financial services to poor clients who in most cases have no access to formal financial institutions. During the last three decades, microfinance has captured the interest of both academics and policy makers. This is, among other things, due to the success of the industry (Assefa et al., 2013).

The loan is the most important asset of the MFIs and on-time repayment (non - default loan) has a positive influence on MFIs performance while default payment harms MFIs performance. Consequently, various research works have been conducted on factors affecting loan repayment in different countries outside Ethiopia. For instance Godquin (2004); Koopahi and Bakhshi (2002); Muiruri (2014); Kohansal et al., (2008);

In developing countries like Ethiopia, the majority of the people live in great poverty. One of the main reasons people in developing countries remain caught in poverty is lack of having access to external finance. The poor loan controlling system causes serious challenge to most micro finance institutions. Every micro finance institution tries to maximize its repayment performance. Improving repayment rates helps reduce the dependence of the MFIs on subsidies, which would improve sustainability (Godquin, M., 2004). One indicator of effectiveness of MFIs is the loan repayment performance of the borrowers (Addisu, M., 200). High loan repayment rates benefits both MFIs and the borrowers (Godquin, M., 2004). Also it is argued that high repayment rates reflect the adequacy of MFIs' services to clients' needs. High repayment rate helps to obtain the next higher amount of loan (Bond, P. and A.S. Rai, 2009).

Sapy (2010), states that 10,000 Microfinance Institutions (MFIs) are currently serving over 150,000 Clients (90% in developing countries) throughout the world. There is still need to reach and serve an estimated 1.2 billion individuals living in extreme poverty (people living on less than U.S. $1 per day). So, it is very important to develop new strategies that would allow viable financial services to reach all potential clients while ensuring profitability, and thus

sustainability, of the financial institutions engaged in microfinance. According to CGAP report, sustainability of microfinance organizations essential to reach a large number of the poor, and as a result, achieve an impact of significant scale (CGAP, 2006).

Microcredit institutions (MCIs) are institutions that provide small loans to low income people either individually or as a group (Candice, 2000). Under the individual lending methodology, loans are granted directly to individuals or business entities. The effective repayment history of the individual normally determines accessibility to future larger loans. The group lending methodology involves providing loans to individuals within a group. The group members co-guarantee one another for repayment of the loan to the MFIs, and so providing a form of social collateral. In case of one member defaulting; the whole group is liable for repayment of the outstanding loan balance, otherwise they lose future access to loans.

The achievement of microfinance activities in Ethiopia is mainly affected by the income of clients, which directly depends on the effectiveness of the small business of borrowers who live in urban areas; also it depends on crop harvest and the high risk due to drought for rural areas. The fluctuations of product prices, which are difficult to predict, also affect the performance of MFI (Wolday, 2000). Current, most of the microfinance institutions suffer from credit risk, which leads to default. Hence, the study tries to address some determinants of loan repayment that affect both borrowers and lender performance.

1.2. Statement of the problem

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

High repayment rates are associated with benefits both for the MFI and the borrowers (Godquin, 2004). High repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. In this case, the borrowers will not be able to obtain the next higher loan and the lenders will also lose their clients (Bond and Rai, 2009 cited in Fikiret, 2011). Improving repayment rates helps to 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 need (Godquin, 2004). According to Jemal (2003), most MFIs in Ethiopia are experiencing high default rate problems.

The situation in Agar and Meklit microfinance institutions in Butajira town is not different from this. The data obtained from the Agar microfinance institution indicated that the repayment rate by the year 2014 and 2015 were 93% and 94% respectively and Meklit microfinance institution indicated that the repayment rate by the year 2014 and 2015 were 86.9% and 92.6% respectively. However, there is a series loan repayment problem in the study area.

The main purpose of this study is to investigate the determents of loan repayment performance among microfinance institutions operating in butajira town and borrower, institutional, social and cultural related factors influencing loan repayment performance. Through various researches have been conducted on loan repayment performance in MFIs at different time period but the results of the findings by various researchers are different and therefore inconclusive.

The previous studies show that there is inconsistency of results regarding the determinant factors such as borrower, institutional, social and cultural related factors. And majority of the past empirical studies that conducted on the factors contributing to loan default in different area are not similar.

In addition, the issues that have been identified as major problems in the previous studies may not work today. For example, Okorie, (2004) study on Poor loan repayment in developing countries has become a major problem in agricultural credit administration, especially by rural households who have limited collateral capabilities.

Michael (2006) study on micro - finance repayment problems in the informal sector in Addis Ababa and (Zelalem et al., 2013) found business experience has significant effect and positive relationship with loan repayment rate. On the contrary Pasha and Neges (2014) based on survey data on performance of loan repayment determinants in Sidama microfinance institution (SMFI) found that business experience has not significant effect on loan repayment performance. Shaik (2014) performance of loan repayment determinants in Ethiopian. Using descriptive statistics and binary logistic model were significant association between dependent variable with respect to education level, loan diversion, loan size, training, time laps between loan application and disbursement, repayment period and all business types.

In addition to the above - mentioned gap majority of the previous studies conducted focused on loan repayment performance related with rural borrowers, but only a few studies indicate loan repayment performance of urban borrowers and not addressed a different factor that determines loan repayment. Hence, this study focuses on the determinants of loan repayment performance of both urban and rural beneficiaries.

Therefore, to alleviate the aforementioned problems the researcher intended to study major borrower, institutional, social and cultural related factors that determines loan repayment performance of borrowers in Butajira town. Besides, as to the best of the researcher's knowledge, it seems that no studies appear to have been conducted on loan repayment performance of borrowers in Butajira town. Finally, the study will be expected to fill literature and knowledge gap in the area.

1.3. Research Question

1. What are borrowers related major factors that influence loan repayment performance of the borrowers of MFIs Butajira town?
2. What are Institutional related factors that influence loan repayment performance of the borrowers of MFIs Butajira town?
3. What are Social related factors that influence loan repayment performance of the borrowers of MFIs Butajira town?
4. What are Cultural related factors that influence loan repayment performance of the borrowers of MFIs in Butajira town?

1.4. Objective of the study

1.4.1. General objective of the study

The general objective of this study is to determents the factors affecting the loan repayment performance of microfinance institutions operating in Butajira town.

1.4.2. Specific objectives of the study

The specific objectives of this study are:

1. To identify borrowers related factors that influence loan repayment performances of the borrowers of MFIs.
2. To assess the effect of institutional related factors on loan repayment performance.
3. To assess the effect of social related factors on loan repayment performance.
4. To evaluate the effect of cultural related factors on loan repayment performance.

1.5. Significance of the Study

This study is provide some implications on how loan repayment has affected by some factors arise from the borrowers and lender institution microfinance itself, in order to render a service on permanent basis, be viable and sustainable.

Although some studies has conducted on the loan repayment that targeted the few in Ethiopia, as per the researcher knowledge, no empirical study has done on comparative study on the

determinants of loan repayment of MFIs, borrowers in operating Butajira city. Therefore, this study has tried to provide a detailed empirical analysis on the loan repayment problems of MFIs in the study area. From this perspective, the significance of this study is to help the studied institutions to use the findings of this study in order to address problems of loan repayment or loan default and to achieve their intended future objectives. It also provides understandable policy recommendations in order to alter the existing credit policy of institutions for the better.

The findings of this study help the researcher to elaborate the knowledge and know-how about determinants of loan repayment in MFIs and to practice a larger similar study that can be performed in other similar financial institutions. Furthermore, this study will use as source of knowledge for future references by people who have interest to gain insight about loan repayment problems or loan default of MFIs of Ethiopia in general and the study area in particular and will use as a spring board (base or starting point) for other researchers who wish to undertake research study in the same area.

1.6. Delimitation of the Study

This study is delimited to determents factors of loan repayment among microfinance institutions operating in Butajira Town. Four independent variables were studied; Borrowers related factors, Institution factors, Social factors and Cultural factors because these variables are directly affected loan repayment performance of borrowers. This study is useful in creating a smooth and healthy credit relationship between all borrowers and MFIs. The sample was taken from registered loan users of Agar and Meklit MFI borrowers Butajira Town. The study is carried out in period of 1 year (between March 2023 to February 2024) and covers all sample loan users in the study area. Finally, this research limited itself on quantitative and qualitative data collection; furthermore, to analyze the data descriptive statistics, correlation and multiple linear regressions (inferential statistics) were applied.

1.7. Limitations of the study

The absence of well – organized documented about the loan profile of borrowers. On the other hand, as the center of this study is the microfinance institutions, there might be information biasness due to skill gap which may require thoroughly following the process in close contact

and may create difficulty in generalization of final findings. The study was also depending on only limited number of microfinance institutions Agar and Meklit MFI borrowers Butajira Town to arrive at the conclusion. But these limitations did not have any significant interference with the outcome of the study.

1.8. Organization of the Study

This study is organized into five chapters. Chapter one covers introduction, statement of the problems, objective of the study, research question, significance of the study and scope and limitation of study. Chapter two provides related literature review and conceptual frame work of the study. Chapter three provides methodology and description of the study area. Chapter four deals with data presentation, analysis and interpretation and chapter five provides the summary of the key findings, conclusion and recommendation of the study.

1.9. Definition of Terms Used In the Study

Borrower: A loan beneficiaries who willingly enters into an agreement with a lender with the intention of accessing credit or a loan of money.

Default: A loan that has not been paid over a long period as agreed upon between lender and borrower. There is little hope of ever receiving payment from the borrower.

Defaulter: A borrower who fails to pay any portion of his or her loan amount, including fees and interest, within the agreed upon time frame under his or her loan agreement.

Lender: An institution that accepts deposits and lends money to the public with or without interest or other fees.

Loan (or credit): Money that is borrowed and must be paid back with or without interest or fees within the time period and under the terms as agreed upon between borrower and lender.

Loan agreement (credit agreement): An agreement between a willing lender and a willing borrower under which a lender extends credit or lends money to a borrower under prescribed terms.

Loan repayment period: The duration for which a borrower will make payments until his or her loan is paid in full.

Idir: A widely prevalent sort of funeral grouping in Ethiopia, where resources are mobilized and pooled to get emotional and material support up on a death of the member himself, his dependents or relatives.

Iqub: A voluntary, informal, and indigenous form of rotating saving and credit scheme, where each member contributes a mutually agreed amount of money on weekly or monthly basis. .

Micro - finance – The provision of financial services to low – income clients including the self – employed.

CHAPTER TWO

2. LITERATURE REVIEW

2.1. Introduction

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

2.2. Theoretical Literature Review

2.2.1. The Need for MFI

For quite a long time, formal financial institutions were not serving a useful purpose for the poor. In developing countries the poorer section of the community did not get access to formal financial sectors. Because, formal financial sectors require collateral and credit rationing. They prefer for high-income clients and large loans, the processes and procedures of providing loan are bureaucratic and lengthy, they are often urban based and give lending to those engaged in trade led industry, they usually consider the demand for loan by the poor as unattractive and unprofitable (Bouman, 2008, cited in Parma and Getachew, 2005). There is no exception in Ethiopia as rightly pointed out in several studies 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. Wolday (2000) also states that the establishment of sustainable microfinance institutions that reach a large number of rural and urban poor who are not served by the conventional financial institution, such as the commercial Banks, has been a prime component of the new development strategy of Ethiopia.

On the other hand credit from informal sources is inadequate and moreover the interest rate charged is exorbitantly exploitative. Jemal (2003) noted that although informal credit markets operate widely in rural areas, moneylenders typically charge very high interest rates inhibiting the rural poor from investing in productive income generating activates.

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

2.2.2. Theories on lending

The main business of most finance institutions is to grant loans and other microcredit of traders and other customers. However, in their attempt to lend, they faced the challenge of overcoming information asymmetries. Adverse selection and moral hazard has been the two main outcomes of information asymmetries. In the case of adverse selection, the lender lacks information on the riskiness of its borrowers. Riskier borrowers should be charged higher interest rates to compensate for the increased risk of default than safer borrowers who are less likely to default. Accordingly, safer borrowers should be charged less provided each type can be accurately identified. Since the lender has incomplete information about the risked profile of its borrowers, higher average interest rates are passed on to all borrowers irrespective of their risk profile (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 make made promise to work hard and repay a loan. But,

once the loan is disbursed the borrower might not be keep their promise and they change their behavior. Hence the borrowers business fails and he/she is declared as a defaulter. In this case, a lender may not be able to know whether this failure was due to the uncontrollable factors of putting less effort on the business activities and borrowers mishandling of the loan.

2.2.3. Repayment performance of microcredit programs

The term of loan repayment refers to an arrangement in which a lender gives money or property to borrower and the borrower agrees to return the property or repay the money, usually along with interest, at some future point (s) in time. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan through modern capital markets have developed may ways of managing this risk Mohd Noor Mohd Shariff (2010).

Repayment generally takes the form of periodic payments that combine part of the principal sum and interest in each payment. The amount of each installment is usually calculated as the principal sum and interest due dividend by the number of installments. Alternatively, a lump sum with interest is repaid at maturity. On the other hand, personal collection enables the drastic reduction of financial transaction costs and improves the matching of the loan size to the clients‟ needs and repayment ability (World Bank 2004).

2.2.4. Factors which affect loan repayment performance

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

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

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

I. Individual/borrowers factors

II. Firm factors

III. Loan factors and

IV. Institutional factor

I. Individual/borrowers factors

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

II. firm factor

Godquin (2004) suggests that the provision of non-financial services such as training, basic literacy and health services has a positive impact on borrowers' repayment performance. Roslan and Mohd Zaini, (2009) found that borrowers that did not have any training in relation to their business have a higher probability of default. According to Tedeschi (2006), there are two possible reasons for default: strategic default or default due to a negative economic shock. The lending contract provides incentives to discourage strategic default, but default due to an economic shock is unavoidable. In contrast, Hulme and Mosley (2010) argue that the important factors contribute to loan repayment performance are the design features of the loan. They categorize the designed features in to three categories namely access methods, screening methods and incentive to pay. Access methods generally ensure that poor people access the loans not richer people and the features include maximum loan ceilings and high interest rate. Screening methods used to screen out bad borrowers.

III. Institutional/lender characteristics

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

IV. Loan characteristics

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

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

Roslan Abdulhakim et al. (2007) in their study conclude that close and informal relationship between MFIs and borrowers may help in monitoring and early detection of problems that may arise in non-repayment of loans. In addition, cooperation and coordination among various agencies that provide additional support to borrowers may help them success in their business. Nawai (2010) find out that repayment problem is one of the critical issues of MFIs that concerns all stakeholders where high loan default rate is the primary cause of the failure of MFIs. The agency problem, adverse selection and moral hazard that appear because of information asymmetries are the main reason why these happened. This is because lenders cannot observe the behaviours of their clients whether they are honest or dishonest.

2.2.5. Challenges of Microfinance

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

In most of developing countries, the average higher interest rate is volatil. Similar to interest rate risk, liquidity risk also appears more significant for deposit-taking MFIs; in fact, small savers tend to make frequent withdrawals and deposits, therefore, managing liquidity could become more difficult (Vento 2004). Morover, 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 organization paradigm (private or public) that seeks to deliver these services is challenges for Microfinance institutions (Basu, 2005).

2.3. Reviews of Empirical Literature

2.3.1. Empirical Evidence in the World

Various researches are been conducted on loan repayment in world. For instance, Koopahi and Bakhshi, (2002) to identify defaulter farmers from non-defaulters in agricultural of Iran and Bangladesh. Bank recipients in Iran research have conducted using of a discriminate analysis. The researchers found that using of machinery, length of repayment period, Bank supervision on the use of loan had statistical significant and positive effect on the agricultural credit repayment performance. In the contrary, incidence of natural disasters, higher level of education of the loan receiver and length of waiting time for loan processing had negative effect on dependent variable.

Other study has been conducted at Bangladesh on the loan repayment performance of borrower obtained a statistical significant positive relationship between households asset/income position/ and its loan default status. The education statuses of the households were strong positive effect on non-defaulter status irrespective of the household's income position. Other variable which is land holding of the households were negatively affected with the loan repayment.

In addition to that, Reza and Mansoori, (2008) had studied the factors that influencing the loan repayment performance, they used a logit model and the output were the farmer's experience,

income, received loan size and collateral value, have a negative effect, whereas the loan interest rate, total application costs and number of installment have a negative effect on repayment performance of borrower.

Roslan and Zaini (2009) investigate the effect of borrowers' characteristics, project characteristics and loan characteristics on loan repayment of agro -bank of micro credit scheme. The characteristics of the borrowers are (1) gender, (2) marital status, (3) race, (4) level of education, (5) age, (6) occupation, (7) number of dependents, experience, and membership in business society and training. The characteristics of the project are ownership structure of the project, type of the project, distance of the project to nearest agro bank office, and revenue from project.

The loan characteristics are amount of loan and length of repayment period. The data used in the study is a primary data, which is gathering through a survey carried out. Among agro-bank, micro credit scheme of borrowers in 86 branches of agro bank throughout Malaysia. Self-explanatory questionnaire has provided to the respondents, where 2,630 borrowers has chosen for the analysis by a simple random sampling. In order to determine the effect of borrowers characteristics on the probability of default, an econometric approach that relies on both probit and logit models has employed. The result of the study shows the variable gender is positive and significant. This implies that the probability to default is higher for male than for female borrowers. The coefficient for the variable type of the project is negative and significant. This implies that the probability to default is lower for borrowers that involve in service/support activities as compared to those in production activities. The coefficient for the variable training is also negative and significant.

This result suggests that borrowers that did not have any training in relation to their business/project activity has a higher probability to default compared to those borrowers who had some training. The coefficient for amount variable is also negative and significant which suggests in terms of amount of loan the higher the loan amount the lower the probability for default. The coefficient for the variable period of repayment is positive and significant this gives an indication that the probability to default is higher the longer the repayment period. In general the estimated result of the research from both probit and logit models suggests that the probability to default is not influenced by race, education, age previous occupation, number of

dependency, experience, membership in business society, the distance of the business/project to the nearest agro bank office and revenue from the business or project.

2.3.2. Empirical Evidence in Africa

There are also some studies have been conducted on loan repayment in Africa. Among these, research made in Nigeria and Kenya:-

The determinants of loan repayment under the indigenous financial system in southeast Nigeria (Eze and Ibekwe, 2007), they employed descriptive statistics and multiple regressions to analyze the data. The analyzed data reveals that amount of loan received, age of beneficiaries, household size, educational attainment, and occupation can influence loan repayment performance. Determinants of loan repayment performance of fishermen, Ghana employed multiple regression analysis in their study. Their results revealed that low level of education, lack of alternative income generating activity, cumbersome loan processing procedures, they are likely to have high loan default.

Ume et al.,(2018) studied the same topic using Logit model and concluded that the determinant of loan repayment are that encourages loan repayment of farmers were household size, extension services, membership of organization, farming experience, educational level and off-farm income. The constraints to the farmers' ability to repay their loan were high interest rate, low productivity, high collateral, poor loan assessment and changes in bank policy changes.

Another study (Geraid & Deograties, 2013) on credit rating and loan repayment performance indicated that the years of experience in running the project, age, credit ratio, loan diversion, business management skills, alternative source of income, unfavorable weather condition, amount of loan obtained by farmers, years of farming experience with credit use and level of education are the major factors that positively and significantly influenced loan repayment. From the other perspective of viewing, the impact of credit risk management on the performance of commercial Banks in Nigeria, the study used the panel regression model and came up with the Bank's nonperforming loans from their loan portfolios is caused by poor credit risk management practices of the Bank (Idowu, 2014). Similarly, Oladeebo *O.E,* (2008) had examined socio-economic factors such as amount of loan repaid, amount of loan collected and spent on agricultural production, annual net farm income, age, farm size cultivated, farming experience

with credit use, and level of education influencing loan repayment among small-scale farmers in Ogbomoso agricultural zone of Oyo State of Nigeria. Among them amount of loan obtained by farmers, years of farming experience with credit use and level of education were the major factors that positively and significantly influenced loan repayment. However, age of farmers influenced loan repayment negatively but significantly.

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

In a study that examined social-economic factors influencing loan repayment among small scale farmers in Ogbooso agricultural zone of Oyo state in Nijeria, Oladeebo, J. and Oladeebo, O. (2008) found that repayment rate increased with loan size, years of farming experience with credit use and education level of the borrower. However, they found repayment ability to decrease with the age of the borrower.

In analyzing socio-economic characteristics of small scale farmers that influence their level of loan repayments in Oyo state, Nigeria, Afolabi (2010) examined eight variables: farming experience, gram farm income, farm size, family Size, non-farm expenses; expenses interest rate charged and non-farm income. Of these, only four variables had significant impact on loan repayment, namely loan amount, farm size, interest charged and non - farm income.

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

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

Agrekon, (2004) in their study on small-holder farmer's credit repayment performance in Kenya were used two stages least squares method to deal with indignity problem of the loan diversion where the loan repayment was used as dependent variable. Farm income, farmer's attitude

toward loan repayment, proper amount of purchased farm input and source of income from farming activity had statistically significant effect on loan repayment performance. They also found that the proportion of loan funds diverted to non31 intended purpose was positively to the proportion of arrears on loans. In addition, late loan issuing and inadequate supervision and advice to farmers has positively related to the proportion of loan diverted.

2.3.3. Empirical Studies in Ethiopia

There are few studies have been undertaken on determinant of loan repayment Performance in Ethiopia. Most of existing literatures have focused more on micro and small enterprises as well as on micro finance institutions borrowers, in which most of the borrowers are engaged in the small industrial and agricultural sector. Therefore, in Ethiopia the empirical studies existing as follows:-

Kibrom, (2010) identified that borrower's characteristics, project characteristics and loan characteristics were the determine factors for successful loan repayment performance of the private borrowers in Development Bank of Ethiopia, North Region. The types of data were mainly primary and secondary. The data collected from 100 respondents and analyzed through probit model. Based on this model, educational level of the borrowers, repayment period, availability of other source of income, sector, purpose of the loan and type of labor determine successful loan repayment performance of the borrowers positively and significantly. Whereas, gender and household size have positive sign, but are not statistically significant. Moreover, variables such as age, loan diversion, other source of credit show negative sign but not statistically significant. The variable experience is statistically significant but show negative sign

FikirteK. Reta, (2011) studied determinants of loan repayment performance: A case study in the Addis Credit and Saving Institution, Addis Ababa, Ethiopia. This study has conducted with the objective of analyzing and identifying the factors that influence the loan repayment performance of the beneficiaries of Addis Credit and Saving Institution. She used primary data from 200 randomly selected clients (100 defaulters and 100 non-defaulters) by using structured questionnaire. Moreover, secondary data has obtained from the record of Addis Credit and Saving Institution. For the data analysis, descriptive statistics including mean, frequency, and percentages has used to describe the socio-economic characteristics of the borrowers. In addition,

t-test and chi-square analyses were employed to compare the defaulters and non-defaulters group. A binary logit model was used to analyze the socio-economic factors that influence loan repayment. Age and five business types (balitina, handicraft etc.,) 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.

Muluken, (2014) had used a probit regression model to analyze Factors affecting loan repayment performance of floriculture growers: the case of development Bank of Ethiopia. The result shows that out of nine explanatory variables, which has hypothesized to influence loan repayment performance, four explanatory variables namely education level, number of follow ups/supervisory project visit by credit officers, sustainable floriculture certification status and farming experience has statistically significant while the remaining five variables has less influential in explaining the variation in the dependent variable.

Million, et al. (2012) examined the determinants of loan repayment performance among smallholder farmers in East Hararghe Zone, Ethiopia specifically Kombolcha and Babile districts. Structured questionnaire has used to gather information from 140 smallholder farmers. Quantitative data was analyzed using descriptive statistics such as mean, standard deviation, and percentage used. Moreover, a two-limit tobit model was used to select variables which most significantly distinguish between non-defaulters and defaulters of agricultural loan, from a set of personal and socio-economic variables hypothesized to influence repayment behavior. The Two limit tobit regression model results indicate that agro ecological zone, off-farm activity and technical assistance from 52 extension agents positively influenced the loan repayment performance of smallholder farmers, while production loss, informal credit, social festival and loan-to-income ratio negatively influenced the loan repayment of smallholder farmers.

Shaik and Tolosa, (2014) studied performance of loan repayment determinants in Ethiopian Micro Finance - an analysis to major socio- economic and loan related factors that determine loan repayment performance of borrowers in Sidama Micro Finance Institution. The study employed explanatory research design with quantitative and qualitative methods. The quantitative aspect of the data focused on description of socioeconomic variables, loan and related variables, and business related variables and analysis of relationship among the dependent and explanatory variables for the study. Multi-stage probability sampling technique was used. The result of binary logistic model show that age, education, time laps between loan

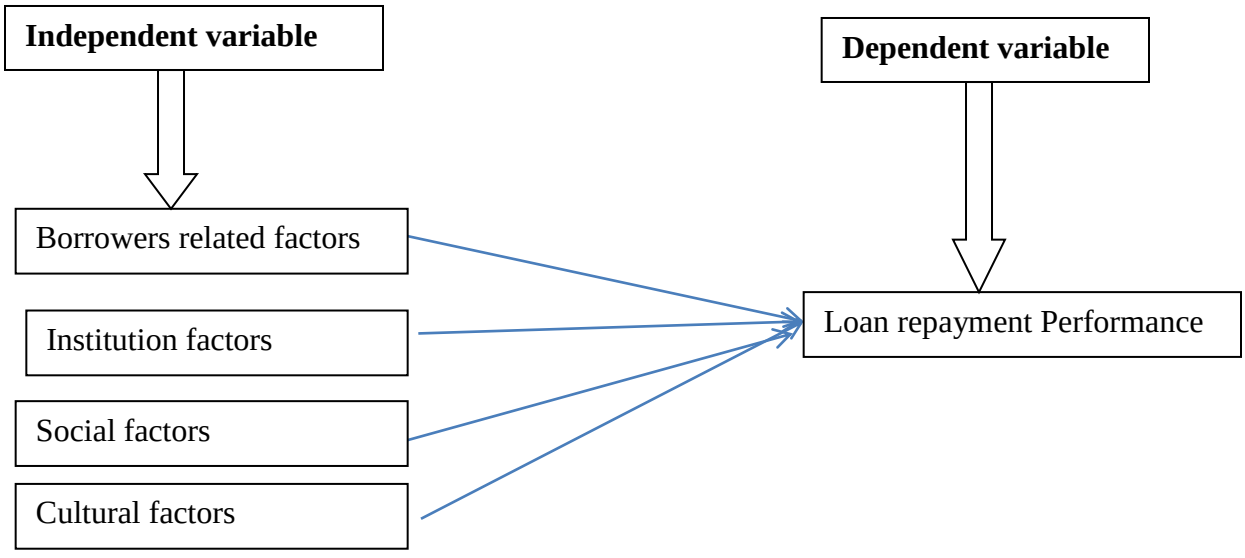
application and disbursement, loan size, loan diversion, repayment period, number of dependents, training, and supervision were significant. The coefficients of these all-significant variables were negative except education level and time laps between loan application and disbursement. On the other hand, family size of respondents, repeatedly borrowing, business experience, agricultural type business, and non-agricultural type business has found insignificant. Overall, the binary logistic model successfully predicted factors contributing to 89.9% of micro credit loan repayment problem from Sidama Micro Finance Institution.

2.4. Conceptual Framework of the Study

It is conceptualized that loan repayment is influenced both directly affected by borrower related, institutional, social and cultural factors influencing loan repayment. According to conceptual framework involves forming ideas about relationships between variables in the study and showing these relationships diagrammatically.

This study adopted the conceptual framework as shown in figure which demonstrates the conceptual framework of the relationship between the dependent variable (loan repayment) and the independent variables (the determinant factors affecting loan repayment performance of Microfinance institution's loan beneficiaries).

Figure 2.1: Conceptual Framework



Source: - Adapted from Dorward and Omamo (2009)

CHAPTER THREE

3. Research Methodology

Introduction

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

3.1. Description of the Study Area

The study on determinants of loan repayment performance of the borrowers was conducted in central Ethiopia regional state eastern gurage zone Butajira town. The present research has focused on identifying determinants of loan repayment Agar and Meklit MFIs Operating in Butajira town. Butajira is old and 88 year old, city established with master plan in Ethiopia. It can be consider as one of the best-developing cities in Ethiopia. Butajira city is located in the Central Ethiopia Regional Stat South of Addis Ababa. As described earlier, Butajira has got the Reform status in 1995 E.c. Under recent structuring the city is divided in to two kifle ketemas (sub-cities) and five Kebeles. The name of sub cities are said to be Erenzaf & Eresha. Astronomically, the town is roughly located north of equator at $8^0$8'5 - $8^0$5'0 north latitude and east of meridian line at $38^0$21'-$38^0$25' east longitudes. Geographically, Butajira is located to the southern part of the federal capital Addis Ababa at distance of 135km and at a distance of 163km from the former regional capital, Hawassa. It has a population of 70,035.So far; there is remarkable progress in the socio economics development with an integrated effort of the residents in Butajira and step by step abroad since its establishment. The following figure shows the map of the city with two sub-cities.

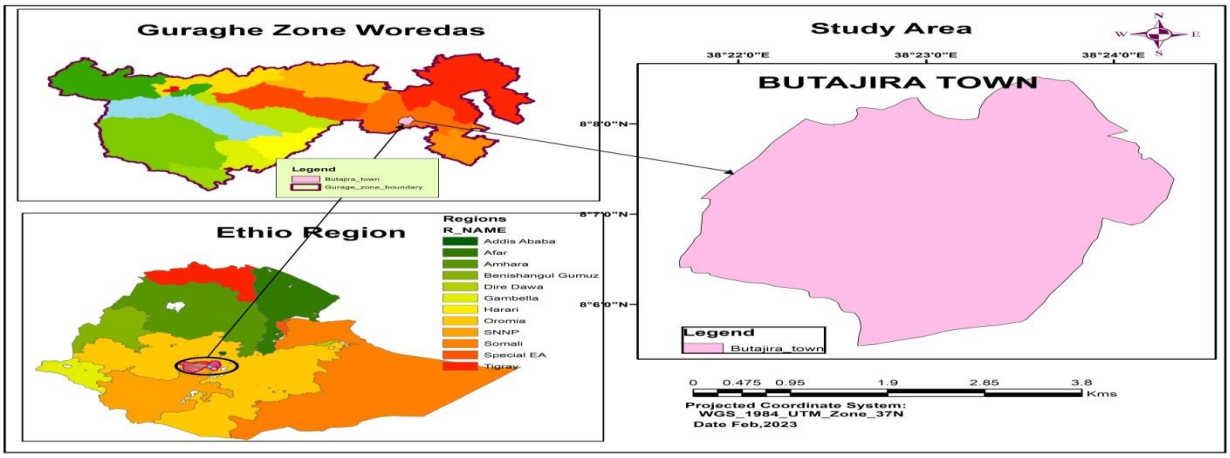


Figure 2. Map of Butajira City

Source: *Butajira City Municipality (2022)*

3.2. Research Design

The key task in research is to design research process so that the information obtained permits the assessment of their factors. The basic research design selected is descriptive research design using both primary and secondary data. It is applied and exploratory because the research is initiated from practical problems and finds whether there exist loan repayment problem or not. It is also descriptive because it tried to describe the actual rate loan repayment problem and the variables of loan repayment performance in Agar and Meklit microfinance institutions in Butajira town. This design is chosen, since it enables to assess the magnitude and scope of problems and facilitate for the suggestion of solutions. Generally, the research process was designed through defining the research problems, its objectives and questions.

To accomplish these objectives the research is made using the following methodologies. Literature review of different books, master's thesis, web sites of similar cases and sample microfinance institutions reports are revised and survey study used to collecting information and data through questionnaire. Data sources was used in this research Study population (Agar and Meklit microfinance institutions Leander and employees). Research instruments and data collection: Questionnaire and Archival records. Quantitative and qualitative data analysis was used.

Archival documents were mostly from lone completed Leander, in which microfinance institutions documents and reports were investigated thoroughly which is very important in

identifying the recurrent problems. Overall, the following procedures was conducted and followed throughout the thesis writing.

3.3. Research Approach

The study was used the mixed approach which includes both qualitative and quantitative techniques. The qualitative technique helps in - depth understanding of an individual‘s insight and their suggestions but the quantitative approach assistances the reader to comprehend improved as it delivers numerical data that can be observed and associated.

3.4. Types and Source of data

This study used both quantitative and qualitative data. Regarding to data sources both primary and secondary sources were used to collect appropriate data for the study. Primary sources were the Sample respondents who are borrowers, staff of MFIs, whereas secondary sources were published and unpublished materials and reports about the microfinance institution. These materials were collected from Agar and Meklit microfinance institutions in Butajira town in 2014 Ec.

3.5. Methods of Data Collections

The main data collection instrument in this study was questionnaires. Two sets of questionnaires were used to collect data from employees and clients. To collect data, the structured questionnaires of closed ended type of questionnaires which were used for investigation from sample borrowers of MFIs of Agar and Meklit. In addition, secondary data was collect through review of different published and unpublished materials that related to the study.

The questionnaire will prepare in both Amharic and English languages that helps to reduce language of understanding barriers. The questionnaire is aim to adopt and developed with some modification from previous similar studies such as Ayele, (2016), Girma, (2018); Abrham, (2002) and Kibrom, (2010). Closed ended and likert scale type of questionnaire were prepared from lower probability to higher probability to make it easier for understanding, reduce confusion in reading and answering the questionnaire by respondents.

The Secondary data were obtain from review of MFI of Agar and Meklit annual reports, journals, text books, other related researches in library and internet websites starts from very beginning to define terms, develop ideas, theories and empirical literature review and development of conceptual frame work of the study.

3.6. Population of the Study

According to Microfinance institutions of Agar and Meklit found in Butajira town 2022 annual loan position report, total numbers of borrowers listed on institutions loan position are 1671 and 525 respectively. They are engaged by different business sector activities like, manufacturing, agriculture, agro - processing, service and mining extracting sector, which is all borrowers in the branch are active during the beginning of 2021/2022 budgeted year. The researcher was considering these (2196) as a target population of this study.

3.7. Sampling techniques and sample size of the study

According to Kumar (2005, p.164) sampling is the process of selecting a few (a sample) from large group (the study population) to become the basis for estimating or predicating the prevalence of an unknown piece of information, situation or outcome regarding the total population.

In this study, based on annual loan position report June 2020, the researcher has categorized borrowers as the two strata namely, non-defaulters and defaulters, then selected sample from the two strata using stratified sampling method. Because in the scenario of selecting sample from strata "the groups are termed as strata in this form of sampling and can be formed based on any naturally occurring grouping" (Saunders, et al., 2009, pp.230).

To determine the sample size from total borrowers, the mathematical formula of Yamane (1967) has used by taking in to account the total population, the sampling error and the level of reliability. It has assumed that the sample would have 95% reliability about population and a sampling error was 5%. This simplest formula is: -

$$n = \frac{N}{1 + N * (e)^2}$$

Where N= study population, n = sample size and e = error margin

Accordingly, sample was first determined from total target population by formula of Yamane (1967) as follow:

$$\frac{1671}{1+1671(0.05)^2} = 323$$

This is the sample size for Agar Microfinance

$$\frac{525}{1+525(0.05)^2} = 227$$

This is the sample size for Meklit Microfinance

Then to select randomly select sample from each stratum, the formula (Israel, 1992) has used by the researcher and showed in the following table 3.1. This is:

$$n_h = \frac{N_h}{N_s} * n$$

Where, n_h = sample size from each site, N_h = total population in each area, Ns = target population and n = sample size from target population.

Table 1. Determination of Sample size from each stratum by applying Formula

MFI	Strata	Population of strata	Sample size Calculations	Sample size from each site
Agar	Non-defaulters	1360	(1360/1671) *323	263
	Defaulters	311	(311/1671 *323	60
Meklit	Non-defaulters	375	(375/525) *227	162
	Defaulters	150	(150/525) *227	65

Source: Author design (2023) based on MFI 2022 annual loan position reports.

Therefore, the maximum sample size from 550 borrowers of micro finance institutions will be 323 from Agar and 227 from Meklit borrowers. The logic behind using stratified probability sampling technique is to select sample from two clusters to give equal chance to the all borrowers and to select representative sample for the study.

3.8. Methods of data analysis

This is the further transformation of the processed data to look for patterns and relationship between and/or among data groups by using descriptive and inferential (statistical) analysis. The Statistical Package for Social Science (SPSS) version 20 was used to analyze the data obtained from primary sources. Specifically, descriptive statistics (mean standard deviation and charts) and inferential statistics (correlation and regression) were taken from this tool.

3.8.1. Descriptive Analysis

Descriptive analysis was used to reduce the data in to a summary format by tabulation (the data arranged in a table format) and measure of central tendency (mean and standard deviation). Moreover, pie charts were used to describe the general characteristics of enterprises. The reason for using descriptive statistics was to compare the different factors.

3.8.2. Inferential Analysis

According to Sekaran (2000:401), inferential statistics allows to infer from the data through analysis the relationship between two or more variables and how several independent variables might explain the variance in a dependent variable. The following inferential statistical methods were used in this study.

3.8.2.1. The Pearson Product Moment Correlation Coefficient

According to Phyllis and his associates (2007:18-55), inferences have a very important in management research. This is so because conclusions are normally established on the bases of results. Such generalizations were therefore, be made for the population from the samples.

They speculate that the Pearson Product Moment Correlation Coefficient is a widely used statistical method for obtaining an index of the relationships between two variables when the relationships between the variables is linear and when the two variables correlation are continuous.

According to Duncan C. and Dennis H. (2004:38-41), correlation coefficient can range from -1 to +1. The value of -1 represents a perfect negative correlation while a value of +1 represents a perfect positive correlation. A value of 0 correlations represents no relationship.

3.8.2.2. Linear Regression Analysis

Linear regression is a method of estimating or predicting a value on some dependent variable given the values of one or more independent variables. Like correlations, statistical regression examines the association or relationship between variables. Unlike correlations, however, the primary purpose of regression is prediction (Geoffrey M. et al., 2005:224-225). In this study multiple regressions was employed. Multiple regression analysis takes into account the inter-correlations among all variables involved. This method also takes into account the correlations among the predictor scores (John Adams, et al., 2007:198). They added multiple regression analysis, which means more than one predictor is jointly regressed against the criterion variable. This method is used to determine if the independent variables will explain the variance in dependent variable.

Regression Functions

The equation of regressions on this study is generally built around two sets of variables, namely dependent variable (loan repayment performance) and independent variables (economic factors, borrower related factors, institutional, social, and cultural factors). The basic objective of using regression equation on this study is to make the study more effective at describing, understanding and predicting the stated variables.

Regress Performance on Selected Variables

$$Yi = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3\ X3 + \beta 4X4 + \beta 5X5 + e$$

Where:

Y is the response or dependent variable - loan repayment performance

X1=, borrower related factors, X2 = Institutional factors, X3 = social factors, X4 = cultural factors are the explanatory variables.

β0 is the intercept term- constant which would be equal to the mean if all slope coefficients are 0.

β1, β2, β3, and β4 are the coefficients associated with each independent variable which measures the change in the mean value of Y, per unit change in their respective independent variables. Accordingly, this statistical technique was used to explain the following relationships.

Regress performance (as dependent variable) on the selected linear combination of the independent variables using multiple regressions.

3.9. Instrument Validity

Validity is the degree to which a test measures what it purports to measure (Creswell, 2009:190-92). Validity defined as the accuracy and meaningfulness of the inferences which are based on the research results. It is the degree to which results obtained from the analysis of the data actually represents the phenomena under study. He contends that the validity of the questionnaire data depends on a crucial way the ability and willingness of the respondents to provide the information requested.

A pilot study was conducted to refine the methodology and test instrument such as a questionnaire before administering the final phase. Questionnaires was tested on potential respondents to make the data collecting instruments objective, relevant, suitable to the problem and reliable as recommended by John Adams et al. (2007:136). Issues raised by respondents were corrected and questionnaires were refined. Besides, proper detection by an advisor was also taken to ensure validity of the instruments. Finally, the improved version of the questionnaires were printed, duplicated and dispatched. The instruments selected can help to show factors affecting the loan repayment performance of smallholder farmers. It can clearly address how these factors affect the loan repayment performance. Moreover, to have valid conclusion, inferential statistical model was used to test the relationship between the variables.

3.10. Instrument Reliability

The reliability test is an important instrument to measure the degree of consistency of an attribute which is supposed to measure. As stated by Pallant (2016) the less variation of the instruments produces in repeated measurements of an attribute the higher its reliability. Reliability can be equated with the stability, consistency, or dependability of a measuring tool.

Cronbach's alpha is one of the most commonly accepted measures of reliability. It measures the internal consistency of the items in a scale. It indicates that the extent to which the items in a questionnaire are related to each other. The normal range of Cronbach's coefficient alpha value ranges between 0-1 and the higher values reflects a higher degree of internal consistency.

Different authors accept different values of this test in order to achieve internal reliability, but the most commonly accepted value is 0.70 as it should be equal to or higher than to reach internal reliability (Hair, Joseph, Robert, & David,2003).

George and Mallery (2003) also stated that a reliability score of greater than 0.9 is excellent, greater than 0.8 is good, greater than 0.7 is acceptable, greater than 0.6 questionable, greater than 0.5 is poor and less than 0.5 is unacceptable.

Table 2: Reliability of the Survey Questionnaire

Independent Variables (EF, BRF, IF, SF & CF) and Dependent Variable (LRP)	Cronbach's Alpha	Number of Items in a Scale	Leveled as to George and Mallery
Loan repayment Performance	.809	7	Good
Borrowers related factors	.830	6	Good
Institution factors	.823	6	Good
Social factors	.778	8	Acceptable
Cultural factors	.759	6	Acceptable
Average	.815	39	Good

Source: Survey Questionnaire, 2023

As shown above in the table 3.2, all dimensions‟ Cronbach‟s alpha is above the cut of point of 0.7. The lowest Cronbach‟s alpha registered is 0.759 (Cultural factors) and the highest is 0.830 (Borrowers factors). Therefore; it can be inferred that all measures are internally consistent. Accordingly, the questionnaires were distributed to sample respondents. Dependent variable (loan repayment) and the independent variables (the determinant factors affecting loan repayment performance of Microfinance institution's loan beneficiaries).

CHAPTER FOUR

4. DATA PRESENTATION, ANALYSIS AND INTERPRETATION

This chapter presents findings in reference to the research questions and objectives. This finding is summarized from the primary sources of data. For the purpose of demonstrating the relationship among the various variables, the data were presented in the form of tables, frequencies and percentage were applicable. 537 borrowers and 9 employees were selected for the study and all respondents filled and returned back questionnaire to the researcher.

The chapter has four sections: the first section presents the socio-economic characteristics of the respondents, the second section presents the analysis and interpretation of findings of the remaining study variables which includes supervision and advisory visits and loan utilization and repayment trend, the third section present the relationship between borrower's related factors and loan repayment performance and the forth descries challenges faced by borrowers and MFIs.

4.1. The Respondents Profile

Table 3. The respondent's profile

Item	Question	Alternatives	Response of manager and employee		Borrowers response	
			Frequency	Percent	Frequency	Percent
1	Sex	Male	6	66.6	317	57.6
		Female	3	33.3	233	42.3
		Total	9	100	550	100
2	Age	Below 30	5	55.5	201	36.5
		30 – 45	4	44.4	234	42.5
		46 – 55			95	17.2
		Above 55			20	3.63
		Total	9	100	550	100
3	Marital status	Single	2	22.22	160	29
		Married	7	77.77	367	66.7
		Divorce			9	1.6
		Widowed			14	2.54
		Total	9	100	550	100
4	Education	No schooling at all			93	16.9
		Primary school			326	59.2
		Secondary school			107	19.45
		Certificate	1	11.11	7	1.2

		Diploma	5	55.5	17	3.09
		Degree and above	3	33.3		
		Total	9	100	550	100
5	Work experience	Less than two	2	22.2		
		2 – 5	4	44.4		
		5 – 10 Year				
		Above 10 year	3	33.3		
		Total	9	100		

Source: Survey Data 2023

Table 3 presents information about MFIs employees (managers and credit officers) and borrowers of sex, age, education, marital status and work experience. From the total 537 borrowers 317 (57.6 %) were males while the rest 233(42.3%) were females. This shows that majority of the respondents and clients of the sub braches were male. MFIs employees 4 (44.4%) were in the age ranges of 30-45 and 5 (55.5%) of them were below 30 years. Regarding to the age of clients, the dominating age was also from 30 to 45, which consisted of 234 (42.5 %); followed by below 30, 201 (36.5%), 95 (17.2%) and 20 (3.63%) in the age category of 46 - 55 and above 55 years, respectively. As can be seen from the same table married borrowers were dominant 367 (66.7%), while 160 (29 %) were single and 9 (1.6%), 14 (2.54%) were divorced and widowed respectively. This indicate that majority of borrowers served by MFIs are married and have family responsibility.

In terms of educational background, most of the borrowers are on the study, i.e. 326 (59.2 %) were at the level of primary school. Those who have attended secondary school were 107 (19.45%) and those who have certificate and diploma were 7 (1.2%) and 17 (3.09%) respectively, while 90 (16.7%) of them were uneducated. The result shows that people with lower levels of education use MFIs loan facilities more than those who have higher levels of education.

Regarding to the educational level of the MFIs employees 5 (55.5%) were diploma holders and 3 (33.3%) were first degree holders. This implies that the majority of credit officers of the sub branch are diploma holders. Concerning with the experience of sample employee in the MFIs, 2 (22.2%) were less than 2 years experienced and 7(77.7%) has 2-10 years of experience. These imply that the employees have a lot of information and accumulated knowledge in MFIs lending activities and challenges faced in repayment processes.

Table 4. Response on source of family income

Source of family income	Frequency	Percent
from one business	286	52
from additional (more) business	197	35.8
from husband/wife's monthly salary, pension etc	67	12.18
from more household member salary	-	-
Total	550	100

Source: Survey Data 2023

The source of family income is indicated in Table 4 the source of income for 286 (52%) borrowers is from one business. Besides, 197 (35.8%) respondents reported as they receive income from additional business and 67 (12.18 %) have got their income from husband or wife's monthly salary. This implies that source of family income from one business has an impact on loan repayment performance.

4.2. Descriptive Analysis

Under this topic, the questions that were collected using likert scale items were analyzed. To make the analysis easy, the researcher used Al-Sayaad, Rabea and Samrah (2006) proposed techniques of mean score ranges and summarized in Table 4.3.

Table 5: Mean Score Range for Five Scale Likert's Response

Mean	Response
1.00 - 1.79	Strongly Disagree
1.80 - 2.59	Disagree
2.60 - 3.39	Neutral
3.40 - 4.19	Agree
4.20 - 5.00	Strongly Agree

Source: Al-Sayaad et al. (2006)

As can be seen from Table 5, the ranges of values were presented as disagreeing if the mean score is between 1.00 and 2.60, neutral if the mean score is between 2.60 and 3.40; agree if the mean score is above 3.4. Based on these classifications the interpretations of all Likert scale items such as determents of loan repayment among microfinance institutions, economic, borrower related factors, institutional, social and cultural factors were presented as follows:

4.2.1. Borrowers Related Factors and Loan Repayment Performance

Table 6: Borrower related factors

S.N	Items	Mean	Std. Deviation
1	I have borrowing experience.	3.26	1.516
2	I can read and write.	4.17	.852
3	I have worked hard to repay the loan.	2.86	1.251
4	I know the penalties for loan default.	2.93	1.398
5	I could visit the institution if I need support.	3.65	1.273
6	I have friendly relationship with borrowers.	2.86	1.251
7	I know the rules and regulations of the institution.	2.93	1.398
	Grand mean/standard deviation	3.24	0.598

Source: Own survey, 2023

The respondents result in the Table 6 shows the mean scores and standard deviation of respondents on can read and write is (Mean= 4.17, SD= .852). This implies that the borrower in study area can read and write. Therefore, they can easily understand training given by development agents and easily change it into practice. On the other hand, the mean score and standard deviation for advisory service is (Mean= 3.65, SD= 1.273). The result shows that borrower in the study area had access to advisory visits. This helps them to improve their business activities and to repay their loan on time. Additionally, it also helped them to manage the loan they have taken. On the other hand, respondents have neutral response on have borrowing experience have borrowing experience, have worked hard to repay the loan, know the penalties for loan default, have friendly relationship with borrowers and know the rules and regulations of the institution. Finally, the grand mean and standard deviation of borrower related factors (Mean = 3.24, SD =.598) shows that borrower had neutral response on the issue.

4.2.2. Institutional Related Factors and Loan Repayment Performance

Table 7: Institutional related questions

S.N	Items	Mean	Std. Deviation
1	Loan repayment period is suitable to repay on time.	3.99	1.030
2	I have got timely advisory visit from the micro-finance institution.	4.42	0.931
3	I can lend money in group or individually	4.14	1.124
4	The institution issued the loan timely	3.97	1.432
5	The institution gave me the needed amount of money.	4.14	1.124
6	Training has been given to me before loan provision and repayment	4.42	0.931
	Grand mean/standard deviation	4.18	0.543

Source: Own survey, 2023

The mean scores of 3.99, 4.42, 4.14, 3.97, 4.14 and 4.42 with standard deviation of 1.03, 0.931, 1.124, 1.432, 1.124 and 0.931 of the respondents in a Table 7 results shows that respondents in the study area approved that loan repayment period is suitable to repay on time, have got timely advisory visit from the micro-finance institution, can lend money in group or individually, the institution issued the loan timely, institution gave them the needed amount of money, and training has been given to them before loan provision and repayment, respectively. Moreover, the overall result (Mean = 4.18, SD = 0.543) showed that respondents have agreement on the institutional factors.

4.2.3. Social Related Factors and Loan Repayment Performance

Table 8: Social related factors

S.N	Items	Mean	Std. Deviation
1	The community encourages me to repay the loan on time.	3.22	1.573
2	I have participated in cooperative activities.	3.82	1.276
3	I have participated in equip.	3.85	1.340
4	I have participated in Iddir.	3.46	1.540
	Grand mean/standard deviation	3.59	0.728

Source: Own survey, 2023

The mean scores of 3.82, 3.85, and 3.46 with standard deviation of 1.276, 1.34 and 1.54 of the respondents in a table 8 results shown that respondents participated in cooperative activities, equip, and iddir, respectively. But, respondents were undecided whether the community encourages them to repay the loan on time or not. Furthermore, the overall result on social related factors (Mean= 3.59, SD= 0.728) based on Table 8 shows respondent's agreement on the given idea. Therefore, borrower participate in cooperative activities, equip, and iddir they gain ability to repay their loan. This indicated that they participated in social related factors.

4.2.4. Cultural Related Factors and Loan Repayment Performance

Table 9: Cultural Factors

S.N	Items	Mean	Std. Deviation
1	I celebrate social festivals.	3.10	1.645
2	I participate in social festivals.	4.17	0.852
3	I spend the loan for non-income generating purpose.	4.14	1.124
	Grand mean/standard deviation	3.80	0.740

Source: Own survey, 2023

In connection to cultural related factors, the average perception of respondents indicated that they have neutral response on celebrating social festivals (Mean = 3.10, SD = 1.645). On the other hand, they agreed that they participate in social festivals (Mean = 4.17, SD = 0.852) and spend the loan for non-income generating purpose (Mean = 4.14, SD = 1.124). Additionally, their overall average response (Mean = 3.80, SD = 0.740) indicated that borrower agreement on the issue. This indicated that borrower in the study area were participated on cultural related issues.

4.2.5. Loan Repayment Performance

Table 10: Loan Repayment Performance

S.N	Items	Mean	Std. Deviation
1	I have given priority to loan repayment.	3.94	1.173
2	I repay the loan on time as per agreement.	4.19	1.171
3	I have benefited by repaying the loan on time.	4.12	1.124
4	I have worked to increase loan repayment size.	3.67	1.345
5	I did not get any warning for loan delay.	4.06	1.234
6	The institution is happy by my loan repayment progress.	3.94	1.173
	Grand mean/standard deviation	3.99	0.583

Source: Own survey, 2023

This section explains the findings on the aspects related to loan repayment performance of borrower. Accordingly, their average response shows that they have given priority to loan repayment (Mean = 3.94, SD = 1.173), repay the loan on time as per agreement (Mean = 4.19, SD = 1.171), benefited by repaying the loan on time (Mean = 4.12, SD = 1.124), worked to increase loan repayment size (Mean = 3.67, SD = 1.345), did not get any warning for loan delay (Mean = 4.06, SD = 1.234) and the institution is happy by their loan repayment progress (Mean = 3.94, SD = 1.173). Furthermore, the overall average response (Mean = 3.99, SD = 0.583) indicates that they agreed on issue. This implies that in the study area the performance of small holder farmers in the study area in repaying loan was low.

4.2.6. Summary of study variables

Table 11: Descriptive summary of study variables

Variables	Minimum	Maximum	Mean	Std. Deviation
Borrower related factors	1.86	4.71	3.24	0.598
Institutional factors	2.33	5.00	4.18	0.543
Social factors	1.50	5.00	3.59	0.728
Cultural factors	1.33	5.00	3.80	0.740
Loan repayment performance	2.33	5.00	3.99	0.583

Source: Own survey, 2023

As Table 11 shows, respondents have neutral response on economic factors (M =3.39, SD = 0.606) and borrower related factors (M =3.24, SD = 0.598). Other respondents were tended to the idea of agreement on institutional factors (M = 4.18, SD = 0.543), social factors (M =3.59, SD = 0.728), cultural factors (M =3.80, SD = 0.740) and loan repayment performance of borrower (M = 3.99, SD = 0.583). This indicated that sampled respondents in the study area have better loan repayment performance and strong social and cultural ties.

4.3. Correlation Analysis

The possible values of correlation coefficients range from –1 (a perfect negative relationship) to +1 (a perfect positive relationship) or a direct relationship between two variables. A value of 0 indicates no linear relationship between two variables (Kothari, 2004). In this section, the independent variables were analyzed one by one using correlation analysis in order to identify their individual relation with the dependent variable. For this purpose, independent variables such as borrower related factors, economic, institutional, social, and cultural factors were tested their degree of relationship with loan repayment performance of borrower before conducting the regression analysis. To know the strength and type of correlation between variables, the following table (Table 12) set as a rule of thumb for discussion of variables.

Table 12: Rule of Thumb for about the Strength of Correlation of Coefficient

Range of Coefficient	Description of Strength
±.81 to ±1.00	Very strong
±.61 to ± .80	Strong
±.41 to ±.60	Moderate
±.21 to ±.40	Weak
±.00 to ±.20	None

Source: Bhattacherjee (2012)

Table 12 shows the correlation between farmers‟ loan repayment performance and the factors that affect the loan repayment performance of borrower such as borrower related factors, economic, institutional, social, and cultural factors.

Table 13: Correlation Analysis Result

Variables	BRF	IF	SF	CF	LRP
Borrower related factors	1				
Institutional factors	.074	1			
Social factors	-.077	-.052	1		
Cultural factors	.005	217**	-.332**	1	
Loan repayment performance	478**	.344**	204**	.134*	1

**Correlation is significant at the 0.01 level (2-tailed)

Source: SPSS Output, 2023

The correlation analysis shows that borrower related factors have positive and statistically significant relationship with loan repayment performance of borrower($r = 0.478$, $p < 0.01$). In the same manner, institutional factors have positive and statistically significant relationship with loan repayment performance of borrower($r = 0.344$, $p < 0.01$). Similarly, social factors have positive and statistically significant relationship with loan repayment performance of borrower($r = 0.204$, $p < 0.01$). In contrarily, cultural factors have negative and statistically significant relationship with loan repayment performance of borrower($r = -0.134$, $p < 0.01$). Therefore, the overall result indicated that economic factors, borrower related factors, institutional factors, and social factors have positive and significant relationship with loan repayment performance of small holder farmers. Whereas, cultural factors have negative and significant relationship with loan repayment performance of borrower.

4.4. Regression Analysis

Since it facilitates the evaluation of the level of effect that multiple independent variables that cause on a particular dependent variable, in this study, multiple linear regression analysis is applied. Before applying regression analysis to test the factors affecting loan repayment performance of borrower, normality, linearity and multicollinearity tests are made for identifying misspecification of data if any so as to fulfill research quality as follows:

4.4.1. Multicollinearity Test

The other important diagnostic test conducted in this paper is the multicollinearity assumption. Under this section multicollinearity test were checked using variance inflation factor (VIF) and tolerance in Table 14.

Table 14: Multicollinearity assumption

Variables	Collinearity Statistics	
	Tolerance	VIF
Borrower related factors	.986	1.014
Institutional factors	.945	1.058
Social factors	.878	1.139
Cultural factors	.796	1.257

Source: Model Output, 2023

One of the information included in Table 14 is collinearity statistics which is associated with the extent of correlation between independent variables. If there is high correlation between two independent variables, the regression model assumes redundancy of one of these variables that the significance of it becomes too low and its coefficient also be negatively affected. The problem is checked by Tolerance and Variance Inflation Factor (VIF). A tolerance of >.10 and a VIF < 10 are considered as good enough to minimize the effect of multicollinearity (Miller and Whicker,1999). Thus, the result implies that the regression model is not affected by higher correlation between two independent variables.

Table 15: Results of Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.798	.637	.630	.1426

Source: Model Output, 2023

According to the model summary of multiple linear regression analysis, the R value of the model as per Table 15 was 0.798 which shows the highest degree of relationship between independent and dependent variables. The R2 value of the regression model was 0.637, indicating that 64% of variance in repayment performance was accounted by borrower related factors, institutional, social, and cultural factors. The remaining 36% of variance in borrower loan repayment performance was not accounted by borrower related factors, institutional, social, and cultural factors.

Table 16: Results of ANOVA Output

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9.692	5	1.938	95.276	.000
	Residual	5.534	272	.020		
	Total	15.226	277			

a. Dependent Variable: Repayment performance

b. Predictors: (Constant), Borrower related factors, Institutional factors, Social factor, Cultural factors,

Source: Model Output, 2023

The ANOVA table (Table 16) indicated that the multiple regression model itself is statistically significant or not significant. Because R2 is not a test of statistical significance (it only measures explained variation in Y from the predictor Xs), the f-ratio is used to test whether or not R2 could have occurred by chance alone. In short, the f-ratio found in the ANOVA table measures the probability of chance departure from a straight line. On results of the output found in the ANOVA table, the model is statistically significant when borrower related factors, institutional, social, and cultural factors were included ($F = 95.276$, $p < 0.001$). Therefore, the overall equation was found to be statistically significant.

Table 17: Results of Multiple Linear Regression Analysis

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	SE	Beta	t	Sig.
	(Constant)	3.347	.431		7.772	.000
	Borrower related factors	.219	.016	.491	13.330	.000
	Institutional factors	.161	.016	.373	9.922	.000
	Social factors	.055	.013	.172	4.416	.000
	Cultural factors	-.847	.125	-.277	-6.753	.000

Note: B= Regression coefficient (Estimate), Std.Error = Standard Error, Dependent variable = Repayment performance

Source: Model Output, 2023

Based on Table 17, using "β" (standardized) coefficients, the regression equation of the research model becomes in the form indicated as follows.

LRP = 3.347 + 0.491*BRF + 0.373*IF + 0.172*SF - 0.277*CF

Where: LRP = Repayment performance

BRF = Borrower Related Factors

IF = Institutional Factors

SF = Social Factors

CF = Cultural Factors

The regression equation is interpreted in the following paragraphs. Borrower related factors, institutional, social, and cultural factors were entered in the model and all predictors have found to be a significant effect on loan repayment performance of borrower.

Borrower related factor: - Borrower related factor has positive and significant effect on loan repayment performance of small holder farmers. The result of the beta coefficient indicates that a one unit increase in the borrower related factor, leads to a 0.491 unit increase in the loan repayment performance of borrower($\beta = 0.491$, $p < 0.001$). In connection to this finding, Magali (2013) explained that year of borrowing experience reduce the risk of loan default since the borrowers have accumulated enough skills and experiences that could help them to manipulate business environments to prevent the loans default. Similarly, Sileshi (2014) found out that the borrowers who had more experience with formal credit from the same institute/different institute were more likely to repay their loans than, those with less credit experience.

Institutional Factor: - As the results of Table 4.19 shows, institutional factor has positive and significant effect on loan repayment performance of borrower. So, the results of the regression coefficient ($\beta = 0.373$, $p < 0.001$) indicates that a one unit increase in institutional factor, brings a 0.373 unit increase in borrower loan repayment performance. In connection to this finding Pasha and Tolosa (2014) found out that the arrangements of suitable loan repayment period for borrowers decrease the chance of being defaulter. If borrowers find the repayment period appropriate, they can utilize the loan proceeds effectively for the intended purpose than those who regard the period of repayment unsuitable. In addition Fitsum (2014) also found out that borrowers who perceive the installment period appropriate was increases non defaulter rate by factors of 7.21 times for suitability of installment period than who perceive the period was unsuitable. It is expected that borrowers who find the repayment period suitable, perform better.

Social Factor: - Social factor were found to be a determinant factor that affects borrower loan repayment performance. As the result in Table 4.19 shows social factor has positive and

significant effect on small holder farmers‟ loan repayment performance. The results of the regression coefficient (β = 0. 172, p < 0.001) indicates that a one unit increase in the social factors lead to a 0.172 unit increase in the borrower loan repayment performance.

Cultural Factors: - Cultural factors are other variables of the study which can negatively influence the performance of borrower in the study area. The results of the beta coefficient (β = -0.277, p < 0.001) indicates that a one unit increase in the cultural factors, leads a 0.277 unit decrease in loan repayment performance of borrower. This implies that the negative sign implies that the use of diverted funds for non-income generating purposes. In connection to this finding, Belay (2002) also found that celebrating social festival can negatively influence loan repayment performance. Similarly, Samuel (2011) argued that credit diversion was found to be significantly increase credit default.

CHAPTER FIVE

5. Summary, Conclusion and Recommendations

Major findings, conclusion and recommendations on the basis of the analysis and interpretation of the data that were collected through questionnaire, and key informant interview were provided in this chapter.

5.1. Summary of Major Findings

The basic purpose of this study is to investigate the factors affecting the loan repayment performance of among microfinance institutions operating in butajira town. A total of 537 borrowers were participated in responding the questionnaire and the collected data were analyzed

using descriptive statistics such as frequency and percentage. Furthermore, inferential analysis such as correlation and multiple linear regressions were used. Based on the information from the analysis and discussion parts, the following summaries are made:

- The ranges of values were presented as disagreeing if the mean score is between 1.00 and 2.60, neutral if the mean score is between 2.60 and 3.40 and agree if the mean score is above 3.40. Therefore, the interpretations of all Likert scale items such as loan repayment performance of borrower, borrower related factors, institutional, social and cultural factors were done based on these classifications.
- However, respondents were tended to the idea of agreement on institutional factors (M = 4.18, SD = 0.543), social factors (M =3.59, SD = 0.728) and cultural factors (M =3.80, SD = 0.740) and tended to the idea of disagreement on loan repayment performance of small holder farmers (M =3.99, SD = 0.583).
- The results of the correlation analysis indicated that borrower related factors ($r = 0.478$, $p < 0.01$), institutional factors ($r = 0.344$, $p < 0.01$), social factors ($r =0.204$, $p < 0.01$) and cultural factors ($r = -0.134$, $p < 0.01$) has statistically significant relationship with loan repayment performance of borrower.
- The result of the model summary of multiple linear regression analysis indicated that the overall relationship between the dependent and independent variables is strong (R= 0.798).
- The adjusted R_2 value of the regression model was 0.630, indicating that 63% of variance in loan repayment performance was accounted by borrower related factors, institutional, social, and cultural factors. The remaining 37% of variance in loan repayment performance was not accounted by borrower related factors, institutional, social, and cultural factors.
- The ANOVA table indicated that the multiple regression model itself is statistically significant or not significant. Accordingly, it is found that the model is statistically significant when borrower related factors, institutional, social, and cultural factors were included ($F = 95.276$, $p < 0.001$). Therefore, the overall equation was found to be statistically significant.
- The result of the multiple linear regression models indicated that five variables included in regression model and all variables had showed significant relationship with the loan

repayment performance of borrower in the study area. These variables are borrower related factors, institutional, social, and cultural factors were found to influence the loan repayment performance of borrower significantly.

5.2. Conclusions

Credit provision in microfinance is a risky business for a lender as it may be negatively affected by duplicitous and opportunistic behavior of the borrowers. Microfinance institutions operating in Butajira town office were challenged by defaulters. The borrowers start to pay but failed to continue due to different factors such as borrower related factors, and institutional factors.

Experienced borrowers are generally considered to be better borrowers because they are less likely to spend the loans on non-productive expenditure. Lending to the experienced borrower may open more opportunities for them to handle the household's income-generating activities and lead to their economic improvement. Borrowing experience reduce the risk of loan default since the borrowers have accumulated enough skills and experiences that could help them to manipulate business environments to prevent the loans default. Borrowers who can read and write can easily understand the rules and regulations of the micro-finance institution. As a result they can either increase the capacity to use and repay the loan in time, or increase the probability to know each other in group lending schemes, which results in better screening, monitoring and enforcement within the group.

Those borrowers who had different types of income source could repay their loan on time. Different source of income encourage the borrowers to save and increases their previous income. Microfinance institutions also encourage saving and provide credit to the poor to take advantage of economic opportunities to increase their level of output, hence move out of poverty. Borrowers engaged in different activities of work such as agriculture, trade and service after getting loan from microfinance helped them to repay their loan as per their agreement with the institution.

Timely received loans increase the repayment performance otherwise the loan will be diverted to an intended purpose if it is not disbursed in time. Continuous follow up and visit makes borrowers to observe their obligation and improve the proper utilization of the loan thereby reduces their probability of being defaulter.

5.3. Recommendations

There is no doubt that understanding the problem and forward the following possible recommendations for microfinance institutions in general and microfinance institutions operating in Butajira town in particular will shed light to service the financial needs of un-served markets as a means of meeting development objectives such as to create employment, reduce poverty, help to develop existing business or diversify their activities, empower women or other disadvantaged population groups, and encourage the development of new business. Consequently, based on the identified factors that affect the loan repayment performance of borrowers, the researcher forwards the following possible recommendations:

- Borrower related factors such as borrowing experience and literacy of borrowers have positive effect on loan repayment performance of borrowers. Literate borrowers are better loan repayment rate than illiterates". Such borrowers cannot read and write. They have inadequate knowledge of loan acquisition and management, thereby making them unable to repay the loans. Therefore, the institution provide short and long term awareness creation training for illiterate borrowers and motivate educated people because it is easy to provide training.
- Institutional factors such as time need to issue the loan, loan repayment period and access to advisory visit have effect on loan repayment performance of borrowers. The complicated loan processing procedures, which might lead to delay in disbursement will increase default rate. Therefore, the microfinance institutions reduce the time lag between loan application and disbursement to increase repayment rate.
- Likewise, the microfinance institution revise loan installment period and expand collection period, so some loan financed activities require more than a year to get a return from investment and others may require short period to get return on investment, a flexible repayment period designed in order to improve the existing default rate.
- Similarly, the micro-finance institution needs to make sure that borrowed funds are being used for the intended purpose through enhanced timely credit monitoring after the loan is being disbursed. In order to develop effective credit rationing system, credit committee members are recommended to visits borrower's business premises, verify borrowers.

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Appendix: 1A

WOLEKITE UNIVERSITY

COLLEGE OF BUSINESSES AND ECONOMICS

Questionnaire for clients/Borrowers

INTRODUCTION

This is to conduct a research entitled comparative study on the determents loan repayment among microfinance institution borrowers of Butajira Town**.** So you are one of the respondents selected to participate in this study. The information you are providing will be of great importance in producing current, practical and reliable output that will inform readers of the study.

The information you will provide is confidential and only used for the academic purpose.

Thank you in advance for your kind cooperation. Instructions

- ✓ No need of writing your name
- ✓ For multiple choice questions indicate your answers with a check mark (√) in the appropriate block.

PART 1: Personal Information of the respondents

Tick the most appropriate answer based on information

1. Sex: 1. Male ☐ 2. Female ☐

2. Age category

A. Below 30 ☐ B. 30 – 45 ☐ C. 46 – 55 ☐

D. Above 55 ☐

3. Marital status

1. Married ☐ 2. Not married (single) ☐

3. Divorced ☐ 4. Widow/ Widower ☐

4. Your educational level is

A. No schooling at all ☐ B. primary school completed ☐

C. high school completed ☐ D. Certificate ☐

E. Diploma ☐ F. Degree and above ☐

PART II: Factors Affecting Loan Repayment Performance of borrowers

Instruction: The following questions were designed to collect data on factors affecting small holder farmers‟ loan repayment performance. Therefore, please indicate the degree to which you agree or disagree with each of the following statements by ticking in the box under the number which is most applicable to you.

The grading scale is from (1) to (5) with 1= strongly disagree, 2= disagree, 3= neutral, 4= agree and 5= strongly agree

A. Borrower related factors

S.N	Items	5	4	3	2	1
1	I have borrowing experience.					
2	I can read and write.					
3	I have worked hard to repay the loan.					
4	I know the penalties for loan default.					
5	I could visit the institution if I need support.					
6	I have friendly relationship with borrowers.					
7	I know the rules and regulations of the institution.					

B. Institutional factors

S.N	Items	5	4	3	2	1
1	Loan repayment period is suitable to repay on time.					
2	I have got timely advisory visit from the micro-finance institution.					
3	I can lend money in group or individually					
4	The institution issued the loan timely					
5	The institution gave me the needed amount of money.					
6	Training has been given to me before loan provision and repayment					

C. Social related factors

S.N	Items	5	4	3	2	1
1	The community encourages me to repay the loan on time.					
2	I have participated in cooperative activities.					
3	I have participated in equip.					
4	I have participated in Iddir.					

D. Cultural factors

S.N	Items	5	4	3	2	1
1	I celebrate social festivals.					
2	I participate in social festivals.					
3	I spend the loan for non-income generating purpose.					

E. Loan utilization and Repayment Performance

S.N	Items	5	4	3	2	1
1	I have given priority to loan repayment.					
2	I repay the loan on time as per agreement.					
3	I have benefited by repaying the loan on time.					
4	I have worked to increase loan repayment size.					
5	I did not get any warning for loan delay.					
6	The institution is happy by my loan repayment progress.					
7	I have spent the entire loan on purposes specified in the loan agreement?					

Appendix: 1B

WOLEKITE UNIVERSITY

COLLEGE OF BUSINESSES AND ECONOMICS

Questionnaire for Mangers and Loan Officers of MFIs

INTRODUCTION

This is to conduct a research entitled comparative study on the determents loan repayment among microfinance institution borrowers of Butajira Town**.** So you are one of the respondents selected to participate in this study. The information you are providing will be of great importance in producing current, practical and reliable output that will inform readers of the study.

The information you will provide is confidential and only used for the academic purpose.

Thank you in advance for your kind cooperation. Instructions

- ✓ No need of writing your name
- ✓ For multiple choice questions indicate your answers with a check mark (√) in the appropriate block.

PART 1: The Socio Economic Characteristics of the respondents

Tick the most appropriate answer based on information

1. Sex: 1. Male ☐ 2. Female ☐

2. Age category

A. Below 30 ☐ B. 30 – 45 ☐ C. 46 – 55 ☐

D. Above 55 ☐

3. Marital status

1. Married ☐ 2. Not married (single) ☐

3. Divorced ☐ 4. Widow/ Widower ☐

4. Educational Level

A. High school completed ☐

B. Certificate ☐

C. Diploma ☐

D. 1st Degree ☐

E. 2nd Degree and above ☐

5. Work experience

A. Less than one year ☐

B. 1 – 5 Year ☐

C. 5 – 10 Year ☐

D. above 10 year ☐

2. Work Related Question

2.1. Do your organizations give training to borrower?

A. Yes ☐ B. No ☐

2.2. If yes, for what purpose?

A. Enhancing the entrepreneurial capacity of clients ☐

B. Helps to repay their loan on time ☐

C. Not to divert loan to other purpose ☐

D. Other (specify) ----------

2.3. When do you provide the training?

A. Before loan disbursement ☐

B. Most of the time before loan disbursement and sometimes after disbursement ☐

C. Most of the time after loan disbursement and some times before disbursement ☐

D. After disbursement ☐

2.4. How many times you visit / supervise/ clients business and loan repayment status?

A. Two times a month ☐ B. Once a month ☐

C. Quarterly ☐ D. Semi annually ☐

2.5. Do you believe that the training and supervision given to clients are adequate?

A. Yes ☐ B. No ☐

2.6. If no, what is the reason?

A. Lack of adequate man power ☐ B. Lack of qualified man power ☐

C. Shortage of resource ☐ D. Unwillingness of clients to train ☐

E. Other ----------

2.7. What are the major challenges you face during loan repayment process? Please state on the lines provided below.----------

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Thank You Very Much!