

**ASSESSMENT OF FACTORS AFFECTING LOAN REPAYMENT
PERFORMANCE IN OMO MICRO-FINANCE INSTITUTION IN
WOLKITE TOWN BRANCH**

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ABSTRACT

Micro finance institutions have a significant role for the development of one's country economic development by providing a credit and also a saving service for those productive clients. Though there are many factors that can affect the efficiency of the institution like, loan management and processing system, cash management, and loan repayment performance. This study was conducted with the aim of analyzing the factors that influence micro-finance loan repayment performance, specifically in OMO micro finance institution in Wolkite branch using primary data which was collected through self-administered questionnaire. This study intends to assess the factors affecting loan repayment performance of the beneficiaries of OMO micro finance institution. In order to achieve this objective, the study adopted qualitative research approach. Primarily data were collected from 15 employees in the institution's holding different positions selected through purposive sampling techniques using a self-administered questionnaire. For the data analysis, descriptive research designs the phenomena or variables that influencing the repayment rate. The study found that collateral, credit term, credit monitoring, loan supervision affects the loan repayment performance OMFI.

Keywords: Factor, Loan repayment, Performance

CHAPTER ONE

INTRODUCTION

1.1 BACK GROUND OF THE STUDY

Micro-finance institutions (MFIs) are those institutions which provide micro credit, saving and other services for those who are productive borrowers. The formal and informal sectors are the principal sources of finance for any investment or business that can be under taken at micro, small-scale and large-scale level in an economy. The major financial institutions in the formal financial sector in Ethiopia are commercial bank of Ethiopia (CBE).

Solomon (2006) noted that the banks serve big businessmen and disregard poor households and many small-scale credit-worthy businessmen with their viable investment ventures are denied access to institutional credit because they couldn't afford the required collateral. The researcher also indicated that, "over all; the prevailing operation of the formal financial institution in many low income countries such as Ethiopia is inefficient in providing sustainable credit facilities to the poor. Regarding delivery of financial services access to institutional credit was very limited in Ethiopia. Because of this limited access the majority of the poor get financial services through informal sources like money lenders Iqub Idder merchants' friends and relatives etc. The formal financial sources have not interested in delivering credit to the poor. A loan is a debit evidence by which specifies among other things the principal amount and interest rate and the date of repayment. In it loan entails the revocation subject aspects for a period of time between the lender and the borrower. In practice any material object may be lent. Acting as loan is one of the principal tasks of financial institutions issuing of debt contract such as bond is typical source of fund.

Credit is recognized as the important financial services that contribute to the success of business venture. This success intern believes to contribute towards economic development. However existence of credit facility alone not necessarily result in supporting of economic development unless and other ways it will be accumulated by the existence of conducive to the efficient utilization of credit fund. Loan recover is the main factor to determine the quality of loan assets

of financial institutions. Lower recovery indicates erosion of the institution effectiveness to provide the expected services.

Repayment performance is a critical feature of credit, because persistent or continuous poor payment ultimately leads to financial failure in any hand or financial institution. Different factors can hinder the loan estimated recovery performance of Omo micro finance institution that should be investigated for the precaution of the institution.

1.2. Background of the organization

Omo micro finance institution was initially established under the proclamation number 40/1996 in 1998 E.C. OMFI operates in SNNPR The institution has a head offices in Hawassa,15 branches and 164 sub branch offices in the region. Currently, it is operating in all zones, city administration, woredas and special woredas. The institution is constructing modern office buildings for all branches, sub branches and the head offices to create suitable work condition for staff and better services for clients. The institution is undertaking different changes activates using different tools of changes among others BPR (Business Process Re-engineering), BSC(Business Score Card) and automation works. In this regard, is fully implemented and BSC study is completed. And the institution is in a position to execute also BSC system. After full implementation of the automation OMFI envisages to see itself delivering more efficient, and effective financial services to its target community. The institution is giving financial services to different target groups in collaboration with different stakeholders such as rural development sectors, urban MSES development sectors, rural job opportunity creating structures, children and youth structures mines and energy structures and administrative structures truest of the government at all structures of the SNNPRS. The institution is providing loan services for economically active but financially poor community in the region. In rural area, the institution gives loan services in agriculture petty trade, and handicraft and so on while in urban area, in food processing metalwork woodwork urban agriculture and so on. Omo micro finance institution is a micro finance intermediary and began its work by providing micro-credit services for those poor's who are biased by the major financial institutions (i.e. CBE) in order to alleviating poverty and stimulating the region's economic growth and promoting sustainable financial services, both operational and financial.

Omo micro finance is a microfinance institution that strives to strengthen the economic base of low-in-come earning people in both urban and rural parts. The company has achieved substantial

growth in loan portfolio, saving mobilization and capital formation as well. Its branch network has been rising since its establishment and currently the company has 15 branches and 164 sub-branches across the region.

1.3. STATEMENT OF THE PROBLEM

Lending represents the typical services of micro-finance institutions provide for the productive borrowers. Loans are the dominant asset and represents 50-75% of the total amount at most micro-finance institutions, generate the largest share of operating income Mac Donald & Koch, (2006). Moreover it's contribution to the growth of any country is huge in that they are the main intermediaries between depositors and those in need of fund for their variable projects thereby ensure that the money available in economy is always put to good use. Therefore, managing loan in a proper way not only has positive effect on the micro-finance institutions performance but also on the borrower firms and a country as a whole. Failed to manage loans, which make up the largest share of the institutions asset, would likely lead to the way of high level of non-performing loans. As whole credit is generally accepted, that is put to productive use, results in a good return. But credit provision is such a risky business that, in addition to other reasons. The performance of Omo micro finance institution has been impressive since there establishment they are expressing default problems that can be observe from the company financial statement.

Berhanu(2001) argues that default problems destroy lending capacity of the institutions. Loan default may also deny new applicants access to credit as the micro-finance institution cash flow management problems arguments in direct proportion to the increasing default problems.

Many studies find out different factors that determine loan repayment performance of micro-finance institutions. External factors such as the economic, political and business environment in which the borrower operates are important determinants of loan repayment (Dereje eta, 2005, Belayneh, 2006). Moreover, in exploring micro-finance repayment problems in the informal sector in (Addisu, 2006) found that repayment capacity increased with education level. Addisu also found that borrowers who planned their business activities in advance or who had prior experience were least likely to default in their loan repayment. In contrast, they found that the levels of monthly sales were directly related to non-repayment of loans. Ephrem and Ibrahim (2003) in their study on determinants of loan repayment performance in Bahirdar town identifies

loan size, age of beneficiaries, household size, and number of years of formal education and occupation as the key predictors of loan repayment.

There are main factors that can determine the loan repayment performances of Omo micro finance institution but not find out in the above mentioned studies such as the institutional factors (credit term, supervision, collateral and credit monitoring). So this study narrows the gap on the basis of taking a sample from the employee of the institution.

1.4. OBJECTIVE OF THE STUDY

1.4.1 GENERAL OBJECTIVE

The general objective of this study is to asses' factor affecting the loan repayment performance of Omo micro finance institution in wolkite town branch.

1.4.2 SPESIFIC OBJECTIVE

Specifically, the research tries to address the following objectives:

- ❖ To assess the role of credit term on the loan repayment performance of OMFI.
- ❖ To assess the impact of collateral of repayment performance collateralized loan on the non-performing loan.
- ❖ To investigate the function of loan supervision in the repayment performance of borrower
- ❖ To assess the role of credit monitoring on loan default.

1.5 SIGNIFICANT OF THE STUDY

The finding of the study have some important for the manager of Omo micro finance institution in the assessment of loan granting procedures of the institution, for the institutions policy maker, for the programmers, for other researchers who want to do on this area, for governmental purpose, the credit worthiness of borrowers and other interesting parties about the factors affecting performance of loan repayment in the institution and to suggest possible solutions for the problem and to appreciate and understand where and how to channel efforts to minimize loan defaulting, This was also expected to contribute towards credit administration possible pay off in improved loan repayment

1.6 SCOPE OR DELIMITATION OF THE STUDY

Even though, sustainability of MFIs includes financial, economic, and institutional and borrower viability, this study focuses on only one aspect of it, i.e. borrower viability. Accordingly, the study focuses on factors affecting loan repayment performance of OMFI wolkite town branch (such as collateral, loan supervision, and credit monitoring and credit term) which is concerned on the borrowers' viability. Additionally, the sample of this study is taken from the institution's employee.

1.7 LIMITATION OF THE STUDY

The study is applied to Omo MFI in Wolkite which is limited in specific area coverage of Wolkite town branch only. The study's target population is also specified on only employees that doesn't include the borrowers. This is because of time and financial constraints.

1.8 ORGANIZATION OF THE STUDY

The research paper contains five chapters. The first chapter is an introduction of the paper, includes back ground of the study, background of the organization, statement of the problem, objective of the study, basic research question, significant of study, scope and limitation of the study. Whereas chapter two holds literature review, chapter three talks about research methodology, chapter four deals about data presentation and analysis and in the last chapter five presents about conclusion and recommendation.

CHAPTER TWO LITERATURE REVIEW

INTRODUCTION

The related literatures are presented in this section. It starts from the theoretical foundation of the study. Then it is followed by the emergence of MFIs, brief description of MFIs in Ethiopia, the impact analysis frame work, and factors affecting loan repayment performance are all presented respectively. Finally, empirical evidence which is investigated by different researchers is presented.

2.1 THEORETICAL LITURATURE REVIEW

Micro finance institutions are existed to perform a number of functions primarily for granting a credit for those productive poor which are a credit worthy borrowers. Granting credit which is the primary function of micro finance institutions as explained earlier is exposed the institution for credit risk. Credit is a device for facilitating transfer of purchasing power from one individual or organization to another. As indicated by (Oyatoya,1983) credit provides the basis for increased production efficiency through specialization of functions thus bringing together in a more productive union the skilled labor force with small financial resources and those who have substantial resources but lack entrepreneurial ability.

The link between credit and economic development has captured the attention of economists since long (Schumpeter J.A., 1993). With improved financial intermediation, the proportion of financial savings that is diverted by the financial system into non-productive uses falls, and the rate of capital accumulation increases for a given saving rate (Menasha, 1999).

A credit market differs from standard markets (for goods and services) in two important respects. First standard markets, which are the focus of classical competitive theory, involve a number of agents who are buying and selling a homogeneous commodity. Second in standard markets, the delivery of a commodity by a seller and payment for the commodity by a buyer occur simultaneously. In contrast, credit received today by an individual or firm in exchange for a promise of repayment in the future. But one person's promise is not as good as another.

Promises are frequently broken and there may be no objective way to determine the likelihood that promise will be kept (Jafee Dawit, and Joseph Stieglitz, 1990). Financial institutions in many developing countries hold a truly alarming volume in non-performing assets. Differences between promised and actual repayments on loans are the result of uncertainty concerning the borrower's ability or willingness to make the repayments when they are due which creates the risk of borrowers default (Pinscher, 1991; Vigano, 1993; Kitchen, 1989). The inapplicability of the standard demand and supply model for credit market give rise to credit rationing phenomena. Credit rationing as defined by (Jafee M. Dimwit, 1971) is the difference between the quantity of loans demanded and loans supplied at the ruling interest rate. In this case lending institutions make use of their own screening criteria to identify credit worthy borrowers so as to decrease the probability of default.

2.1.1 THE EMERGENCE OF MICROFINANCE INSTITUTIONS

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. They were simply kept out of the reach of the formal financial institutions for several reasons. First, formal financial sectors require collateral and credit rationing. Second, they prefer for high-income clients and large loans. Third, the processes and procedures of providing loan are bureaucratic and lengthy. Fourth, they are often urban- based and give lending to those engaged in trade and industry. Fifth, they usually consider the demand for loan by the poor as unattractive and unprofitable (Bauman, 1984, cited in Padma and Getachew, 2005; Ghate, 1992); Khandker, 1998; and Henok M, 1998). There is no exception in Ethiopia as rightly pointed out in several studies (See Gebeyehu, 2002; Mulat et al, 1998 and Wolday, 2000, 2001 and 2002). On the other hand, informal financial sectors were not good either. They usually require high interest rates, which the poor cannot afford to pay. These situations have also found to restrict the access of the poor towards informal financial sectors. Murdoch (1998) argued in his study conducted in Bangladesh that since moneylenders operate with little competition, they charge high interest rates. Generally, according to Hulme (2000), capital markets in developing countries do not work well so much so that they do not favor any development endeavor by the poor.

The year 1974 is a landmark in the history of microfinance development. It was by then that Professor Muhammad Yunus, a Bangladeshi economist introduced the idea of providing the poor with small loans. While he was on a field trip to an impoverished village with his students, he met a woman and interviewed her. She was making a living from the sale of stool (prepared from bamboo). From the interview he understood that the woman was making only a penny margin of profit for each stool. Then he reasoned that the woman would raise herself above subsistence level if she were given the loan with a more advantageous rate: then, he did it from his own pocket. In 1983 he formally established the Grameen Bank (meaning “village bank”). Today, in Bangladesh, Grameen has 1,175 branches, 12,500 staff and 2.4 million borrowers. The geographical coverage is 41, 000 villages, which means more than 60% of the total villages in the country.

Thus, the limitations of financial institutions in providing the poor with credit have become the driving forces behind the emergence of MFIs. Nowadays, microfinance institutions are burgeoning (grow or increase) rapidly to provide the poor with financial as well as technical assistance. While emphasizing the importance of microfinance, Kofi Anna, Secretary General of the United Nations once said, “Microcredit is a critical anti-poverty tool—a wise investment in human capital. When the poorest, especially women, receive credit they become economic actors with power. Power to improve not only their own lives but, in a widening circle of impact, the lives of their families, their communities, and their nations” the accomplishment of MFIs is, therefore, a manifestation of a paradigm (typical example or model) shift that defeated the old notion that the poor are not “creditworthy.”

2.1.2 BRIEF DESCRIPTION OF MICRO FINANCE INSTITUTIONS IN ETHIOPIA

Since the takeover of the present government in 1991, considerable attempt has been made to liberalize the financial sector. To this effect, Proclamation No. 84/94 was issued, which allows private domestic investors to participate in banking and insurance activities, which were previously monopolized by the government. However, the issuance of this proclamation alone did not totally solve the financial problem of the economically active poor people in rural and urban areas (Seifu 2002). Another Proclamation, No. 40/96 was issued to solve the problem of the delivery of financial services to the poor. Following the issuance of this proclamation the microfinance industry of Ethiopia showed a remarkable growth in terms of outreach and

sustainability. Furthermore, the National Bank of Ethiopia issued a new directive on May 2002 to improve the regulation limits on loan size (Br. 5000), repayment period (one year), and lending methodology (social collateral). The government also started micro-enterprise lending program after signing a development credit agreement (that is Market Town Development Project) with International Development Association (IDA) on March 30, 1990) which has been managed by Development Bank of Ethiopia. The objectives of the program were to finance very small businesses and household income generating activities, and to provide at least 50 percent of the loan to women entrepreneurs (cited in Asmelash, 2003).

Currently, there are 23 microfinance institutions registered and licensed under the National Bank of Ethiopia and reaching 905,000 credit and some saving clients (Getaneh, 2005). The industry is non-competitive and provides uniform credit and saving products to all clients (Wolday, 2002). The development of these MFIs could be viewed from two angles: (i) as potential market growth for financial services and (ii) as a paradigm shift by the government and NGOs from mere relief assistance to mobilizing the community towards sustainable development (Fiona, 1999, cited in Wolday, 2000).

The impact of microfinance initiatives can be seen from three different but interrelated aspects. These are economic, socio-political/cultural and personal/psychological. It means that large MFIs reaching hundreds of thousands of clients may have three aims: 1) bringing changes in economic growth in a region or sector, 2) bringing a shift in the political aspect of a particular district, and 3) improving borrowers' sense of self. These impacts could be evaluated from two perspectives. The first one is the financial system approach (the intermediary school) and the second one is the client-oriented impact analysis approach (the intended beneficiary school). The first one focuses on changes in the organization (MFI) and its operations. And as such, its proxy indicators are outreach and sustainability of the program (Goetz and Gupta, 1996; Hulme, 2000, Ledger wood, 1999 and Yaron, 1997). However, what clearly indicates 'who benefits' and 'how' is the intended beneficiary school, which is the focus of this study.

Studies suggest that many microfinance programs have attained the objective of reaching a large number of clients with small amounts of resources. Women are believed to be the main participants and beneficiaries of microfinance programs in many countries. Yet, many women lack enough power within households to use their loans to improve productivity and welfare

(Goetz and Gupta, 1996). In this study, the impact of microfinance is assessed taking both households as a unit of analysis

2.1.3 FACTORS OF LOAN REPAYMENT PERFORMANCE

Loans constitute as the primary source of income by any micro finance institutions. As any business establishment the institutions also seeks to maximize its profit. Since loans are more profitable than any other assets, the institution is willing to lend as much of its funds as possible. But institutions have to be careful about the safety of such advances. Institutions naturally try to balance the issue of maximizing profit by lending and at the same time manage risk of loan default as it would impair profit and thereby the very capital .Thus the institution needs to be Cautious in advancing loans as there is a greater risk which follows it in a situation where the loan is defaulted. Generally, in developing and underdeveloped countries, the reasons for default have multidimensional aspect. Various researchers have concluded various reasons for loan default. Literature categorizes determinants of loan repayment performance as follows. The following paragraphs were discussed about determinants of nonperforming loans.

Credit term

The institutions credit term has an effect on the repayment performance. If there is a strong care made a negotiation between the institution and their clients about the credit term the institution faces a little loan default or non-performing loan. In his study (Abraham, 2004) conducted on the Omo micro finance institution evidence that non-performing loans are determined by a credit term. And also who studied in other financial sectors like commercial bank of Ethiopia investigated that credit term is one of the determinant of nonperforming loan (Samuel, 2006). Besides other studies find out the borrowers poor knowledge about credit term as the cause for loan default (studies in commercial bank and other financial institutions of Indian).

Collateral

Collateral is also known guaranty which is an asset that a borrower pledges to the institution in order to compose the institutions risk at the time of loan default (Sinkey, 2002). It is something valuable which is pledged to the institution by the borrower to support the borrower's intention to repay the money advanced. Guaranty is taken to compose to the institution's risk at the time of loan default, and is considered as Secondary source of repayment (Koch & MacDonald, 2003).

The purpose of security is to reduce the risk of granting credit by increasing the chances of the lender recovering the amounts that become due to the borrower. Security increases the availability of credit and improves the terms on which credit is available. The offer of security influences the lender's decision whether or not to lend, and it also changes the terms on which he is prepared to lend, typically by increasing the amount of the loan, by extending the period for which the loan is granted and by lowering the interest rate. The reasons why a security is needed by the institution are:

To assure the borrowers full commitment for their operation

To provide as an insurance for the borrowers default

To provide as a protection for the borrowers deviation from normal course of action

Credit Monitoring

Lending decision is made on sound credit risk analysis /appraisal and assessment of creditworthiness of borrowers. But past records of satisfactory performance and integrity are no guarantee future, though they serve as useful guide to project trend in performance. Loan granted on the basis of sound analysis might go bad because of the borrower may not meet obligations per the terms and conditions of the loan contract. It is for this reason that proper monitoring is essential. Monitoring deals with the following vital aspects:

- ✓ Ensuring compliance with terms and conditions.
- ✓ Knowing the final use of approved funds.
- ✓ Assessing performance to check continued viability of operations.
- ✓ Detecting deviations from terms of decision.
- ✓ Making periodic assessment of the health of the loans and advances by noting some of the key indicators of performance that might include: profitability, activity level and management of the unit and ensure that the assets created are effectively utilized for productive purposes and are well maintained.
- ✓ Ensuring recovery of the installments of the principal and interest in case of term loan as per the scheduled repayment program.

- ✓ Identify early warning signals, if any, and initiate remedial measures thereby averting from possible default.

Loan Supervision

Supervision is the follow up of the institution for the borrower about that they are in the right way operating their business or other determining operation for the provision of loan. There are three major types of loan follow up. These are physical follow up, financial follow up and legal follow up each discussed below.

Physical follow- up:

Physical follow-up helps to ensure existence and operation of the business, status of collateral properties, correctness of declared financial data, quality of goods, conformity of financial data with other records (such as taxes ,register books), availability of raw materials, labor situation, marketing difficulties observed, undue turnover of key operating personnel, change in management set up among others.

Financial Follow- up:

Financial follow up is required to verify whether the assumptions on which lending decisions was taken continues to hold good both in regard to borrowers' operation and environment, and whether the end use is according to the purpose for which the loan was given.

Legal Follow- up:

The purpose of legal follow up is to ensure that the legal recourse available to the institution is kept alive at all times. It consists of obtaining proper documentation and keeping them alive, registration, proper follow up of insurances. Specific issues pertaining to legal follow up include: ascertaining whether contracts are properly executed by appropriate persons and documents are complete in all aspects, obtaining revival letters in time (revival letters refer to renewal letter for registration of security contracts that have passed the statutory period as laid down by the law), ensuring loan/mortgage contracts are updated timely and examining the regulatory directives, laws, third party claims among others.(Koch & MacDonald, 2003).

2.2 EMPERICAL LITERATURE REVIEW

Loan repayment performance is affected by a number of socio-economic and institutional

factors. While some of the factors positively influence the loan repayment, the other factors are negatively affecting the repayment rate. Regarding to the loan repayment performance of borrowers several studies have been conducted in many countries by different authors. Some of the studies are mentioned below.

2.2.1 STUDIES OUTSIDE THE WORLD

When one goes through the bulk of literature on the impact of microfinance, one can find quite different results, which are generally inconclusive. In some cases, microfinance is said to have brought positive impacts on the life of the clients. A growing database of empirical studies shows that microfinance has positive impacts to boost the ability of poor people to improve the conditions in which they live. Research works indicate that the poor have taken advantage of increased earnings to improve consumption levels, send their children to school, and build assets. In some other instances, microfinance is said to play insignificant role towards mitigating the problem of the poor. But looking at the positive impacts, several studies indicate that microfinance allows poor people to increase their incomes by starting new enterprises or expanding existing ones. The argument is that through diversified sources of income, the people could be able to shield themselves against external shocks. Savings and micro- insurance services could also allow poor individuals to plan for future expenses, and cover unanticipated expenses. Studies of microfinance programs and their clients indicate the following impacts on poverty and hunger.

In Indonesia, 90% of clients surveyed on the island of Lombok had moved above the poverty line, with income increases (Panjaitan-Drioadisuryo and Cloud, K, 1999).

In Zimbabwe, extremely poor clients of Zambuko Trust, a local MFIs, increased their consumption of high- protein foods at a time when food expenditures across the country as a whole were decreasing (Barnes, 2001).

In Tanzania/Zanzibar, the income and assets values of borrowers are almost twice that of non-borrowers (REPOA, 2005).

In India, in addition to increased economic well- being, share clients have shown a striking shift from irregular, low-paid daily labor to more diversified sources of income, with a strong reliance on small businesses (Simanowitz and Walters, 2002). Studies of two separate microfinance

institutions in Bangladesh documented a similar shift from informal labor to self-employment among MFIs clients. As a result, overall wage rates in the villages served by the microfinance programs also increased (Zaman, 2000 and Khandker, 1998). Pitt and Khandker (1998) also indicated that microfinance has brought positive marginal impacts on consumption in Bangladesh. They showed that microfinance has become a promising strategy to shield the poor from vulnerability through consumption smoothing as well as building assets. The rate was even lower for old borrowers than new ones. This is to mean that number of loans was found to be important in impacting the life of clients positively. Strengthening this assertion, Montgomery et al (1996, cited in Zaman, 2001) pointed out that third time borrowers were found to get higher incomes and register growth in their enterprises. Mustafa et al (cited in Zaman, 2001) also found that older borrowers were found to have greater asset values and household expenditures on average than new borrowers.

In another study, Khandker (2003) found out that microfinance is serving a useful purpose in benefiting the poorest segment of the clients and in reducing poverty in Bangladesh. He indicated that females are found to benefit more than males from microfinance services. But, the poor are found to spend much on food, not on other income-generating activities. According to Khandker, enhancing the skill of the clients is very important in addition to providing them with credit. The benefit of microfinance is evaluated from the perspective of meeting people's short-term problems as far as Khandker's analysis is concerned. It is well known that the majority of microfinance programs specifically target women clients and provide them with direct control over resources because access to microfinance services is believed to open up greater livelihood opportunities for women and thereby allow for their increased participation in the economy. As a result, many MFIs consciously design their programs to empower women, with the goal of increasing their voice in decisions (family, economic, social, and political) that affect their lives. The following studies could substantiate this. After joining Freedom from Hunger affiliates in their respective countries, women clients in Ghana were found to play a more active role in community life (MkNelly and Dunford, 1998) and those in Bolivia (Ibid, 1999) were found to be actively involved in local government. On the other hand, a survey of 1300 women in Bangladesh showed that MFI clients were significantly more empowered than non-clients in terms of physical mobility, asset ownership, and control of productive assets, decision making, and political and legal awareness (Hashemi, Schuler, and Riley, 1996).

A gender impact study of four microfinance programs in Bangladesh concluded that women clients experienced positive change at a personal level, in the form of increased self-worth, as well as the household level. Apart from the above-mentioned positive impacts of microfinance, access to financial services whether credit, savings, or insurance enable many poor people to access better health care services.

2.2.2 STUDIES WITH IN ETHIOPIA

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

(Abafita, 2003) Analyzed the microfinance repayment performance of Omo credit and saving institution in wolkite, Ethiopia. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand, age was found to be positive. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes.

(Assefa B.A., 2002) estimate the effects of hypothesized explanatory variables on the repayment performance of rural women credit beneficiaries in Dire Dewa, Ethiopia. Out of the twelve variables hypothesized to influence the loan repayment performance of borrowers, six variables were found to be statistically significant. Some of these variables are farm size, annual farm revenue, celebration of social ceremonies, loan diversion, group effect and location of borrowers from lending institution. (Abreham G., 2002) studied on the loan repayment and its determinants in small-scale enterprise financing in Ethiopia around Zewayarea. He is found out other sources of income, education, and work experience related economic activities before the loan are

enhancing loan repayment. While extended loan repayment period is influence the repayment performance negatively.

(Reta, 2002) studies for loan repayment performance of women fuel wood carriers in Addis Ababa. His finding is frequency of loan, suitability of repayment period and other income sources are found to encourage repayment hence reduce the probability of loan default. While educational level is negatively related to loan repayment.

2.3 RESEARCH GAP

Loan repayment problem is one of the critical issues in MFIs to attain better financial performance which threatens their continuity This study contributes to the existing body of literature on loan repayment for omo micro finance institution by assessing factor affecting the loan repayment performance.

NPL: determine factors vary from time to time depends on the economic policies, political influences and other factors .as it is clearly evidenced many researchers have been conducted and there is inconsistency up on conclusions. This research is unique and brought something new since it is different in time in and methodology additionally, as per the knowledge of the researcher there is no previous study on the factors affecting the loan repayment performance of omo micro finance wolkite branch.

CHAPTER THREE

RESEARCH METHODOLOGY

INTRODUCTION

In chapter two the related literature of the study was observed. In this chapter we are going to see research methodology. It comprises different sections; 3.1 research approach, 3.2 research design, 3.3 population sampling and respondents of the study and 3.4 presents' methods of data analysis.

3.1 RESEARCH APPROACH

Among the three types of research approach those are qualitative, quantitative and mixed approaches in this study relationship between the repayment performance and those the factors to repayment is summarized qualitative. It is appropriate to used qualitative approaches, and in ordered to obtain an understanding about the institutions specific factors that would determine the occurrence of nonperforming loan.

3.2 RESEARCH DESIGN

The research design is needed to provide relevance information that would be most effectively and efficiently the research questions as can be seen in the research questions and objective of the study (Hair *et al.*, 2007). Assessment of factor affecting loan repayment performance in OMFII wolite branch as a result, the most appropriate research design in this study is the descriptive method. The essentials of the descriptive research design are: to address questions that have been raised, to solve problems that have been observed, to identify whether the specific objectives have been met or not.

3.3 POPULATION SAMPLING

In this part the target population, sampling technique and sample size of the study would be discussed.

3.3.1 TARGET POPULATION:

According to (Joseph, G. &Mertez, F., 2003) population is a group of items that a sample had been taken from. A sample, on the other hand, refers to a set of individuals or groups selected from an identified population with the intent of representing the findings to the entire population. A sample was selected as a result of constraints that make it difficult to cover the entire research population. The target population of this research was the whole employees of Omo micro finance institution in wolkite town branch.

Table 3.1 Total Population of the Study:

NO.	Institutions	Number of employees	
1	OMFI total	19	

Source: human resource management report of OMFI

3.3.2 SAMPLING TECHNIQUE:

The data has been collected from different employees of the target population of the study i.e. the management department of the institution, loan approval section (account officer & loan officer, auditor and service department. The study used purposive/judgmental sampling to select the respondents of the study.

Purposive sampling

According to the institutions human resource management report the employees were employed in to different position based on their activities such as:- sub branch manager, saving and credit coordinator, saving and credit officer, purchasing and payment/clerk/ officer, customer service officer, auditor, HRM, housekeeping, saving and credit extension agent and office guard. A purposive sampling was used to select representatives from the whole employees except housekeeping and office guard and the study used purposive/judgmental sampling technique to select other all employees in the institution. Because the employees in the other department are daily involved in credit processing and we believe that they have better information about loan.

3.3.3 SAMPLE SIZE:

To investigate the points raised by this research it is important to select a representative sample. The determination of sample size is influenced by many factors that need to be taken into

account. These factors include the cost and time constraints, variability of elements in the target population, knowhow of employee and others. In this study the sample size include the whole employees of the institution excluding office guard and housekeeping because of this two department have not awareness about factors affecting loan repayment performance. From the target population has15 the researcher selects 15. This means this 15 selected from HRM, auditor, sub-branch manager, saving and credit officer, saving and credit and other department.

3.3.4 SOURCE AND METHODS OF DATA COLLECTION:

This study used primary data. The questionnaire was lacerate style which is administered to the sample respondents of study area.

3.4 METHODS OF DATA ANALYSIS

The method of data analysis depends on three main issues. These are knowledge of the researcher, objective of the study and measurement of the source. Accordingly this study has been used qualitative methods of data analysis. In this study qualitative data utilized the descriptive statistics, and percentages. Tables had been used to present the data, and also qualitative data has been used to analyze through simple qualitative description about loan and its determinants for the repayment performance of the institute

CHAPTER FOUR

DATA PERESENTATION AND ANALYSIS

In the previous chapter the research methodology containing sub topics such as research approach, research design, population and sampling technique and methods of data collection and analysis used in the study has been presented. In this chapter the results and analysis of the data collected through a questionnaire is present. Respondent profile with regard to their work place, position, experience in the institution and experience in the institution lending system were presented at the end of the paper (in appendix).

4.1 Data related to employees

Table 4.1 Respondents sex distribution

No	Item	4.1. Respondents	
		Number	Percentage (%)
1	Respondents sex distribution		
	1. Male	7	46.6%
	2. Female	8	53.4%
	Total	15	100%

Source: primary data, 2019

The respondent was of two sexes that are males and females each were purpose fully taken from the employees. The total sample size was 15 respondents, 7 were male and the remaining 8 were female. This indicates the dominance of female in the research.

Table 4.2 Respondents' age distribution

No	Item	Respondents	
		Number	Percentage
2	Respondents age distribution		
	1. 18-35	10	66.7%
	2. 36-50	5	33.4%
	3. 51-65	-	-
	4. More than 65	-	-
	Total	15	100%

Source: primary data, 2019

In table 4.2 regarding employees from the total respondents 5 employees (33.4%) were between 36-50 years age and 10 employees (66.7%) were between 18 – 35 years ages.

Table 4.3 Respondents' education distribution

No	Item	Respondents	
		Number	Percentage
3	Respondents academic status		
	1. Highly qualified (MA, PhD.)	-	-
	2. Degree	7	47%
	3. Diploma	5	33%
	4. Certificate	3	20%
	Total	15	100%

Source: primary data, 2019

As can be seen from the table 4.3 regarding the academic status of OMFI employees, no respondents answer that they are highly qualified. Out of the total 15 respondents 7(47%) were qualified in degree and 5(33%) respondents were qualified in diplomat. The remained 3(20%) were qualified in certificate.

Table 4.4 Experience of employees

No	Item	Respondents	
		Number	Percentage
4	Work experience		
	1. 1-5 years	10	66.7%
	2. 6-10 years	5	33.3%
	3. 11-15 years	-	-
	Total	15	100%

Source: primary data, 2019

In table 4.4 regarding the working experience of the employees, from the total respondents 10 employees which are 66.7% are having an experience of 1-5 years and 5(33.4%) employees having an experience of 6-10 years.

4.2 SAMPLING RESULTS

The questionnaire was distributed for the whole credit department employees (including the management department, loan approval section i.e. loan officer or account officer, auditor, and other service department employees except housekeeping and office guard in Omo micro finance institutions in wolkite branch. The questionnaires that were physically distributed are 15 for the institutions employees whose position are related with loan and related department. Out of the whole 15 distributed questionnaires all are completely collected. Therefore the response rate is 100%.

Table 4.5: sample response rate

Total Sample size	15
Completed and collected questionnaires	15
Response rate	100%

Source: questionnaires' outcome of 2019

Table 4.6 the role of collateralized on non-performing loan

	Strongly agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly disagree (%)
Collateralized loans perform well in the institution	40	53.4	-	6.6	-
Collateralizing loans help to protect loan default	60	40			-
Most of the time non collateralized loans are defaulted	13.4	53.3	13.3	6.6	13.4

Source: questionnaire outcome of 2019

Collateral (also known as warranty) is the asset that borrowers pledged for the institution to compensate the institution's risk in the time of loan default (Sinkey, 2002), and it is considered as a secondary source of repayment (MacDonald, 2003).

In the table 4.6 above we have observed that 53.4% of respondents were agreed that collateralized loan is performed well in the institution. As a result this study has got knowledge that institutions are not granting loan without any collateral. Besides 40% of the respondents are strongly agreed that collateralized loan is performed well in the institution and only 6.66% of the population disagrees on that. The sampling result of this study shows 60% of the respondents are strongly agreed that collateralized loan is help to protect loan from default. As a result, the study reaches on an understanding that since the properties of the borrower's such as home, automobile and other furniture are behind them as collateral and become sold if they default to repay the loan and have no any other way to repay the lender, they repay the loan with compliance to the agreement. So collateral (warranty) is used to reduce the risk of granting a loan by increasing the chance of the creditor recovering the amounts that become due to the borrower. Moreover, 40% of the respondents are agree, that collateralized loan helps to protect loan default and 53.33% of the respondents are agree non-collateralized loans are defaulted.

Table 4.7 Factors indicating credit monitoring on loan default

	Strongly agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly disagree (%)
Strict monitoring ensures loan performance	40	40	6.66	6.66	6.66
Loan follow up is directly related to occurrence of nonperforming loans	26.6	40	20	13.4	
Institutions with higher effort for loan monitoring have lower non-performing loans	33.3	33.3	13.4	20	-

Source: questionnaire outcome of 2019

Based on the result of our sample in table 4.7, 40% of respondents are strongly agreed that strict monitoring is believable to ensure the institutions loan performance. In other ways the respondents that agreed, neutral and disagreed and strongly disagree that strict monitoring is believable to ensure the institutions loan performance are 40%,6.66% and 6.66% respectively.

From this the study has got a knowledge that if the institution monitors their borrower’s property and give an attention for the borrower what are they have been doing by the money they borrow from the institution and giving an announcements about the system how to utilize the money they borrowed and give warning sign if they use the money for unintended purpose since the borrowers are on the good performance to repay their loan.

The institutions have many possible alternatives to monitor the borrowers. Amongst this one of the best methods is visiting to understand the progress of the borrower’s business operation and giving an advice as necessarily important, and 40% the respondents agree that loan follow up is also is a relevant factor for the occurrence of nonperforming loan. Moreover, 26.6% of the respondents of the institution strongly agreed that though credit monitoring needs a higher effort to ensure the repayment performance of loan. And also 20% and 13.4% of the respondents are, neutral and disagreed that credit monitoring needs a higher effort of the institution to ensure loan repayment performance. From this the study gets knowledge that effective monitoring of the borrower by the institution got a better repayment performance.

Table 4.8 the relevant of credit term on loan repayment performance

	Strongly agree (%)	Agree (%)	Neutral (%)	Disagree (%)	Strongly Disagree (%)
Credit term is significant to determine loan repayment performance in the institution.	46.6	53.4			-
With growth in credit term comes growth on loan default.	20	40	13.4	26.6	
Borrowers default because they don't understand credit terms well.	26.66	40	6.66	20	6.66

Poorly negotiated credit terms lead to loan non-performance	46.66	26.66	6.66	20	
-------------------------------------------------------------	-------	-------	------	----	--

Source: *questionnaire result of 2019*

In financial institutions credit term has a significant effect for the occurrence of nonperforming loan (Abreham, 2002). In the table 4.8 above our sampling result indicates 46.6% of the respondents are strongly agreed that credit term is significant to determine loan repayment performance in the institution. And 20% of the respondents are strongly agreed that when the credit term becomes growth the chance of loan default is highly increased. As a result, the study got knowledge that credit term is one of the main determinants for the repayment performance of the institution's loan, and the credit term grows the chance of loan default becomes increase. On the other hand, 40%, 13.4% and 26.6% of the respondents are agreed, neutral, and disagreed respectively that with the growth of credit term the chance of loan default becomes increased. Besides, most of the respondents i.e. 20% are disagreed that borrowers default to repay the loan is not related with the misunderstanding of credit term (this is in different with the studies of Indian commercial banks and other financial institutions). This entails that borrowers are clearly understand the credit term. Therefore, the Indian researchers are better to see again about the client's knowledge about credit term. On the assumption, poorly negotiated credit term leads to loan nonperformance about 40.66% of the respondents are strongly agreed. It shows that, if the lenders have a good deal about the credit term for the borrowers, the borrowers are in a better position to pay the debt.

Table 4.9 the significance of loan supervision on repayment performance

	Strongly agree (%)	Agree (%)	Neutral (%)	Disagree (&)	Strongly disagree (%)
The institution supervises the borrowers after loan granting	46.6	20	13.4	13.4	6.6
The institution supervises the borrowers before granting loan	20	46.6	13.4	20	
Loan supervision is relevant for the repayment performance	40	46.6	13.4	-	-

A borrower without loan supervision become defaulted for repayment	40	53.4			6.6

Source: *questionnaire result of 2019*

Loan supervision is the follow up of the institution about for what purpose and how the borrowers are used the money they lend from the institution for the best utilization of money provided as a loan.

From the table 4.9 above it observed that 46.6% of the respondents are strongly agreed that the institution is supervised the borrowers when the loan is going to granting. From this sampling result the study got knowledge that the institution has supervision policy to grant a loan for the creditworthy borrowers. In other ways, 20%, 13.4% 13.4 and 6.6% of the respondents are strongly agreed, neutral disagree and strongly disagreed respectively that the institution supervises the borrowers to grant a loan. Moreover, 53.4% of the respondents are agreed that a borrower without any supervision becomes defaulted for repayment and 46.6% of the respondents also agreed that the institution with higher loan supervision faces a little non-performing loan. As a result, the knowledge that the study got from this sample result is if the institution provides a great supervision for the borrowers when they decide to grant loan they have a better performance for the repayment of loan wisely.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1 CONCLUSION

The general objective of this research is identifying the factors that affect loan repayment performance mostly related with credit. A number of specific research questions are developed based up on the general objective of the research. In order to accomplish this general objective the research used qualitative research approach. Mostly it uses a self-administered questionnaire for the purpose of obtain a primary data from the targeted respondents. According to the respondents view the result of the study showed that there are most likely occurrence of effects that affect loan repayment performance of Omo micro finance institution in wolkite town branch. It is presented below.

- ❖ This study find out collateral is one among the main requirements for assuring the lending institution's repayment performance of loan provided for the clients. Due to this most of the time financial institutions did not grant a loan without any collateral. When the institution have done so it is helpful to ensure the borrowers full commitment, provide as a security if the borrowers are defaulted for repayment, protect the borrowers deviation from performing the planned action at the time of credit extension. Since bounding the borrower with high valuable collateral make a feeling for them not to lose the property due to defaulting to repay their loan. Therefore borrowers become in a good position to repay the debt.
- ❖ The institution made a strong negotiation with the borrowers about the credit term since it is one of the possible determinants for the repayment performance of loan. But the borrower's knowledge about the credit term is the cause for loan default. So as the credit term becomes long it is not the borrower's poor knowledge about credit term rather it is the negligence of the borrowers so, the institution is cautious when there is a growth of credit term since it approaches to loan default.
- ❖ In addition, the institution made a strict monitoring to ensure loan performance. The institution monitors the borrower's property and gives an attention what the borrowers

have been made by the money they lend from the institution. The institutions have many possible alternatives to monitor the borrowers. Among this one of the best methods is visiting to understand the progress of the borrower's business operation and giving an advice as necessarily important, and encouraging the repayment performance.

- ❖ Besides, the institution made loan supervision about for what purpose the borrowers need a loan, how they are going to use the loan and also their productiveness of using a loan. Such supervisions are a key factor for the clients better productivity and the assurance of repayment performance of the institution since the borrowers achievement is also great for little occurrence of nonperforming loan in the institution.
- ❖ Finally the study investigate that even if there are some difficulties faced at the time of loan repayment with the borrowers there is also an interesting condition with those credit worthy borrowers who are really productive and achievable and the institution have an incentive mechanisms for such borrowers. Among the incentives some of them are provide a loan without collateral, granting a loan as the amount they want and at any time they want, giving different awards, getting a trust by the institution and so on.

5.2 RECOMMENDATION

Based on the above the research findings and conclusion the following recommendation are suggested.

- ❖ The institution should make an assessment on the loan's normality periodically so as to know the indicators of loan performance including profitability, management's level of activity and this ensures the assets which are utilized effectively and for productive purpose.
- ❖ Collateral is decisive for the decision of lenders whether to provide a loan or not the institution is better to continue giving more attention on the property (like house, automobile etc.) of borrowers taking it as a collateral since it is used to assure the borrowers commitment to pay the debt.
- ❖ The institution is also advised to strengthen their attention on monitoring the borrowers attentively as they have done before to make them productive by assessing the businesses intended to operate by the loan which is provided.
- ❖ In making the negotiation about the credit term the institution should not be shallow rather it is expected to be strong. Because poorly negotiated credit term leads to the

growth of credit term even if the borrowers have not knowledge about the credit term which is the indicator of loan default as investigated in the analysis of the research.

- ❖ Loan supervision is has a key role for the performance of the institution. This because if the institution supervises the borrower it is easy to know what the borrower intends to operate, and give an advice how to utilize the money they borrowed. By doing so since the credit is invested on the outlined purpose the borrowers become achievable and there will not be nonperforming. As a result, the institution is ought to strengthen their supervision system than what they have been made before at the time of deciding to provide a loan for the borrowers.

Recommendation for Further Researchers:

As it had tried to mention in the scope and delimitation of the study in chapter one, this research has its own strength and limitation in terms of its scope and methodology used .Therefore we are recommended that:-

- ✓ There are different kinds of factors that affect loan repayment performance such as socio-economic factors, loan related factors and institutional factors. However, this study is mainly focused on institutional factors only.
- ✓ The sample respondents of the study are taken from the employees of the institution. This due to provide as a knowledge gap expressed in the statement of the problem.

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- A. Credit manager
- B. Loan officer
- C. Auditor
- D. service

Part-2 Questions on the factors affecting loan repayment performance

Put your mark as x on your appropriate choice

Please indicate your degree of agreement or disagreement to the statements pertaining to Collateral and the repayment performance

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. Collateralized loans perform well in the institution					
2. Collateralizing loans help to protect loan default					
3. Most of the time non-collateralized loans are defaulted					

Please indicate your degree of agreement or disagreement to the statement pertaining to credit monitoring and the occurrence of default

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Strict monitoring ensures loan performance					
2.	Loan follow up is directly related to occurrence of nonperforming loans					
3.	Institutions with higher effort for loan monitoring have lower non-performing loans					

Please indicate your degree of agreement or disagreement to the statements pertaining to credit term and repayment performance

		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1.	Credit term is significant to determine loan repayment performance in the institution.					

<p>2. With growth in credit term comes growth on loan default.</p>					
<p>3. Borrowers default because they don't understand credit terms well.</p>					
<p>4. Poorly negotiated credit terms lead to loan non-performance</p>					

Please indicate your degree of agreement or disagreement on loan supervision and the loans default rate.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1. The institution supervises the borrowers after loan granting.					
2. The institution supervises the borrower before loan granting					
3. Loan supervision has a relevant for the repayment performance					
4. A borrower without supervision becomes defaulted for repayment.					

THANK YOU FOR YOUR PARTICIPATION!!!