

**ASSESSMENT OF FACTORS THAT AFFECT BORROWERS'
ABILITY TO REPAY LOAN IN CASE OF OMO (MFIS) IN
WOLKITE TOWN**



**WOLKITE UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE**

**A SENIOR ESSAY SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING IN PARTIAL FULFILMENT OF THE
BACHLER OF ART (BA) DEGREE IN ACCOUNTING**

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ADVISORS' APPROVAL SHEET

This is to certify that a thesis on the topic entitled “**Assessment of Factors that affect Borrowers’ Ability to Repay Loan In Case of OMO (MFIs) in Wolkite Town)**” submitted Partial Fulfillment of the Requirements for the BA Degree in Accounting and Finance; the undergraduate program has been carried out by **EKRAM SIGO**, under my supervision. Therefore I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis.

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We, the undersigned, members of the Board of Examiners of the final open defense by **EKRAM SIGO** have read and his thesis entitled “**Assessment of Factors that affect Borrowers’ Ability to Repay Loan In Case of OMO (MFIs) in Wolkite Town)**” and examined the candidate. This is, therefore, to certify that the thesis has been accepted in partial fulfillment of the requirements for the BA degree in Accounting and Finance.

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Final approval and acceptance of the thesis is contingent upon the submission of the final copy of the thesis to the department of Accounting and Finance.

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Contents

Acknowledgment	iv
<i>Abstract</i>	ii
acronyms and abbreviations.....	iii
CHAPTER ONE:	1
INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of the Problem.....	2
1.3 Research Questions	4
1.4 Research Objectives.....	4
1.4.1 General Objective	4
1.4.2 Specific Objectives	4
1.5 Significance of the Study	4
1.6 Scope of the Study	5
1.7 Organization of the Study	5
CHAPTER TWO	6
LITERATURE REVIEW	6
2.1. THEORETICAL REVIEW	6
2.1.1. Definition of loan repayment	6
2.1.2. Definition and role of micro finance institutions.....	6
2.2 Theoretical Arguments on Loan Default Problem.....	6
2.3 lendingMethods Of Micro-Finance Institutions.....	7
2.3.1. Individual Based Lending	7
2.3.2. Group Based Lending	8
2.4. empirical review.....	8

2.4.1 Empirical studies of other countries	8
2.4.2 Empirical studies in Ethiopia	11
2.5 Knowledge and literature gaps.....	15
CHAPTER THREE:	16
RESEARCH METHODOLOGY.....	16
3.1 Research Approach	16
3.2 Research Design.....	16
3.3 Data Type and Sources	16
3.4 Data Collection Methods	16
3.5 Target Population.....	17
3.6 Sampling Design and Techniques.....	17
3.7 Methods of Data Analysis.....	17
3.8 Ethical Considerations	17
CHAPTER FOUR:.....	19
DATA PRESENTATION AND ANALYSIS	19
4.1 Introduction.....	19
4.2 Response Rate	19
4.3 Demographic Characteristics of Respondents	19
4.4 Factors Affecting Borrowers' Ability to Repay Loans	22
4.4 Mechanisms to Mitigate Repayment Challenges.....	25
4.6 Challenges Faced by Lenders	27
CHAPTER FIVE:	31
SUMMARY, CONCLUSION, AND RECOMMENDATION	31
5.1 Summary.....	31
5.2 Conclusion	32
5.3 Recommendations.....	33

Reference	35
Appendix A: Survey Questionnaire	37
Appendix B: Interview Questions	40

LIST OF TABLES

Table 1 Gender and Age Group of Respondents	19
Table 2 Educational Qualification, Job Position, Years of Experience, and Department	20
Table 3 response to section two questionnaire	22
Table 4 response to section three questionnaire	25
Table 5 response to section 4 questionnaire	28

Abstract

This study investigated the loan repayment challenges faced by borrowers at Omo Microfinance Institution in Wolkite Town, Ethiopia, utilizing a mixed-methods approach that combined quantitative and qualitative research methods. The scope encompassed three dimensions: methodological, thematic, and locational, focusing on borrower characteristics, institutional factors, and external economic conditions that influence repayment behavior. The primary objective was to identify the key factors affecting loan repayment performance and their interrelationships. Findings revealed that low-income levels, lack of financial literacy, and inadequate institutional support significantly hindered repayment. The study concluded that addressing these challenges through targeted financial education, flexible repayment plans, and improved tracking systems could enhance repayment rates. Recommendations included implementing financial literacy programs for borrowers, adopting adaptable repayment strategies, and establishing a robust monitoring system to better support borrowers and improve operational efficiency.

Keywords: *loan repayment, microfinance, financial literacy, borrower characteristics, Ethiopia, mixed-methods approach.*

Acronyms and Abbreviations

MFI - Microfinance Institution

LTV - Loan-to-Value

APR - Annual Percentage Rate

GDP - Gross Domestic Product

NPL - Non-Performing Loan

FICO - Fair Isaac Corporation (credit scoring)

SME - Small and Medium Enterprises

CBM - Community-Based Microfinance

CHAPTER ONE:

INTRODUCTION

1.1 Background of the Study

Microfinance has gained global recognition as an essential tool for poverty alleviation, economic empowerment, and financial inclusion. Across the world, microfinance institutions (MFIs) play a critical role in providing financial services to individuals who lack access to traditional banking systems. According to the World Bank (2021), more than 1.7 billion adults globally remain unbanked, and microfinance has emerged as a solution to bridge this gap by offering small-scale financial services such as credit, savings, and insurance. The success of microfinance can be attributed to its ability to empower low-income individuals, particularly women, by providing them with the necessary financial resources to start and expand small businesses (Yunus, 2018).

Despite the positive impact of microfinance, challenges persist in ensuring sustainable loan repayment rates. Research indicates that factors such as inadequate financial literacy, economic shocks, and weak regulatory frameworks contribute to loan defaults in various countries (Armendáriz & Morduch, 2010). Moreover, the lack of collateral and reliance on group-based lending models in many microfinance programs create risks for both borrowers and lenders. Addressing these challenges requires robust financial education, improved credit risk assessment, and supportive policies that enhance the sustainability of microfinance institutions worldwide.

In Africa, microfinance has become a key driver of financial inclusion, especially in rural and underserved communities. Many African nations have embraced microfinance as a means to promote entrepreneurship and reduce poverty. According to the African Development Bank (2020), microfinance institutions in Africa serve millions of low-income individuals, with a focus on providing access to small loans, savings accounts, and insurance services. Countries such as Kenya, Nigeria, and Ghana have established strong microfinance sectors that support small-scale enterprises and foster economic growth. The introduction of mobile banking platforms, such as M-Pesa in Kenya, has further enhanced financial accessibility and loan repayment mechanisms (Jack & Suri, 2016).

However, loan repayment remains a significant challenge in African microfinance institutions. Studies have shown that factors such as high interest rates, lack of business skills, and economic instability contribute to loan defaults (Mwangi & Ouma, 2019). Additionally, weak institutional frameworks and inadequate regulatory oversight have led to issues such as over-indebtedness and unethical lending practices. To address these concerns, African governments and financial institutions must strengthen credit assessment mechanisms, enhance borrower education, and implement policies that promote responsible lending and financial discipline.

Ethiopia, as one of Africa's developing economies, has witnessed a growing microfinance sector aimed at addressing financial exclusion and promoting economic development. The government has recognized the role of microfinance in reducing poverty and has implemented policies to support its expansion. According to the National Bank of Ethiopia (2021), the country has over 30 microfinance institutions serving millions of clients, particularly in rural areas where access to formal banking services is limited. These institutions provide financial services such as credit, savings, and micro-insurance to help individuals and small businesses improve their livelihoods (Negese, 2014).

Despite the progress, loan repayment challenges remain a major concern for Ethiopian microfinance institutions. Studies indicate that borrower-related factors such as low income levels, lack of financial literacy, and agricultural dependency contribute to high default rates (Kebede et al., 2016). Additionally, institutional challenges such as limited loan monitoring, weak enforcement of repayment policies, and unfavorable economic conditions hinder effective loan recovery. To enhance repayment performance, Ethiopian microfinance institutions must adopt innovative credit risk management strategies, strengthen borrower education programs, and improve financial inclusion policies to ensure the long-term sustainability of microfinance services in the country.

1.2 Statement of the Problem

Microfinance institutions (MFIs) play a significant role in providing financial services to individuals and small businesses that lack access to traditional banking systems. Their primary goal is to offer credit and savings opportunities to underserved populations, thereby promoting economic empowerment and poverty reduction. However, one of the critical challenges faced by MFIs worldwide is loan repayment performance. High default rates not

only threaten the sustainability of microfinance programs but also limit their ability to extend financial services to new clients (Mead & Liedholm, 1998).

Loan repayment problems stem from multiple factors, including borrower-related challenges, institutional inefficiencies, and external economic conditions. Many borrowers struggle with repayment due to unstable income sources, lack of financial literacy, and unforeseen financial hardships. On the institutional side, weaknesses in loan monitoring, inadequate credit assessment procedures, and high operational costs further contribute to loan defaults (Nwachukwu, 2014). Moreover, macroeconomic factors such as inflation, market instability, and agricultural risks significantly impact borrowers' ability to meet their repayment obligations (Mwangi & Ouma, 2019).

In Africa, microfinance institutions face considerable challenges in ensuring effective loan repayment. Studies have identified factors such as high interest rates, poor borrower screening processes, and ineffective regulatory frameworks as major contributors to loan defaults (Nancy & Mohamed, 2014). Additionally, many microfinance borrowers operate in informal and volatile economic sectors, making their income streams unpredictable and repayment uncertain (Samwel & Kevin, 2016). Addressing these issues requires improved risk management strategies, enhanced borrower training programs, and stronger institutional policies.

Ethiopia's microfinance sector has expanded significantly, yet loan repayment remains a persistent issue affecting the financial sustainability of MFIs. According to the National Bank of Ethiopia (2021), default rates among microfinance borrowers continue to pose risks to financial institutions. Factors such as low household incomes, lack of financial education, and inadequate enforcement of loan agreements contribute to repayment challenges (Kebede et al., 2016). Additionally, agricultural borrowers face seasonal income fluctuations that hinder timely repayment, exacerbating the financial strain on microfinance institutions (Haile, 2015).

Omo Microfinance Institution in Wolkite Town has encountered similar repayment issues, with borrowers struggling to meet their loan obligations. Key challenges include insufficient borrower capacity to generate stable income, weak credit assessment procedures, and external factors such as unpredictable weather conditions affecting agricultural clients. These challenges hinder the institution's ability to recycle funds and expand its outreach to new borrowers. Thus, this study aims to assess the factors affecting borrowers' ability to repay

loans and explore potential mechanisms for improving repayment performance in Omo Microfinance Institution.

1.3 Research Questions

This study aimed to answer the following research questions:

1. What are the key factors affecting borrowers' ability to repay loans in Omo Microfinance Institution?
2. What mechanisms can be implemented to mitigate loan repayment challenges?
3. What challenges do lenders face in the loan repayment process?

1.4 Research Objectives

1.4.1 General Objective

The main objective of this study was to determine the factors influencing loan repayment performance among borrowers of Omo Microfinance Institution in Wolkite Town.

1.4.2 Specific Objectives

1. To identify key factors affecting borrowers' ability to repay loans.
2. To assess mechanisms for mitigating loan repayment challenges.
3. To evaluate challenges faced by lenders during the loan recovery process.

1.5 Significance of the Study

This study is significant as it contributes to understanding the factors affecting loan repayment performance in microfinance institutions, with a particular focus on Omo Microfinance Institution in Wolkite Town. By identifying key determinants of loan repayment challenges, the research provides valuable insights for financial institutions, policymakers, and borrowers. The findings can inform credit risk management strategies, borrower education programs, and institutional policies aimed at improving loan recovery rates and ensuring financial sustainability. Additionally, the study offers practical recommendations to enhance financial literacy among borrowers and improve loan monitoring systems to minimize defaults.

Furthermore, this research adds to the existing body of knowledge on microfinance and its impact on financial inclusion. It serves as a reference for future studies seeking to explore similar issues in other microfinance institutions or different geographical contexts. By

addressing repayment challenges, the study supports the broader goal of promoting economic empowerment and poverty reduction through sustainable microfinance practices. The results may also benefit government agencies and development organizations in designing policies and interventions to strengthen the microfinance sector.

1.6 Scope of the Study

The scope of this study was categorized into three dimensions: methodological, thematic, and locational. Methodologically, the study employed a mixed-methods approach, integrating both quantitative and qualitative research methods. The data collection involved structured questionnaires and interviews with borrowers, employees, and management of Omo Microfinance Institution. Descriptive statistical techniques and qualitative thematic analysis were used to examine the factors influencing loan repayment performance.

Thematically, the study focused on loan repayment challenges and their determining factors, including borrower characteristics, institutional factors, and external economic conditions. It explored the relationship between loan repayment behavior and variables such as financial literacy, income stability, loan terms, and credit monitoring practices. Locationally, the study was conducted in Wolkite Town, Ethiopia, specifically targeting borrowers and employees of Omo Microfinance Institution. The findings were expected to be relevant for financial institutions operating in similar socio-economic contexts.

1.7 Organization of the Study

This study is structured into five chapters. The first chapter introduces the study by providing background information, statement of the problem, research objectives, significance, scope, and organization of the study. The second chapter reviews relevant literature, including theoretical and empirical studies on loan repayment. The third chapter outlines the research methodology, detailing the research design, data collection methods, and analytical techniques. The fourth chapter presents data analysis and discussion of findings. The final chapter summarizes the conclusions and provides recommendations based on the study's results.

CHAPTER TWO

LITERATURE REVIEW

2.1. THEORETICAL REVIEW

2.1.1. Definition of loan repayment

Loan defined as a type of debt instruments, which entails the redistribution of financial assets over time between the lender and the borrower according their agreement. It is also typically, the money which is expected to paid back in regular installments or partial repayments periodically that each installment being of the same amount (Savio, 2017).

Additionally, success of loan repayment defined as the ability to repay the loan full as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the loan as per the loan agreement or neglect the loan.

2.1.2. Definition and role of micro financeinstitutions

Different authors and organizations have defined Micro-finance institutions in different ways. However, the meaning of the definitions is usually the same. Which means micro finance refers to the provision of financial services; primarily savings and credit to the poor and low-income households that do not have access to commercial banks service.

2.2 Theoretical Arguments on Loan Default Problem

A loan default occurs when a borrower fails to make a payment on time after an agreement reache between the lender and the borrower. It also occurs when the borrower does not comply with any other agreement made on the promissory note. Loan default is essential of two basic types. The first and the most common type occur when the debtor defaults on a payment of interest or principle. This might be because the debtor is either unable or unwilling to repay the debt. The second type of default occurs when the debtor violates any of the agreements made on the promissory note either purposely or unintentionally. The loan may be either formal or informal one. When we think of small businesses in LDCs, the major source of finance so far is an informal sector. The probability of default of small-scale enterprises loan from informal sources is low because informal financial markets are much closer to their clients and potential clients, and through gossip and daily contact, they are

much more aware of their activities than a formal banker is, thus they know the risks they expose. On the other hand, small-scale credit scheme from formal financial markets has experience a high rate of default in many developing countries. Non-defaulters are those who repai the loan in due date and the defaulters are those who did not repay the loan with the due date. The proper recovery of loan is not only a prerequisite for rapi expansion of micro finance service but also a question of life or death for any credit agency (Abebe, 2012).

Loan default is a tragedy because failing to implement appropriate lending strategies and credible policies often result in the demise (death) of credit institutions. Default problems destroy lending capacity as the flow of repayment declines, transforming lenders into welfare, in the head of viable institutions. Loan defaults deny new applicants access to credit. In the context of third world lending programs, the cost of defaulting include not only the loss of future credit but also public embarrassment and the loss of social standing. It is advice that one should pay back a borrowe loan in the shortest time possible, as this will avoid him or her paying a lot of unnecessary money in the form of interest. One will borrow money in order to make money. There could be thousands of reasons people borrow money. For consumption, farming activities, cushioning the jolt of temporary shocks, asset buildings like buying a car, a home, to take a vacation.

2.3.lendingMethods OfMicro-FinanceInstitutions

Lending methodologies may differ with respect to clients whether loans made to groups and individuals lending mode. The selection of lending methodology greatly influences product design, client selection, the way of application or approval process, and loan repayment monitoring and portfolio management activities of micro-finance institutions. Lending methodology also effects the institutional structure and staff requirements, including training and compensation (Wood, 2013).

2.3.1. Individual Based Lending

Individual based lending requires greater honest on analysis of clients and their cash flows it times physical collateral and frequent close contact with clients during the term of the loan approvals and amounts. Based on an applicant's eligibility and debt capacity, which is in turn are dependents number of factors, including personal and business characteristics, age, gender, sources, amount of income, age of business, cash flow, and available collateral (Wood, 2013).

2.3.2. Group Based Lending

Group based lending is one of the approaches of lending small amounts of money to a largenumber of clients that organized by group who cannot offer collateral. The size of the group can vary, but most of the time groups have between 4 to 8 members. The group selection is one of the factors that influence the member's loan repayment activities.

According to Nawai (2010) group-based borrowers has to form a group before applying loans because they are responsible to all of their members. If one member fails to pay the loan, the others will be responsible to pay the loan otherwise; they would deny access for the next loans. Group lending is an approach of lending small amount of money to a large number of borrowers who cannot offer collateral. Group members are jointly accountable for the repayment of each other loans through peer pressure. The entire group members would disqualify and will not be eligible for further loans, even if one member of the group becomes a defaulter. The size of the group can vary, but most groups have between three to eight members, the group self-selects its members before acquiring a loan.

2.4. empirical review

The empirical relate literaturetries to review several studies that conducte in Ethiopia and others country by different researchers on loan repayment performance of clients of micro finance institutions and summarized as follows.

2.4.1 Empirical studies of other countries

Several studies hasconducte in different countries regarding determinants that affect loan repayment performance and some of them can be reviewedl and summarize as follows: Determinants of loan repayment performance of fishermen on Ghana employe multiple regression analysis in their study. Their results reveale that low level of education, lack of alternative income generating activity, cumbersome loan processing procedures, they are likely to have high loan default. The study identified fishing income, amount borrowe and size of loan investe into fishing as significant predictors of loan repayment (Acquah and Addo, 2011).

Mamun (2011) conduct the study on examining the critical factors affecting the repayment of micro credit provided by AmanahIkhtiar Malaysia. The researcher employs a cross sectional design with stratifies random sampling method to examine how common household factors affect repayment performance. According to the finding household income, number of

gainfully employe members, and number of sources of income significant model fit and negative linear relationship between repayments.

Munene (2013) in his study of factors influencing loan repayment default in micro finance Institutions: The experience of Imenti North district, reveale that there was significant relationship between the type of business, age of the business, number of employees, business profits and loan repayment default. There is strong link between technical training for loan beneficiaries and the performance of entrepreneurial businesses among the remote communities. The study conducte on Microfinance institutions in Kenya to establish the causes of repayment defaults in Imenti North district, Kenya using a descriptive survey design by incorporating 400 respondents of individual micro finance loan beneficiaries and micro finance institution officials using census and cluster sampling procedures for micro finance institutions officers and loan beneficiaries respectively. The data collected use both structure and unstructure questionnaires and analyze using descriptive and inferential statistics.

Nancy and Mohamed (2014) conducted their study on determinants of loan repayment in small scale enterprises in developing countries, Kariobangi division in Nairobi. Based on their finding result showe that the personal characteristics variables higher education level and large family size, loan characteristics variables large amount of loan applie and longer duration of business result in increase loan repayment and vice versa. Whereas an increase in age, interest rate and change in gender leads to more loan default and vice versa.

Mukono (2015) conducted study on the determinants of loan repayment by small and medium enterprises in Nairobi country, Kenya. He employed logit regression model, descriptive statistical tools and inferential statistics to analyze the data. The analyzed data reveals that firm characteristics (ownership structure type of firm, firm location, firm size, age of the business, registration status, profitability, asset ownership, type of business and type of business activity). Borrower characteristics (age of borrower, gender of the borrower, level of education, business experience, household size, credit use experience, household income, non- business income, type of business activity, amount of business investment, borrower's attitude and family background) are positively influence loan repayment by small and medium enterprises. Whereas loan characteristics (loan size or amount, loan repayment period ,collateral value ,number of installments ,loan application costs ,loan type, purpose of loan ,previous loan repayment mode and length of time before repayment). In addition, lender

or firm characteristics (interest rate, penalty for lateness, credit analysis procedure, lending policies, time lag between loan application and disbursement, and stringent loan procedures) are negatively influence loan repayment performance of small micro enterprises.

Samwel and Kevin (2016) had conducted stud on the factors affecting clients on loan repayment for micro finance institutions: a case study of pride Arusha Tanzania, based on analysis the factors that affect clients on loan repayment for micro finance institutions by applying both quantitative and qualitative techniques to investigate factors affecting loan repayment performances. They used primary and secondary data and used randomly sampling techniques to select from a total population of clients and staffs. According to their findings, results from clients' characteristics age, household size, gender and level of education variables, from nature of business characteristics business type, business stability and income level variables and loan characteristics repayment period, repayment mode, and repayment amount variables were among the factors that influenced borrowers in repaying their loans. In additionally Lack of business, knowledge and borrowers age of 40 years and above are another factor mentioned by clients. In addition, the institution used reasonable and acceptable lending policies and procedures. It also good loan application procedures, loan approval system, loan disbursement, and collection techniques.

Wafula (2016) conducted study on determinants of loan repayment by borrowers from microfinancial institutions in Nakuru Country Kenya. The researcher employed a descriptive analysis and linear multiple regression model to analyze the data. His results revealed that low education levels and yet they are associated with loan repayment better than those educated counterparts and as income level increases loan repayment decreases (Lower income borrowers repaid loans than higher income borrowers). It also younger is associated with loan repayment than their old counterparts. This study identified the education level, income level and age have negative coefficient but significant determinants of loan repayment.

Yogendrarajah and Semasinghe (2016) had studied on the empirical analysis of micro credit repayment in Northern Sri Lanka. According to the researchers the all variables such as Amount of Loan, Loan interest, Decision making, control over assets and Loan management were positively influence on repayment of micro credit. The researchers had employed Linear multiple regression model to estimate the equation of loan repayment and they analyzed and presented the results of the study by using the SSPS software 16 versions. In addition, they

were used multi-stage stratified random sampling technique to select the sample from population of self-employable women who have experience more than two years and collected the data through structured questionnaire.

Ssekiziyivu (2017) conducted study on analysis the borrowers' characteristics, credit terms and loan repayment performance among clients of micro-finance institutions in rural areas of Uganda. The researcher employs a cross sectional and co relational design with applying the ordinary least squares (OLS) and multiple regression models. Accordingly the finding results credit terms (interest rates, loan period, collateral requirements) significantly contributes to loan repayment performance of MFIs in Uganda and borrowers characteristics (demographic, ability to pay and assets owned) no significant relationship between borrower's characteristics and loan repayment.

2.4.2 Empirical studies in Ethiopia

Different researchers carried out some empirical studies at different time on the factors that influence the loan repayment performance of MFIs borrowers throughout the country reviewed as follows.

Fikirte (2011) examined the determinants of loan repayment performance of Addis credit and saving institution borrowers in the Addis Ababa, Ethiopia. Accordingly, the study revealed that out of eleven explanatory variables, eight variables were found to be significant factor for the probability of being defaulter, that is age and all five business types (baltina and petty market, kiosk and shop, services providing, weaving and tailoring, and urban agriculture) were important in influencing loan repayment performance of the borrower. In addition, sex and business experience of the borrowers were founds to be significant determinants of loan repayment rate. However, the remaining explanatory variables namely, education level, family size, and dependency ratio had no significant effect on the probability of being defaulter. She used a binary logit model and descriptive statistics to estimate the equations and analysis the result

Meshesha(2014) has examined micro finance credit rationing and loan repayment performance and concluded that education, income, loan supervision, suitability of repayment period, availability of other credit sources and livestock are important and significant factors that enhance the loan repayment performance, while loan diversion and loan size are founds

to significantly increase loan default. In addition, female borrowers were found better in terms of loan repayment.

Ababiya (2015) studied the performance of micro and small enterprises and its determinants in Hadiya zone, Ethiopia. The result revealed that age of enterprises, age of operators, education level, number of employees, amount of initial capital, entrepreneurial skill, experience of manager, access to training and access to market were statistically significant at less than one percent significance level and had positive relationship with the performance of enterprises. They employed descriptive analyses and multiple linear regression models to estimate the equation and analysis the result. According to his study, result shows indicate that three major selected MFIs are progressing in terms of its breadth and depth of outreach. From the financial sustainability point of view, those micro finance institutions have been gone up the ladder of sustainability measures over those five consecutive years. The institution also manages its loan portfolio as shown by the ratio of portfolio at risk, which is greater than 30 days that declined throughout the years.

Haile (2015) conducted study on investigated the determinants of loan repayment performance in Harari micro finance institutions. he revealed that saving habit of borrowers, loan size, perception of borrowers on repayment period, source of income, availability of training, business experience, business type, family size ,and the purpose of saving have been found as significant factors of loan repayment performance of borrowers at one ,five and ten percent significance level. He identified that the probability of default increase as the family size increases, when the borrowers has negative perception on repayment period, less training, low business experience, poor saving habit and only single source of income. He has employed descriptive statistics and logistic regression (binary logit) model to estimate the equations and analysis the result of finding.

Tesfatsion.et.al (2015) conducted study on the factors influencing MFIs group loan repayment performance a case of MSE"s service delivering sector that are financed by Dedit credit and saving institution by applying explanatory (descriptive) research approach and employing chisquare test to examine the association of the independent variables with the loan repayment performance of clients. In this study eleven explanatory variables were included which results in group formation (screening), peer monitoring, loan size, loan term and supervision have significant association with loan repayment performance of borrowers while the rest six variables Business experience, social ties, internal rules and regulations,

saving size, group size and training have insignificant association with loan repayment performance of group borrowers.

Haile (2016) analyzed the credit rationing and repayment performance in the Amob woreda Eshet micro finance institution by using binary logit model. The findings revealed that major factors considered by Eshet micro finance institutions were credit rationing, loan sizes, loan diversion, family size, business experience and education. The study also found out that among the factors that used for credit rationing in micro finance age influenced loan repayment performance. Credit rationing system needs to take into account the factors that influence loan repayment performance when rationing loan applicants. The study revealed that the overall repayment performance of the borrowers and the screening technique, which the institution follows to ration loan to its clients, found to be sound. Similarly, it found that the credit scheme has contributed positively in terms of improving the incomes, access to education, access to health facilities and nutritional status of the borrowers. Specifically, loan diversion was found to be one of the important and significant factors influencing loan repayment performance negatively, i.e., it increases default risk significantly. On the other hand, evidences in this study show that female borrowers have performed better in terms of loan repayment than their male counterparts.

Kebede.et.al (2016) hence, education level and time laps between loan application and disbursements were positively and significantly influenced borrower's loan repayment performance at one and five percent significance level. Whereas age of respondents, loan size, loan diversion, repayment period, number of dependents within and out household, training, and supervision and advisory visits had influenced negatively and significantly the borrowers' loan repayment performance at one percent significance level. The researcher employed binary logistic regression model to estimate and analyze the result.

Abraham (2017) in the study to assess factors affecting loan repayment performance of borrowers also found sex, income from other sources, monitoring utilization of other members in a group, credit timeliness, repayment time suitability, repayment trend on a monthly basis and training adequacy are significant and positively influence loan repayment performance of the borrower. While loan utilization for the intended purpose, repayment trend on an irregular basis and visit and follow-up on irregular basis found negatively, influence the repayment performance of borrowers. The extensive involvement and

interference of third parties on the decisions of loan approval processing to the lending institute found as a contribution for high defaulting.

Garomsa (2017) conducted a study on the assessment of factors affecting loan repayment performance of borrowers on selected microfinance institutions in Central in Ethiopia region. He employed the descriptive statistics analysis and probit regression model to analyze the results of findings. It also used multistage sampling methods and he has collected the primary data by using the structured questionnaires, semi-structured interviews and focus group discussions. According to the study that income from other sources, monitoring utilizations of other members in a group, credit timeliness, repayment time suitability, repayment trend on monthly basis and training adequacy are found significant and positively influence loan repayment performance of borrower. While loan utilization for the intended purpose, repayment trend on irregular basis and visit and follow-up on irregular basis found negatively, influence the repayment performance of borrowers. In addition, he revealed that male borrowers in a given enterprise found to be more defaulters than females although they have relatively higher utilization rate of the loan for the intended purpose as compared to that of females.

Savio.et. al (2017) carried a study on the loan repayment performance of micro small enterprises in Wolaita Sodo and concluded that variables relating to small micro enterprises loan repayment form the most dominant group of determinants of bad loans, accounting about 82.7 percent of the variability. The variables are beneficiary size of the enterprises, business related experience, loan size, loan supervision, loan initiation and suitability of repayment situation. Also that the evidence of both descriptive analysis and multiple regression show that business related experience is found to be one of the major determinants adversely affecting the loan repayment performance having the value of 64.2 percent by taking the variable while others are constant. This indicates that in the study area, micro small enterprises did not have enough business related experience to manage their own activities properly and as the results, they fail to repay the loan they received. Another important point to rise is loan size and that decreasing the loan size increases the loan default rate. Stratified Random sampling method was used and data collected by structured questionnaire. Regression model (multiple regression models) and descriptive statistical tools was employed to estimate the equations and analysis the results.

Alemu (2018) conducted study on the determinants of loan repayment of micro and small enterprises in Jimma town, Ethiopia by using binary logistic regression model. He result of explanatory variables sex and experience positive and significantly affect loan repayment. The inconvenience of loan payback period, lack of financial skill and planning negatively and significantly affected loan repayment of enterprises. Lack of marketing skills, follow up and supervision positively and significantly influenced loan repayment of micro and small enterprises.

Geleta (2018) conducted study on the determinants of loan repayment performance of micro and small enterprises the case of Oromia credit and saving Share Company branches under Oromia special zone around Addis Ababa by using binary logistic regression model. The results of explanatory's variable group leader, education level, training, and loan follow up or loan supervision, market accessibility and technology loan positive and significantly affect loan repayment. Also the results of interest rate, internal rules and regulations, loan accessibility, lack of group leaders experiencing in business, enterprise size and enterprise group formation were negatively influenced the loan repayment performance of micro and small enterprises sectors in the study area.

2.5 Knowledge and literature gaps

As mentioned above in the various empirical related literatures review different authors conducted study in Ethiopia and others country on the factors of loan repayment performance of MFIs borrowers by used that different factors in characteristics and they revealed those positively or negatively affecting loan repayment performance of micro finance institution borrowers. Most of these studies were focused on the credit associated with agriculture activities and rural borrowers they identify the socio economic factors that affect the loan repayment rate of rural household. However, in the literature review nothing was indicated above the factors influencing the loan repayment performance of urban borrowers.

A researcher intended to conduct an study in the area of study in different manner than those researcher done, such as study conducted in non-government organization, except that of Abafita and also methodological & findings different from those researchers studied.

CHAPTER THREE:

RESEARCH METHODOLOGY

3.1 Research Approach

This study employed a mixed-methods approach, integrating both qualitative and quantitative research methods to ensure a comprehensive analysis of factors affecting loan repayment performance. The quantitative aspect of the study involved statistical analysis of numerical data collected from structured questionnaires, while the qualitative aspect included insights from interviews and open-ended survey responses. This approach enabled the study to capture both measurable trends and in-depth perspectives on loan repayment challenges.

3.2 Research Design

A descriptive research design was adopted in this study. The descriptive aspect aimed to provide a detailed overview of the loan repayment patterns among employees of Omo Microfinance Institution. The study analyzed institutional determinants of loan performance and explored their implications for microfinance operations.

3.3 Data Type and Sources

The study used both primary and secondary data sources. Primary data were gathered through structured questionnaires administered to employees of Omo Microfinance Institution. Additionally, in-depth interviews with key stakeholders such as loan officers and managers provided qualitative insights. Secondary data were sourced from institutional reports, financial statements, government publications, and existing literature on microfinance and loan repayment performance.

3.4 Data Collection Methods

To ensure data reliability, this study employed multiple data collection techniques:

1. **Questionnaires:** A structured questionnaire was used to collect data from employees. The questionnaire included closed-ended and open-ended questions covering institutional policies, loan terms, repayment monitoring, and employee perspectives on loan repayment challenges.

2. **Interviews:** Key informant interviews with managers and loan officers were conducted to obtain qualitative insights into loan repayment challenges and best practices in credit management.
3. **Document Review:** Institutional records, financial reports, and published studies were analyzed to support the findings from primary data collection.

3.5 Target Population

The target population included employees of Omo Microfinance Institution in Wolkite Town, particularly those responsible for credit management and loan recovery. The study focused on gathering insights from loan officers, financial analysts, and managers involved in loan approval and repayment monitoring processes.

3.6 Sampling Design and Techniques

This study employed a census sampling technique, meaning that all employees involved in loan processing and repayment monitoring at Omo Microfinance Institution were included in the study. The census sample consisted of 32 employees who were directly engaged in loan administration and two managers responsible for overseeing credit management. This approach ensured that all relevant perspectives on loan repayment challenges were captured without excluding any key personnel.

3.7 Methods of Data Analysis

Quantitative data were analyzed using descriptive statistical tools, including tables, frequencies, and percentages. The data were organized in tables to illustrate trends and distributions of employee perspectives on loan repayment challenges. The proportion of respondents falling into various categories was calculated to highlight key findings on loan repayment patterns. Qualitative data from interviews were analyzed thematically by identifying recurring themes and key insights on institutional loan repayment challenges and management practices.

3.8 Ethical Considerations

To ensure ethical research practices, the study adhered to the following principles:

1. **Informed Consent:** All participants were informed about the purpose of the study and their voluntary participation.

2. **Confidentiality:** Responses were kept confidential, and no personal identifiers were included in the analysis.
3. **Integrity and Objectivity:** The study maintained transparency in data collection and analysis to ensure unbiased results.

By employing this rigorous methodology, the study provided an in-depth understanding of the factors influencing loan repayment performance in Omo Microfinance Institution, ultimately contributing to improved financial strategies and policy recommendations.

CHAPTER FOUR:

DATA PRESENTATION AND ANALYSIS

4.1 Introduction

This chapter presents the findings of the research conducted on the factors affecting borrowers' ability to repay loans at Omo Microfinance Institution (MFI) in Wolkite Town. The data collected from questionnaires and interviews will be analyzed and discussed to provide insights into the challenges faced by borrowers and the mechanisms that can improve loan repayment performance.

4.2 Response Rate

A total of 32 questionnaires were distributed to employees of Omo MFI, and 30 completed questionnaires were returned, yielding a response rate of approximately 93.75%. This high response rate indicates a strong engagement from the participants and provides a reliable basis for the findings.

<i>Total Distributed</i>	<i>Questionnaires Completed Returned</i>	<i>Questionnaires Response Rate</i>
32	30	93.75%

4.3 Demographic Characteristics of Respondents

The demographic characteristics of the respondents were analyzed to understand the profile of the participants involved in the study. The following tables summarize the demographic information collected through the questionnaires.

Table 1 Gender and Age Group of Respondents

<i>Demographic</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Gender</i>		
<i>Male</i>	17	56.67%
<i>Female</i>	13	43.33%

<i>Age Group</i>		
18–25	6	20%
26–35	9	30%
36–45	8	26.67%
46–55	4	13.33%
55+	3	10%

Source own survey,2025

The gender distribution of the respondents indicates a slightly higher representation of males (56.67%) compared to females (43.33%). This balance suggests that both genders are engaged in roles within Omo Microfinance Institution, providing diverse perspectives on loan repayment challenges.

The age group analysis reveals that the majority of respondents fall within the 26–35 age range (30%), followed closely by those aged 36–45 (26.67%). This indicates that a significant portion of the workforce is relatively young and potentially more adaptable to new financial practices and technologies, which could influence their views on loan repayment mechanisms.

Table 2 Educational Qualification, Job Position, Years of Experience, and Department

	<i>Demographic</i>	<i>Frequency</i>	<i>Percentage</i>
<i>Educational Qualification</i>	High School	5	16.67%
	Diploma	11	36.67%
	Bachelor’s Degree	9	30%
	Master’s Degree	5	16.67%
<i>Job Position</i>	Loan Officer	11	36.67%
	Credit Analyst	7	23.33%
	Manager	6	20%

Years of Experience	Other	6	20%
	<1 year	5	16.67%
	1–3 years	10	33.33%
	4–6 years	9	30%
	>6 years	6	20%
Department	Loan Processing	12	40%
	Risk Management	8	26.67%
	Customer Service	7	23.33%
	Other	3	10%

Source own survey, 2025

The educational qualifications of the respondents show that the majority hold diplomas (36.67%) and bachelor's degrees (30%), indicating a well-educated workforce that can contribute insightful perspectives on financial practices. A smaller percentage has only completed high school or holds a master's degree, suggesting a range of educational backgrounds that influence their understanding of loan repayment.

In terms of job positions, loan officers constitute the largest group (36.67%), reflecting a strong operational focus on loan processing and management. This role is crucial for understanding the dynamics of loan repayment challenges, as these individuals interact directly with borrowers.

When examining years of experience, the largest group has between 1–3 years of experience (33.33%), suggesting a relatively young workforce in terms of experience. This may mean that many employees are still developing their expertise in handling loan repayment issues, potentially leading to varying opinions on best practices.

Finally, the department distribution indicates that the majority of respondents work in loan processing (40%), followed by risk management (26.67%). This alignment of roles suggests that the respondents are directly involved in the key areas affecting loan repayment, providing valuable insights into the challenges faced by borrowers and the institution's strategies for mitigating those challenges.

4.4 Factors Affecting Borrowers' Ability to Repay Loans

This section presents the responses to the specific items in the questionnaire regarding the factors affecting borrowers' ability to repay loans, mechanisms to mitigate repayment challenges, and challenges faced by lenders. The responses are summarized in tables, followed by interpretations to provide insights into the findings.

Table 3 response to section two questionnaire

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Neutral)	4 (Agree)	5 (Strongly Agree)	Total
Borrowers' low-income levels significantly hinder loan repayment.	2	3	4	10	11	30
Lack of financial literacy contributes to repayment challenges.	1	2	5	9	13	30
Unfavorable loan terms (e.g., high interest rates) lead to defaults.	2	4	6	8	10	30
Seasonal income fluctuations affect borrowers' repayment capacity.	1	5	4	8	12	30
Inadequate business skills among borrowers increase default risks.	2	3	6	9	10	30
External shocks (e.g., economic crises) impact repayment performance.	3	2	5	7	13	30

Source own survey, 2025

The data presented in the above table illustrates the perceptions of respondents regarding various factors influencing borrowers' ability to repay loans. A significant 70% of respondents indicated that low-income levels severely hinder loan repayment, underscoring the critical role financial resources play in borrowers' ability to meet their obligations. This

finding aligns with previous research, which shows that borrowers with limited income often struggle to manage their loans effectively (Khandker et al., 2013). Consequently, policymakers should consider implementing regulations that encourage microfinance institutions (MFIs) to offer more borrower-friendly loan terms, including lower interest rates and flexible repayment schedules.

Moreover, 73.33% of respondents acknowledged that a lack of financial literacy contributes to repayment challenges, highlighting the necessity for borrowers to have a solid understanding of financial concepts and loan terms. Research has demonstrated that higher financial literacy correlates with better financial decision-making, enabling borrowers to navigate repayment processes more successfully (Lusardi & Mitchell, 2014). Therefore, MFIs should integrate financial literacy programs into their offerings to empower borrowers in making informed financial decisions.

The perception that unfavorable loan terms, such as high interest rates, lead to defaults was supported by 60% of respondents, which aligns with findings suggesting that stringent loan conditions can overwhelm borrowers, thereby increasing the likelihood of default (Meyer, 2010). Addressing this issue by promoting more favorable loan conditions could enhance loan repayment rates and reduce defaults. Additionally, 66.67% of respondents noted that seasonal income fluctuations affect repayment capacity, particularly for borrowers in agriculture or seasonal employment. This finding resonates with previous studies that emphasize the importance of flexible repayment structures to accommodate unpredictable income patterns (Rutherford, 2009).

Furthermore, 63.33% of respondents agreed that inadequate business skills among borrowers increase default risks, echoing research indicating that borrowers lacking entrepreneurial skills may struggle to generate sufficient income for repayment (Brau & Woller, 2004). Thus, providing skills training in business management and entrepreneurship can enhance borrowers' income-generating capacity and help mitigate default risks. Lastly, the acknowledgment that external shocks, such as economic crises, impact repayment performance was evident, with 66.67% agreeing. This highlights the need for MFIs to develop robust risk management strategies, such as offering loan restructuring or temporary relief measures during economic downturns, reflecting research that links macroeconomic instability to increased loan defaults (Baker & McKenzie, 2016).

In summary, the interpretations of the table, combined with previous research findings, highlight critical areas for intervention aimed at improving borrowers' ability to repay loans. By addressing these factors holistically, MFIs can enhance both borrower outcomes and their operational sustainability.

The manager stated,

"In my experience, the most significant factors that hinder borrowers' ability to repay loans at Omo MFI are low-income levels and a lack of financial literacy. Many of our borrowers struggle with limited income, which makes it incredibly challenging for them to meet their loan obligations. When they have to choose between paying for essential needs like food and housing or repaying their loans, they often prioritize immediate survival. Additionally, many borrowers lack a solid understanding of financial management. They may not fully grasp the terms of their loans or how to budget effectively, which can lead to poor financial decisions. This lack of financial literacy means they might mismanage their funds, underestimate the importance of saving for repayments, or fail to recognize how interest accrues. Together, these issues create a difficult environment for repayment and significantly impact our overall performance at Omo MFI."(IDI with branch manager)

This statement highlights the critical interplay between income instability and financial education. Low income levels create a pressing challenge for borrowers, forcing them to allocate their limited resources toward basic necessities rather than loan repayments. This prioritization can lead to a cycle of debt and default, as borrowers become trapped in a situation where they cannot fulfill their financial obligations. Moreover, the lack of financial literacy complicates matters further. Without a solid understanding of financial concepts, borrowers are ill-equipped to make informed decisions regarding their loans. This can result in mismanagement of funds and an inability to plan effectively for future repayments.

The combination of these factors creates a challenging environment for both borrowers and the microfinance institution. It underscores the urgent need for targeted interventions, such as financial education programs that can equip borrowers with the knowledge and skills necessary for better financial management. Additionally, implementing flexible repayment options could help accommodate borrowers' varying income levels, allowing them to meet their obligations without sacrificing their essential needs. By addressing these interconnected

issues, Omo MFI could significantly enhance repayment rates and support borrowers in achieving greater financial stability.

4.4 Mechanisms to Mitigate Repayment Challenges

This section analyzes the responses to specific items in the questionnaire regarding mechanisms to mitigate repayment challenges and the obstacles faced by lenders. The findings, summarized in tables, provide insights into the perceptions of respondents on these critical issues.

Table 4 response to section three questionnaire

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Neutral)	4 (Agree)	5 (Strongly Agree)	Total
Financial literacy training improves repayment rates.	1	2	3	8	16	30
Flexible repayment schedules reduce default risks.	1	3	4	10	12	30
Regular loan monitoring enhances repayment compliance.	2	1	5	9	13	30
Digital tracking systems improve loan recovery efficiency.	2	4	6	8	10	30
Stronger borrower screening processes minimize defaults.	1	2	4	11	12	30
Government policies supporting MFIs enhance repayment sustainability.	2	3	4	8	13	30

Source own survey, 2025

The responses regarding mechanisms to mitigate repayment challenges reveal a strong consensus among participants on several strategies. An overwhelming majority (80%) believe that financial literacy training can significantly improve repayment rates, underscoring the importance of equipping borrowers with essential financial knowledge. This aligns with

previous research indicating that higher financial literacy leads to better management of loans and repayment obligations (Lusardi & Mitchell, 2014). Therefore, MFIs should prioritize the implementation of financial literacy programs to empower borrowers.

Additionally, 73.33% of respondents agreed that flexible repayment schedules help reduce default risks, emphasizing the need for adaptable loan terms. This finding is particularly relevant for borrowers whose incomes fluctuate seasonally. Research has highlighted that flexible repayment structures can significantly enhance borrowers' ability to meet their obligations (Rutherford, 2009). Thus, MFIs should consider offering repayment plans that align with borrowers' income cycles.

The respondents also recognized the importance of regular loan monitoring, with 73.33% acknowledging its role in enhancing repayment compliance. Regular monitoring can help identify potential repayment issues early, allowing for timely interventions. This supports previous findings that suggest proactive monitoring practices can lead to improved loan recovery rates.

Furthermore, 60% of respondents agreed that digital tracking systems could improve loan recovery efficiency. The integration of technology in loan management can streamline processes and enhance communication between lenders and borrowers, making it easier to address repayment issues. Moreover, 76.67% of respondents recognized that stronger borrower screening processes could minimize defaults, indicating that thorough assessments before loan approval can help identify higher-risk borrowers.

Lastly, 70% of respondents agreed that supportive government policies can enhance the sustainability of loan repayment. This highlights the need for a broader systemic approach that includes collaboration between MFIs and government entities to create a conducive environment for borrowers.

The manager stated,

"To effectively address the repayment issues we face, I believe Omo MFI should implement a combination of financial education programs, flexible repayment plans, and community engagement initiatives. Financial education is crucial; we need to help borrowers understand the terms of their loans and equip them with the skills to budget effectively. For instance, providing workshops or one-on-one coaching on financial literacy could empower borrowers to make informed decisions, leading to

better management of their funds and improved repayment rates."(IDI with branch manager)

He continued,

"Additionally, flexible repayment plans tailored to borrowers' income fluctuations are essential. Implementing a sliding scale for payments based on monthly earnings could alleviate pressure during lean periods, allowing borrowers to meet their obligations without sacrificing their essential needs. Furthermore, fostering community engagement through support networks can create accountability among borrowers. Peer support groups where they share experiences and strategies for managing loans can be very beneficial. We have seen success in other microfinance institutions that have introduced such initiatives."(IDI with branch manager)

Interpreting the manager's insights, it is clear that a multifaceted approach is necessary to tackle the challenges of loan repayment at Omo MFI. The emphasis on financial education underscores the importance of equipping borrowers with knowledge that enables them to navigate their financial commitments effectively. By enhancing their understanding of loan terms and budgeting techniques, borrowers can make more informed choices that prioritize repayment, ultimately leading to a healthier financial situation.

Moreover, the suggestion of flexible repayment plans highlights the need for adaptability in microfinance practices. Recognizing that borrowers often face fluctuating incomes, Omo MFI can create a more supportive environment that acknowledges their realities. Implementing community engagement initiatives not only fosters a sense of belonging among borrowers but also encourages shared learning and accountability. This comprehensive strategy, drawing from successful practices in similar contexts, positions Omo MFI to improve repayment rates and promote greater financial stability within the community.

4.6 Challenges Faced by Lenders

In the microfinance sector, lenders encounter a myriad of challenges that significantly impact their ability to effectively manage loans and ensure repayment. These challenges not only affect the financial sustainability of microfinance institutions (MFIs) but also influence their capacity to support borrowers adequately. Factors such as tracing defaulters, legal enforcement of loan contracts, high operational costs, and borrower cooperation play crucial roles in shaping the lending landscape. Additionally, external economic conditions can

exacerbate these challenges, further complicating the repayment process. This section delves into the specific obstacles faced by lenders, providing insights into their implications and the strategies necessary to navigate these complexities. Understanding these challenges is vital for developing effective solutions that enhance loan recovery and promote the overall health of the microfinance sector.

Table 5 response to section 4 questionnaire

Statement	1 (Strongly Disagree)	2 (Disagree)	3 (Neutral)	4 (Agree)	5 (Strongly Agree)	Total
Tracing defaulters is a major challenge for the institution.	1	2	5	10	12	30
Legal enforcement of loan contracts is ineffective.	2	3	4	8	13	30
High operational costs hinder loan recovery efforts.	3	2	5	9	11	30
Lack of borrower cooperation complicates repayment processes.	2	4	3	9	12	30
Inadequate staff training affects loan monitoring efficiency.	2	1	6	10	11	30
Economic instability in Wolkite Town increases default rates.	3	2	5	8	12	30

Source own survey,2025

The challenges faced by lenders are highlighted in Table 3, with a significant number of respondents (73.33%) indicating that tracing defaulters is a major challenge for the institution. This suggests that effective follow-up mechanisms are essential for improving loan recovery rates. Previous research has indicated that better tracking systems can enhance recovery efforts and reduce losses associated with defaults.

Furthermore, 73.33% of participants viewed the legal enforcement of loan contracts as ineffective, pointing to a need for stronger legal frameworks to support lenders. This aligns with findings that suggest legal obstacles can hinder the recovery process (Baker & McKenzie, 2016). Addressing these issues through policy reform could improve the enforcement of loan agreements.

High operational costs were recognized by 66.67% of respondents as a significant barrier to loan recovery efforts. This indicates that MFIs must find ways to streamline operations and reduce costs to enhance their financial sustainability. Research has shown that operational efficiency can lead to better recovery rates and overall performance (Meyer, 2010).

Additionally, 70% of respondents acknowledged that a lack of borrower cooperation complicates repayment processes, underscoring the importance of borrower engagement and communication. Ensuring that borrowers understand their obligations and feel supported can mitigate this issue. Furthermore, 70% agreed that inadequate staff training affects loan monitoring efficiency, suggesting that investing in staff development could improve loan management practices.

Lastly, 66.67% of respondents agreed that economic instability in Wolkite Town increases default rates, emphasizing the importance of addressing external economic factors in the context of loan repayment challenges. MFIs should develop strategies to support borrowers during periods of economic uncertainty, including offering tailored repayment solutions.

In conclusion, the analysis of the responses to the questionnaire items provides valuable insights into the mechanisms that can mitigate repayment challenges and the obstacles faced by lenders. By addressing these issues through targeted interventions, MFIs can enhance borrower outcomes and improve operational success, ultimately leading to a more sustainable microfinance environment.

The manager highlighted several key challenges faced by Omo MFI during the loan recovery process, stating

"One of the primary challenges we encounter is the high rate of loan defaults, which can be attributed to borrowers' financial instability and lack of financial literacy. Many borrowers struggle to repay their loans due to unexpected life events, such as illness or job loss, which disrupt their income flow. Additionally, the absence of a

robust tracking and follow-up system makes it difficult for us to monitor repayment progress effectively."(IDI with branch manager)

He further noted,

"These challenges significantly impact our operational efficiency and financial sustainability. High default rates not only strain our financial resources but also divert staff time and efforts away from other productive activities. This leads to increased operational costs and reduces our ability to lend to new borrowers, ultimately limiting our growth potential. Moreover, the need for more effective recovery strategies can hinder our overall efficiency, as resources are spent on recovery efforts rather than on supporting borrowers in their financial education and empowerment."(IDI with branch manager)

Interpreting these insights, it becomes evident that the challenges of loan recovery at Omo MFI have far-reaching implications for the institution. The high rate of defaults not only affects the immediate financial health of the organization but also creates a ripple effect that hampers its long-term sustainability. The manager's acknowledgment of external factors, such as borrowers' life events, underscores the need for a more holistic approach to lending that considers the socio-economic context of borrowers.

Furthermore, the lack of an effective tracking and follow-up system highlights an area where operational efficiency can be enhanced. By investing in better systems for monitoring repayments and engaging with borrowers proactively, Omo MFI could potentially reduce defaults and improve recovery rates. Ultimately, addressing these challenges is crucial for ensuring the institution's continued viability and its ability to fulfill its mission of supporting underserved communities through effective microfinance solutions.

CHAPTER FIVE:

SUMMARY, CONCLUSION, AND RECOMMENDATION

5.1 Summary

This study has provided valuable insights into the challenges faced by borrowers and lenders in the microfinance sector. The key findings are summarized as follows:

- A substantial 70% of respondents indicated that low income levels significantly hinder borrowers' ability to repay loans, underscoring the crucial role that financial resources play in repayment capacity.
- The lack of financial literacy was recognized by 73.33% of participants as a contributing factor to repayment challenges, highlighting the necessity for educational initiatives to equip borrowers with essential financial knowledge.
- Unfavorable loan terms, such as high interest rates, were cited by 60% of respondents as leading to defaults, indicating that strict lending conditions can overwhelm borrowers and increase the likelihood of non-repayment.
- Seasonal income fluctuations were identified by 66.67% of respondents as a significant barrier to repayment, particularly for those in sectors like agriculture, where income can be irregular and unpredictable.
- Inadequate business skills among borrowers were recognized by 63.33% of participants as increasing default risks, suggesting that training in entrepreneurship and business management is essential for improving repayment outcomes.
- External shocks, such as economic crises, were acknowledged by 66.67% of respondents as impacting repayment performance, indicating that broader economic conditions play a vital role in borrowers' financial stability.

In terms of challenges faced by lenders, the study revealed that:

- A notable 73.33% of respondents identified difficulties in tracing defaulters as a major concern for institutions, emphasizing the need for effective follow-up mechanisms.

- Legal enforcement of loan contracts was deemed ineffective by 73.33% of participants, pointing to a need for stronger legal frameworks to support lenders in their recovery efforts.
- High operational costs were recognized by 66.67% of respondents as hindering loan recovery, indicating that MFIs must find ways to streamline operations to enhance financial sustainability.
- A lack of borrower cooperation complicating repayment processes was noted by 70% of respondents, underscoring the importance of improved engagement strategies to foster better communication and support.

5.2 Conclusion

The findings of this study highlight the complex landscape of the microfinance sector, emphasizing the interplay between borrowers' financial capabilities and lenders' operational challenges. The significant impact of low-income levels on borrowers' ability to repay loans underscores the necessity for MFIs to consider the financial realities of their clients. Without addressing the fundamental issue of income stability, efforts to improve repayment rates may prove ineffective.

Additionally, the central role of financial literacy in enabling borrowers to manage loans effectively cannot be overstated. Educational initiatives aimed at enhancing borrowers' understanding of financial concepts are crucial for empowering them to make informed decisions regarding their loans. By integrating financial education into their service offerings, MFIs can help borrowers navigate repayment processes more successfully.

The study also revealed that unfavorable loan terms and high interest rates contribute to repayment difficulties. This suggests that MFIs should reassess their lending practices to ensure that they do not impose excessive burdens on borrowers. Implementing more favorable loan conditions could significantly enhance repayment rates and reduce defaults.

Moreover, the acknowledgment of seasonal income fluctuations as a barrier to repayment highlights the need for flexible repayment structures. MFIs must recognize that borrowers in sectors with variable income may require adaptable loan terms that align with their financial realities, allowing them to meet their obligations without undue stress.

Inadequate business skills among borrowers further complicate repayment efforts. Providing training in business management and entrepreneurship can enhance borrowers' income-generating potential, thereby reducing default risks. By investing in skills development, MFIs can contribute to the long-term sustainability of their clients, ultimately benefiting their own financial health.

Lastly, the challenges faced by lenders, including tracing defaulters and the ineffective legal enforcement of loan contracts, illustrate the systemic issues within the microfinance sector. Strengthening legal frameworks and improving operational practices will be essential for enhancing loan recovery efforts. Additionally, fostering better communication and cooperation with borrowers will create a more supportive environment for repayment.

In conclusion, the insights gained from this study underscore the importance of a holistic approach to addressing the challenges faced by both borrowers and lenders in the microfinance sector. By prioritizing financial education, flexible lending practices, and effective engagement strategies, MFIs can improve repayment rates and ensure their long-term sustainability.

5.3 Recommendations

- **Enhance Financial Literacy Programs**
 - Develop comprehensive workshops focused on budgeting, loan management, and financial decision-making.
 - Collaborate with educational institutions to provide ongoing financial education resources.
- **Implement Flexible Repayment Structures**
 - Introduce repayment plans that accommodate seasonal income variations.
 - Offer grace periods during economic downturns or unforeseen financial hardships.
- **Provide Business Skills Training**
 - Establish training initiatives that cover entrepreneurship, marketing, and financial management.

- Partner with local organizations to deliver practical skills development workshops.
- **Strengthen Borrower Engagement**
 - Develop regular communication channels to keep borrowers informed and supported.
 - Create a feedback mechanism for borrowers to express concerns and suggestions regarding loan terms.
- **Improve Loan Monitoring and Recovery Processes**
 - Invest in technology solutions for tracking repayments and identifying potential defaults early.
 - Establish clear follow-up procedures for managing late payments and defaulters.
- **Collaborate with Policymakers**
 - Advocate for legal reforms that strengthen loan enforcement mechanisms.
 - Work with government entities to develop support programs for borrowers during economic instability.

By implementing these recommendations, microfinance institutions can enhance their operational effectiveness and improve the financial outcomes for borrowers, thereby fostering a more sustainable microfinance ecosystem.

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Appendix A: Survey Questionnaire

Dear Participant,

Thank you for participating in this research study titled "*Assessment of Factors Affecting Borrowers' Ability to Repay Loans: The Case of Omo Microfinance Institution (MFI) in Wolkite Town.*" This questionnaire aims to gather insights on loan repayment challenges and solutions. Your responses will remain **confidential** and will be used solely for academic purposes. Participation is voluntary, and you may skip any question you are uncomfortable answering.

Section 1: Demographic Characteristics

1. Gender Male Female
2. Age Group 18–25 26–35 36–45 46–55 55+
3. Educational Qualification High School Diploma Bachelor's Master's
4. Job Position at Omo MFI Loan Officer Credit Analyst Manager Other
5. Years of Experience in Microfinance <1 year 1–3 years 4–6 years >6 years
6. Department Loan Processing Risk Management Customer Service Other:

Section 2: Factors Affecting Borrowers' Ability to Repay Loans

Rate the following statements using:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
1	Borrowers' low income levels significantly hinder loan repayment.					
2	Lack of financial literacy contributes to repayment challenges.					
3	Unfavorable loan terms (e.g., high interest rates) lead to defaults.					
4	Seasonal income fluctuations affect borrowers' repayment capacity.					

5	Inadequate business skills among borrowers increase default risks.					
6	External shocks (e.g., economic crises) impact repayment performance.					

Section 3: Mechanisms to Mitigate Repayment Challenges

Rate the following statements using:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
1	Financial literacy training improves repayment rates.					
2	Flexible repayment schedules reduce default risks.					
3	Regular loan monitoring enhances repayment compliance.					
4	Digital tracking systems improve loan recovery efficiency.					
5	Stronger borrower screening processes minimize defaults.					
6	Government policies supporting MFIs enhance repayment sustainability.					

Section 4: Challenges Faced by Lenders

Rate the following statements using:

1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree

No.	Statement	1	2	3	4	5
1	Tracing defaulters is a major challenge for the institution.					
2	Legal enforcement of loan contracts is ineffective.					
3	High operational costs hinder loan recovery efforts.					
4	Lack of borrower cooperation complicates repayment processes.					
5	Inadequate staff training affects loan monitoring efficiency.					
6	Economic instability in Wolkite Town increases default rates.					

Appendix B: Interview Questions

Introductory Paragraph

Thank you for participating in this interview as part of the research study titled *"Assessment of Factors Affecting Borrowers' Ability to Repay Loans: The Case of Omo Microfinance Institution (MFI) in Wolkite Town."* Your insights will help identify challenges and solutions related to loan repayment. All responses will remain confidential and used solely for academic purposes. Participation is voluntary, and you may skip any question you prefer not to answer.

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1. *"In your experience, what are the most significant factors that hinder borrowers' ability to repay loans at Omo MFI? How do these factors impact repayment performance?"*
 2. *"What strategies or mechanisms do you believe Omo MFI should adopt to reduce loan repayment challenges? Could you provide examples of practices that have worked effectively in similar contexts?"*
 3. *"What are the key challenges faced by Omo MFI during the loan recovery process? How do these challenges affect the institution's operational efficiency and financial sustainability?"*