CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Loan repayment is the act of paying back money in maturity previously borrowed from a lender. Repayment usually takes the form of periodic payment that normally includes part principal plus interest in each payment (Alemu, 2002).

Microfinance is the provision of a broad range of financial services such as deposits, loans, payments, money transfers and insurance to poor and low- income households and, their micro enterprises. Microfinance allows a sustainable form of financing for the most needed and it helps to reduce inequalities (Abebaw, 2014). Microfinance Institution may be defined as any financial institution which offers not only small loans to microenterprises, SMEs, groups and individuals but also provides other financial services like savings, insurance, and investment advice including even training programmes to its clients (Korankye, 2014).

The development of small and micro finance institution in Ethiopia is a recent phenomenon. The decision of the government of Ethiopia to restructure the financial sector in 1990s has had a significant impact on the growth and commercialization of both commercial banks and MFIs in Ethiopia. As the result currently, there are 32 microfinance institutions operating in Ethiopia including government owned, share companies as well as private MFIs, all are regulated by the National Bank of Ethiopia and all (MFIs) established under the Proclamation No. 40/96Microfinance is a source of financial services to low income individuals and small business who don't have access to banking and related service (khandiker, 2015).

The beginnings of microfinance movement are most closely associated with the economist Mohammed Yunus, who in the early 1970's was a professor in Bangladesh. In the midst of a country-wide famine, he began making small loans to poor families in neighboring villages in an effort to break their cycle of poverty. The experiment was surprising success, with Yunus receiving timely repayment and observing significant changes in the quality of life for his loan recipients. Unable to self-finance an expansion of his project, he sought governmental assistance, the Gramen bank was born. In 2006 Yunus was awarded noble peace prize (Perkins, 2014).

Most microfinance institutions, whether they are dependent on donation or equity investment, aim at providing financial service for economically poor people. A business carried out by the poor has dual characteristics which may be seen contradictory but mutually interconnected. On the one hand, financial service that are targeting poverty alleviation and enhancing the productivity of the poor should be able to manage to ensure institutional sustainability. On the other hand, the ultimate objective of almost all microfinance institutions is to ensure poverty alleviation and enhancing productivity endeavor, and client sustainability. Hence, it is advisable for such credit schemes to pay attention to such issues through adequate studies (Alemut, 2012).

Ethiopia has an estimated population of 120 million. About half of the population is living below the poverty line. These people lack the financial capacity to meet the minimum living standard. Besides, they suffer from different kinds of deprivation, such as isolation and powerlessness. Poverty alleviation is major issue in the developing countries and most of the microfinance institution including Addis credit and saving institution have poverty alleviation as one of their main objectives. So understanding the factors influencing microfinance institutions development, the challenges they face as well as their sustainability with the aim to find solution is crucial (Mengstu, 2009).

Transaction cost can be transferred to borrowers from lenders because "It is generally assumed that groups as well as individuals can perform some screening and enforcement functions and that the community has superior information on its members" (Reinke, 2011). There are few private banks that are interested in providing financial services to poor households, they have not yet developed a suitable credit methodology for micro lending activities. Moreover, they do not have trained personnel for such purposes (Reinke, 2011).

Thus, lending for micro and small enterprise is traditionally linked with microfinance institutions. Unfortunately, due to their nature, the likelihood to default is more in micro and small enterprises. This, in turn, affects the microfinance institutions loan recovery. Thus, despite well-explored, an investigate on the determinants of loan recovery in microfinance companies is demanded. This study aimed at investigating the detrminates of loan recovery performance of Addis Micro finance S.C. The remaining part of this chapter presents statement of the problem, research objectives, research hypotheses, significance, scope and limitation of the study.

1.2. Background of the organization

The government of Ethiopia established a legal frame-work for the establishment and operation of microfinance institutions like Addis Credit and saving institution to provide financial service to poor households. Arada sub-city credit and saving office is one of the branches of Addis credit and saving institute. Addis credit and saving institute S.C is established by the national bank of Ethiopia according to proclamation No. 40/88 in Jan, 2000 by six shareholders Namely:- Addis Ababa City Administration, Addis Ababa City Women, Youth & Teachers Association, KaraaloAkababiHulegeb Peasants Cooperative and One Physical Person. In 2023, the institution has 134 branch offices and opening other branches in areas where there is high demand for its services. Since its establishment the company has been giving mainly credit, saving and counseling services. Its experience in the area has given the chance to develop different services like third party fund management. Addis credit and saving institution has been improving its policies from time to time make it adjustable the external environment and make its services convenient to clients and for those working with the institution.

1.3 Statement of the Problem

It is generally accepted that credit, which is put to productive use, results in good returns. But credit provision is such a risky business that, in addition to other reasons of varied nature, it may involve fraudulent and opportunistic behavior. The lender in the formal financial system is at a disadvantage of information on the burrower's behavior. Fortunately, group based micro financing system that involves peer pressure and joint liability has evolved to counter the problems of a conventional bank that provides a collateral backed credit alienating the poor (Mengistu, 2017).

Ethiopia is one of the poorest countries in the world and also among the lowest to be found in the category of low income countries in Africa. World Bank revealed that the near 50% of the Ethiopian population live below the line of poverty (World Bank, 2018). Due to this its economic history has been the history of how it has become more and more difficult for the people to meet even their minimum requirement of subsistence.

Abafita (2013) argued that efficient characteristics of the lending institutes and other concerned bodies while screening the target borrowers, effective attitudes of borrowers towards credit service and socio-economic factor of the borrowers are among the factors that can influence the repayment performances. Besides, although further study on level of the significance of lending institutes staffs commitment were not conducted, it is believed that the commitment of the lending institution staffs in providing the post training supplementary and technical supports through close supervision and effective monitoring of repayment status of borrowers may possibly enhance repayment performances of MFIs.

Mengistu (2019) also made an empirical analysis of the determinants of industrial loan repayment in Ethiopia with particular reference to manufacturing firms in Addis Ababa. The regression result employing the Tobit model based on 65 manufacturing firms revealed that total investment cost, the ratio of the value of collateral to the total loan amount, the firm's grace period, the number of disbursement installments, and time were statistically insignificant, while repayment period and many supervision are significantly and positively related to loan recovery rate. However, coefficients of loan amount and ratio of pre-operating interest to total loan amount are significant at 10% and 5% respectively, and negatively related to loan recovery rate.

Berhanu (2009) and Teferri (2010) attempted to employ a binomial probit model on determinants of loan repayment performance of micro-enterprises with particular reference to POCSSBO in Addis Ababa and DECSI in Tigray. Birhanu found out that loan diversion, loan size, and monthly income were undermining factors while beneficiaries' age, perceived cost of default, and suitability of repayment period was enhancing factors of loan repayment. Based on 2348 sample beneficiaries Teferri also came up with the result that education and size of loan are significant determinants in all three cases (i.e. urban, rural, and all sample beneficiaries) their sign being positive and negative, respectively. Other variables such as sex, timeliness of loan disbursement, and monthly income are positively and significantly related to loan repayment in rural and whole sample beneficiaries while loan diversion is negatively and significantly related to full loan repayment in urban and whole sample beneficiaries.

One of the reasons behind the poverty and backwardness of Ethiopia is the culture of saving and loan. Microfinance is a general term to describe a financial service to low income individual or to those who do not have access to typical banking services. Microfinance is also the idea that low income individuals are capable lifting themselves out of poverty it given access to financial services. Studies indicate that microfinance can play a great role in the battle against poverty.

According to various researches factors that determine loan repayment performance include; borrowers perceived need, that is borrowers have to be given an opportunity to borrow for their perceived needs, competence, that is the borrowers past personal and profit record, past prosperity, etc. Borrowers personal character which are related with personal qualities of the borrower including age, sex, educational level, house hold size, management capacity, loan utilization, availability of other sources of income, bank experience etc…. Factors which are related with the bank such as structure of the bank, change in the lending policy, way of appraising the project, responsibility and accountability of the staff members of the bank and external factors related with the macroeconomic condition of the country, government policy and natural factors like war, drought etc.

Abraham (2002) investigated the determinants of the repayment status of borrowers regarding private borrowers around the Zeway area who are financed by the Development Bank of Ethiopia (DBE). The estimation result employing the Tobit model revealed that having other sources of income education, work experience in related economic activity before the loan, and engaging in economic activities other than agriculture are enhancing while loan diversion, being a male borrower, and giving extended loan repayment period are undermining factors of loan recovery performance.

Hence provision of loan to the private borrowers require a careful examination of the above determinants to make loan repayment successful, which otherwise will lead to poor allocation of credit which results in poor investment projects, raises costs to the successful borrowers, erodes the fund that would be available for future investment, reduce banks flexibility in redirecting financial resource towards alternative activities, reduce the lending capacity of the financial institution.

Therefore, from the above empirical studies conducted in Ethiopia, it can be understood that most of the previous studies focused on identifying determinant factors that affect the loan repayment performance of micro and small enterprises located in Ethiopia. However, to the best knowledge of the researcher, there is no research conducted that focused on the assessment of loan repayment performance in Addis Credit and Saving Institution in recent years. Therefore, this paper have been try to assess the loan repayment performance in Addis Credit and Saving Institution.

1.4 Research Question

The above and other reasons will raise question which should be answer by the study to avoid factors which affect the well-functioning of microenterprise loan repayment process. These are:-

- What are the factors of the loan repayment performance?
- What measure should be taken to better managing of loan repayment performance of micro enterprises?
- What are the reasons for late payment of loan by borrowers?
- What are the measures should be used to relief late payment of loan by borrower?

1.5 Objective of the study

1.5.1General Objective of the study

The general objective of the study is to assess the loan repayment performance of Addis credit and saving institutions in case of Arada Branch.

1.5.2Specific objectives

The specific objectives are including:-

- To assess loan repayment performance of Addis credit and saving institution.
- To identify the measures should be taken to better managing of loan repayment performance.
- To assess the reasons for late payment of loan.
- To identify the measures used to relief late payment by borrower.

1.6 Significance of the Study

As output of the analysis, identifying factors that contribute to successful loan repayment will help policy makers to formulate successful credit policies and programs that will again help in allocating financial resources effectively and efficiently. The study will have positive impact in promoting private investment and making it effective by creating smooth relationship between the borrower and the lender through its recommendations. Lesson will be drawn to loan defaulters in the regional bank. Other researchers will make use of the research out come because it will help them to identify the factors behind successful loan repayment and also will help them to make research on similar issues.

1.7 Scope and limitations of the Study

The study is conducted on Addis credit and saving institution on loan repayment performance in Arada branch. The study is limited to assess the factors that affect loan repayment performance of borrowers and measure taken by the company to reduce default. The study is also limited in one branch office which could affect the generalization of the finding. The study has also methodological scope because it uses simple percentage, frequency and tables.

1.8. Organization of the paper

The research paper was organized to five chapters. Chapter one is an introductory part. Chapter two is review of related literatures. Chapter Three was methodology part. Chapter four is about data analysis and presentation, and the last chapter, chapter five summarizes issues in chapter three and provides conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. THEORETICAL LITERATURE REVIEW

2.1.1. Definition and concept of microfinance

Microfinance has been variously defined in the literature. No single definition exists, but variations are mostly a matter of emphasis. Narrower definitions equate microfinance with micro credit, following early practice of NGO credit schemes. Micro credit the provision of small loans to poor households and small business operators with or without guarantee. Ledger wood (2009) defines microfinance in short as “the provision of financial services to low income clients, including the self-employed”.

Microfinance refers to small-scale financial services primarily credit and savings provided to people who farm, fish or hard; who operate small enterprise or micro enterprise where goods are produced, recycled or sold; who provide service; who work for wages or commissions who gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; to other individuals and groups at the local level of developing countries, both rural and urban (Degefe, 2009).

Microfinance as making small loan available to the poor through schemes specially designed to meet the poor’s particular needs and circumstances (Ibid).

Microfinance is increasingly being considered as one of the most effective tools of reducing poverty. Microfinance has a significant role in bridging the gap between the formal financial institution and the rural poor. The micro finance institutions accesses financial resources from the banks and other main stream financial institutions and provide financial and support services to the poor (Gibbons, 2012).

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed who traditionally lack access to banking and related service (Ibid).

More broadly, it is a movement whose object is “a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also saving, insurance, and fund transfers. Those who promote microfinance generally believed that such access will help poor out of poverty (Degefe, 2009).

Microfinance is a broad category of services, which includes microcredit. Microcredit is provision of credit services to poor clients. Although microcredit is one of the aspects of microfinance, conflation of the two terms is endemic in public discourse. Critics often attack microcredit while referring to it indiscriminately as both ‘microcredit’ and ‘microfinance’ (Ibid).

During the 1970’s and 1980’s the microenterprise movement led to the emergence of Non-governmental organizations (NGO’s) that provide small loans for the poor. In the 1990’s a number of these institutions in order to access and on-lend client savings, thus enhancing their outreach (Ibid).

Specialized microfinance institutions have proven that the poor are “bankable”. Today, formal institutions are rapidly absorbing the lessons learned about how to do small – transaction banking. Many of the newer players in microfinance, such as commercial banks, have large existing branch networks, vast distribution outlets like automatic teller machines, and the ability to make significant investments in technology that could bring financial services closer to poor clients. Increasingly, links among different types of services providers are emerging to offer considerable scope for extending access (Ibid).

Poverty is the main cause of concern in improving the economic status of developing countries. A micro finance institution is an organization that offers financial services to low income populations. Almost all give loans to their members, and many offer insurance, deposit and other services (Gibbons 2012).

Microfinance institutions are organizations that provide microfinance services to low-income groups as their principal objective. Microfinance is provided by “formal institutions, such as rural banks and cooperatives; semiformal institutions, such as nongovernmental organizations; and informal sources such as money lenders and shopkeepers”. Formal microfinance institutions are banks and non-bank financial institutions that take into account special design and methodology for the delivery of financial services (ADB, 2000).

2.1.2. Characteristics of Microfinance Institutions

Formal providers are sometimes defined as those that are subject not only to general laws but also to specific banking regulation, and supervision (development banks, savings and postal banks, commercial banks, and non-bank financial intermediaries) (Gibbons 2012). The most distinguishing characteristics of MFIs from the conventional banks are:

Procedures are designed to be helpful to the client and therefore are user friendly. They are simple to understand, locally provided and easily and quickly accessible.

Loan amounts especially at the first loan cycle are too small, much smaller than the traditional banks would find it viable to provide and service.

Borrowers are usually also required to be savers.
Together with their long term sustainability they have the objective of ending poverty and

MFI's operating costs as well as administrative cost per loan is higher than the conventional banks.

2.1.3. Objectives of the microfinance institutions

The goal of MFIs as development organizations in to service the financial needs of unserved or underserved markets (the poor) as a means meeting development objectives. The development objectives generally include one or more of the following:

To reduce poverty
To help existing businesses grow or diversify their activities and to encourage the development of new business.

To create employment and income opportunities through the creation and expansion of microenterprise and, To increase the productivity and income of vulnerable group, especially women and the poor.

2.1.4. Definition of loan Repayment

Loan is the thing that is lent, specially a sum of money. The action of lending something or the state of being lent. For each lender a loan is an investment comparable to bonds, stocks or other assets, one the other hand, for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest (Ledger wood, 2009).

Loan: Members are encountered to save toward loans. Loans are the ratio based on members saving and share. Individuals who have established credit worthiness through regular savings in the form of loan (pindyack, 2011).

Loan repayment: It is an arrangement of in which a lender gives money or property to a borrower and borrower agree to return the property and repay the money, usually along with interest at some future time. Usually there is predetermined time for repaying a loan and generally the lender has to bear the risk that borrower may not repay a loan, generally it is a time that a borrower or debtor to repay his debt or loan at the right time. Borrowers who satisfy the entire loan contact conditions and repay their loan without any problem (Ibid).

Defaults: Defaults is defined as failure to pay a debt loan at the right time or who did not repay the loan within due date (Ibid).

No defaults: non defaults are borrowers who has no loan repayment problem or who did repay the loan with in the due date (Ibid).

2.1.5. Requirements to Grant Loan

2.1.5.1. The five "C" s of lending

Credit analysis serves the function of screening loan applications identifying risks, structuring an appropriate. Loan, Security quality asset when necessary and monitoring the loan is on a going basis (Rechard, 2014).

1. **Capacity**

Capacity is defined as the borrower's ability to satisfy debit obligations from predictable or consistent income sources. The principal to use to measure capacity is the debit to income ratio, a cash flow analysis of the borrower's total debt obligations compared to verifiable gorses monthly income.

2. **Capital**

The term capital relates to how well the borrower has managed his/her financial affairs. There are three conditions /dimensions to consider, net worth, liquidity and financial responsibilities. New worth is borrowers total assets minus his/her liabilities, naturally, an individually with scientifically net worth has a greater incentive to protect investment and repay obligations. Liquidity is the ability of borrower to meet his objections with cash necessary or to convert assets to cash quickly.

3. **Character /Credit/**

The term "Character" related to willingness to pay or often sense of honor. Toward obligations and often used with integrity. The most direct evidence of this is the actual record of how debt payments have been hundred historically as revealed by credit report as well as checking with employers and creditors. The most significance aspect of the credit report is consistent good performance. A few isolated delinquencies may be insignificant if an overall patterns of prompt payment history exists. A reported delinquency with mortgage lender is significant and considered to be derogatory unless the borrower demonstrate other wise and it comes from evidence of stability and roots. Stability is residence and employments are positive factors. A career commitment can also create a sense of root since maintaining good reputation and credit standing are necessary to achievement of major career goals.

4. **Conditions**

Conditions refers to factors essentially beyond the borrowers control that could in pair or enhance his/her ability to meet communities. There are many risks to pay back that cannot be for seen even. With product credit analysis the likely college of an employer could be consideration even though that person's credit picture looks otherwise favorable to while it may be difficult to judge outside influences certain industries are more appropriate to these influences including medical, insurance and financial services.

5. **Collateral**

It is defined as the security or assets pledge by borrowers to the lender. Lender first try to reduce risk by sound experienced credit analysis. The value and quality or collateral is determined by the property appraisal. Since all the precede factors required some elements judgment the function of collateral is to protect lenders from the imperfective of judgment as well as from the adverse impair of anticipated changes in condition.

2.1.6. Methods of Loan Delivery

Methods of loan delivery can generally be divided into the two broad categories of individual and group approaches, based on how the MFI delivers and guarantees its loans.

2.1.6.1. Individual lending methodology

Individual lending is defined as the provision of credit to individuals who are not members of a group that is jointly responsible for loan repayment. Individual lending requires frequent and close contact with individual clients to provide credit products tailored to the specific needs of the business. It is most successful for large, urban based, production oriented businesses and for clients who have some form of collateral or a willing consigner. In rural areas, individual lending can also be successful with small farms (Duval, 2016).

MFIs have successfully developed effective models to lend to individuals, which combine formal lending, as is traditional in financial institutions, with informal lending, as carried out by money lenders (Ibid).

> Formal financial institutions: base lending decisions on business and client characteristics, including cash flow, debt capacity, historical financial results, collateral, and character. Formal sector lenders have also proven the usefulness of personal guarantors to motivate clients to repay loans.
>
> In formal sector lender: approve loans based on a personal knowledge of the borrowers rather than on a sophisticated feasibility analysis and they use informal collateral sources. They also demonstrate the importance of responding quickly to borrowers needs with a minimum of bureaucratic procedures. Perhaps most important, moneylenders demonstrate that the poor do repay loans and are able to pay relatively

high interest rates.

Characteristics of individual lending models (Duval, 2016)

The guarantee of loans by some form of collateral (defined less stringently than by formal lenders) or a consigner (a person who agrees to be legally responsible for the loan but who usually has not received a loan of her or his own from the MFI).

The screening of potential clients by credit checks and character references.

The tailoring of the loan size and term to business needs.

The frequent increase overtime of the loan size and term.

Efforts by the staff to develop close relationships with clients so that each client represents a significant investment of staff time and energy.

2.1.6.2. Solidarity Group Lending Methodology

Group lending methodology involves the formation of groups of people who have a common wish to access financial services. It is strongly believed that collateral based lending is not the only means to provide financial service. The developing world as well as our country, having the principal objectives of poverty reductions: character based collateral substituting lending methodology is crucial weapon to fight against poverty (Ibid).

The peer group lending methodology programs have three principal goals: to provide services to the poor, attain financial self-sufficiency, and reach large numbers (Maria Otero, 1994). The group mutual guarantee method reduces risks and administrative cost per borrower. The pioneer work done by the Grameen bank in Bangladesh roved group – lending methodology to be the effective means of deterring loans defaults evidenced by repayment rate above 95% (Robert peck christen, 2017).

The group lending methodology basic philosophy lies in the fact that the short comings and weaknesses at the individual lending are overcome by the collective responsibility and security afforded by the formation of a group of such individuals. The reasons individual coming together to form group and center are:- educating and awareness building, collectives bargaining power, peer pressure. Group lending methodology was developed by Grameen bank of Bangladesh to serve rural landless women wishing to financial – income generating activities. It is mostly prevalent in Asia, but has been replicated in other countries including Africa more specifically in Ethiopia. In adopting this methodology, Grameen Bank becomes the most successful MFIs (Degefe, 2009).

Even though the size and composition of group members could differ from country to country or from one MFI to another, usually the poor who is eligible for credit based on the criteria should have the willingness to form a group. Those having identical economic status and thinking, identical sex, living in the nearby village and those having no closest blood relationship would form a group. One group may contain 5-7 members. They must also agree to help each other to succeed in their business. The solidarity group participants who band together to take out a group loan that is then divided among the members are equally responsible for the entire loan repayment in case of defaults by one of the group members (Ibid).

The conditions set by most MFIs and used as an ingredient of this peer group lending methodology are:-

Members are required to attend weekly meetings or any other period according to its convenience but not later than a month.

Compulsory saving contribution

Opening of saving accounts prior to accessing loans and should continue after receiving loans.

Loan appraisal is performed by group member and center lenders.

Operational staffs visit clients business.

Formation of a group is not enough to be eligible for credit service. But, borrowers are also required to form a center, which is a collection of various groups (Ibid).

Most MFIs adopt the policy of giving services at the doorstep with a motto of bringing the bank to the people not asking the people to come to the bank. Even though it may vary from country to country according to the infrastructure availability and geography, as per the experience of Grameen Bank one center contains 5-10 groups with 5-7 borrowers in each group (Maria Otero, 2014)

2.1.7. Criteria for Successful Loan Repayment

According to William (2007), there are certain criteria that most lenders require the business owner to meet in order to successfully acquire the funds needed for the business. These hurdles or requirements are generally categorized as: Good Credit, Equity, Experience, Business Plan, and Collateral. These five guidelines of successful borrowing are reviewed as follows;

1. **Good Credit** – this deals with the requirement that one must have a credit history which is not only good, but more to the outstanding side of the scale. The reason for this lender requirement according to the writer is that, every day any are coming to banks and lenders applying for loans for a variety of reasons. The funds do not belong to the loan officer, but rather they belong to the institution's depositors and investors. The loan officer and the lending institution's management have an obligation to manage these monetary assets to the positive benefit of the owners, namely the depositors and investors of the bank. Therefore, loans must be made only to those who present the least risk of failure to repay. Past repayment history (i.e. good credit) is the first and probably the most important requirement for a successful loan.

2. **Equity**- Equity in borrowing can be thought of as similar to a down payment. The lender wants the borrower to have a financial commitment to the venture for which the loan is requested. The writer say that the borrower has to have some "skin" in this business "game" to insure his or her best efforts toward success and timely repayment of the borrowed funds. This is to say, that even if all the other four criteria for successful borrowing; credit, experience, business plan, and collateral are met; the bank usually will not lend 100 percent of the funds requested. The numeric value often placed on required Equity is in the range of 10 to 20 percent of the needed funds.

3. **Experience**-According to William (2007), no rational lender wants to or will turn over monies to a borrower to manage and expend in a business or venture in which the person has no or very limited experience. This criterion for successful borrowing should be easy to see from both the lender and borrower's point of view. Lenders need to be more certain that the person or persons borrowing the funds have the experience and expertise to manage the money and that day to day the business is conducted in a prudent manner. This is needed to insure positive results from the business and further insure that the lender will be repaid with interest and in a timely manner. Here again the question relates to risk. The more experience and talent the borrower has shown in the past, the lower the risk in lending from the bank's point of view. The minimum numeric value often

expected here is that the borrower should have at least three years of experience in the management of the type of business in whose name he or she is borrowing the funds. This experience can be as an owner and/or management experience. It could also be experience as an employee in a similar type business.

4. **Business Plan**- The fourth requirement of the bank or lender is a well thought out, researched and constructed business plan. This is a document that: a) Will introduce the business in a clear and complete manner; b) Describes the business ,the potential market for the goods and service to be offered , the existing competition ,states who will be employed ,who will lead and manage and how the borrowed funds will be expended; c) The good business plan will have pro-forma (estimated) financial documents. These are the cash flow statement, income statement, and balance sheet. Cash Flow shows the cash revenue coming into the business and the funds sent out in paid expenses as the business operates from period to period. The net result is either negative or positive on a month to month basis. Here the lender is looking for positive cash flows at least enough to make the loan repayment. The Income Statement is a listing of the total revenue of the business over the past year and a summarized listing of all the expenses of the business. These two values, one positive and one negative, when combined give the net income of the business operations for the period being reported. The Balance Sheet can be thought of as an instant photograph of the financial "health' of the business at an instant in time, normally at the end of the year. The balance sheet displays the assets (positive values of the things that the business owns) and the liabilities (the negative obligations that the business owes and is obligated to pay in the short or long run). Liabilities combined with the owner's or shareholder's equity (value of the ownership) will equal (balance) the value of the assets. Finally, the good business plan has to have a section of Supporting Documents. These will add validity to all that has been included in the previous sections. This section should include such documents as the Resume(s) Credit Report, Net-Worth Statement of the borrower(s), and any other reasonable support to verify the facts and estimates on which the plan is based. The well-constructed, thought out and documented Business Plan is essential to successful business borrowing. It is also used as a guide of the business progress or lack of it to the owner(s).It can also be used as an aid in soliciting partners and or other investors in the business.

5. **Collateral-** Finally according to the writer, after a borrower have shown good credit, put in equity cash or goods, shown he/she have experience in the business and produced a positive cash

flow business plan. The lender would be willing to open the vaults and ask the borrower to come in and select all the cash he/she desire. However, there is one last hurdle that the borrower must clear to reach loan success. This final criterion is collateral. Collateral according to William (2007) is any asset of value that can be pledged by the borrower(s) as security that the loan will be re-paid in full and with interest. Collateral requirements in the process of borrowing for a business can range up to and above 100 percent of the loan principal. This percentage depends again on the amount of risk that the lender calculates that his institution is exposed from this particular loan and the accumulation of all loans currently in process. Collateral assets can be in the form of real property owned, inventory of the business, cash savings or deposits, stocks /bonds equity in home equipment and like assets both tangible and non-tangible. The value to be placed on a collateral asset in the securing of a business loan is usually estimated or appraised by the lending institute.

2.1.8. Frequency of loan payments

Loan payments can be made on an installment basis (weekly, biweekly, monthly) or in a lamp sum at the end the loan term, depending on the cash patterns of the borrower. For the most part, interest and principal are paid together. However, some MFIs charge interest up front (paid at the beginning of the loan term) and principal over the term of the loan, while others collect interest periodically and the principal at eh end of the loan term. The frequency of the loan payments depends on the needs of the client and the ability of the MFI to ensure repayment (Ledger wood, 2009).

2.1.9. How does the loan term affect the Borrower's ability to repay?

The loan term is one of the most important variables in microfinance. It refers to the period of time during which the entire loan must be repaid. The loan term affects the repayment schedule, the revenue to the MFI, the financing costs for the client, and the ultimate suitability of the use of the loan. The closer and organization matches loan terms to its client's needs, the easier it is for the client to carry the loan and the more likely that payments will be on time and in full (Ledger wood, 2009).

2.1.10. Loan collateral

Generally, MFIs lend to low-income clients who often have very few assets. Consequently, traditional collateral such as property, land, machinery, and other capital assets is often not available. Various innovative means of reducing the risk of loan loss have been developed, including collateral substitutes and alternative collateral (Ibid).

2.1.11. Factors affecting loan repayment

Theoretical models generally confirm that joint liability leads to higher repayment performance due to more and effective screening, monitoring and enforcement among group members. Most studies on this issue support this vies. Several authors have empirical investigated the prediction of high repayment performance of Grameen Bank and Bancosol. They focused on analyzing the evaluation of microenterprise loan repayment performance (Ledger wood, 2009).

Accordingly, a number of factors that systematically influence loan repayment have been raised.

In line with this, looking at the major one's can serve the purpose of grasping what the literature offers on empirical work done so far.

1) **Educational level of Borrower:** This variable may have a mixed impact. Normally an educated borrower could be expected to make use of the loan proceeds in a better way than the uneducated one and hence can become an active payer. In general, the variable is expected to have a positive sign. But there is nothing that would stop the opposite from happening. Educated individuals have better chance of securing which color jobs and they are very mobile. The tendency to more from place to place in search of better job opportunities implies that they are unlikely to have reputation within the community that can make them attractive to lender and social groups that are coming together for saving and credit purpose (Ibid).

2) **Sex of Borrower:** There is usually a belief among many microenterprise financiers that women are better loan payers thinking that they are more entrepreneurial as a result of assuming more responsibilities in the domestic affairs of a house hold. Since some studies indicate that the opposite can happen, it is better not speculate beforehand.

   On the other hand, as it is the objective of the credit scheme to give priority to women borrowers, it is expected that these borrowers are less rationed than their male counterparts (Ibid).

3) **Loan size (amount):** is another factor that can affect loan repayment performance. Godquine, (2015) showed that loan size has negative sign and is significant in affecting loan repayment. This negative sign is theoretically explained by the fact that the loan size increases the gains associated with extant and exposit moral hazard. The negative sign of

loan size of the loan could also be linked to borrowers' inability to repay a large amount over a given period (usually one year). It could be that, for a given duration large loans do not meet the borrowing needs and are not suited to the local economy.

The small holder loan repayment performance, evidence from the Nigerian microfinance system, found out the loan size increases the probability of delinquency. It implies that loan size is negatively related to loan repayment Olomole (2016).

4) **Age of Borrower:** is another factor that may have impact on loan repayment performance. Ledger wood (2009) questioning the impact of the characteristics of borrowers, showed that traditional prejudices against women, young borrowers or large families should not influence the determination of repayment ability. This means the age way not have impact on loan repayment performance.

5) **Availability of other sources of credit:** if there are other sources of credit that the borrower can resort to in case of emergency (e.g. Failure of business), the borrower can use these sources to fulfill his/her microenterprise loan obligations to keep his /her name unblemished. Therefore, the variable is likely to have a positive sign. However, if the borrower is no more interested in the microenterprise loan, the interest in repaying the loan may fall (Ibid).

6) **Loan Diversion:** If loan is diverted to non-intended and non-income generating purposes (such as consumption), it is likely that the sign of this variable will be negative. In other words, diverted funds not used productively reduce repayment capacity. If, however, the loan is diverted to non-intended but income generating purposes, the sign will be positive (von pischke, 2011).

7) **Supervision and advisory visits:** This variable is supposed to be positively related with loan repayment. Tight supervision and advisory visits can improve the proper utilization of the loan with tight supervision; borrowers can be made to observe their credit obligations (ibid).

8) **Household income:** is another factor that is believed to influence microenterprise loan repayment positively of negatively. Olomola (2016) on his study of repayment performance of Grameen Bank borrowers in unzipped state found that the area of operated land, which

could be proxies, for wealth of borrower, had a positive impact on repayment. The value of the productive asset of the household, the dummy for self – employment in agriculture and the number of landed relatives were used to control variables for wealth of
the household and wealth of its social network. These variables showed a positive and significant impact on the repayment performance.

2.1.12. Supervision

Supervision implies control over attains of the societies to ensure that they working properly in conformity to the act, rules and bye laws in the best interest of the interests of members. It involves administrative assistance in routine work, financial, managerial and technical guidance and also corrective measures. It includes such functions as would ensure the regular maintenance of books and account of the societies, preparation of loan appreciations. Examination of account books and other registers, rectification of defects, holds of meeting, revision of property statements assisting in recovering of loans on due dates expending claims against defaulters and checking of proper use of loans (Ibid).

A member is required to guarantee loan must make saving at least twelve (12) months or one year to take loan easily.

2.1.13. .Follow up of loan

Manager should maintain contact with borrowers and as far as possible should keep watch full. Eye to ensure that loan one used for the purpose for which they are guaranteed. Any apparent deterioration on borrower's position should be immediately investigated and reported where appraiser. All outstanding loans should be reviewed by mangers at least once in a month to ensure that repayment are being made regulatory slackness in this respect only leads to more difficulties later if borrowers find that the manager over look non-payment of installments (Godiqine, 2015).

Lack of systematic follow up procedures in securing principle and interest payment each month sometimes hampers collection. Borrowers are not always aware of when loan payment at due (Ibid).

2.2. Empirical Literature Review

2.2.1. International Evidence

Roslan and Zaini (2009) investigates the effect of borrowers' characteristics, project characteristics and loan characteristics on loan repayment of agro bank micro credit scheme. The characteristics of the borrowers are (i) gender, (ii) marital status, (iii) race, (iv) level of education, (v) age, (vi) occupation, (vii) number of dependents, experience, membership in business society and training. The characteristics of the project are ownership structure of the project, type of the project, distance of the project to nearest agro bank office, and revenue from project. The loan characteristics are amount of loan and length of repayment period. The data used in the study is a primary data, which is gathered through a survey carried out among agro-bank micro credit scheme borrowers in 86 branches of agro bank throughout Malaysia. Self-explanatory questionnaire were provided to the respondents, where 2630 borrowers were chosen for the analysis by a simple random sampling. In order to determine the effect of borrowers characteristics on the probability of default, an econometric approach that relies on both probit and logit models were employed.

The result of the study shows the variable gender is positive and significant. This implies that the probability to default is higher for male than for female borrowers. The coefficient for the variable type of the project is negative and significant. This implies that the probability to default is lower for borrowers that involve in service/support activities as compared to those in production activities.

The coefficient for the variable training is also negative and significant. This result suggests that borrowers that did not have any training in relation to their business/project activity has a higher probability to default compared to those borrowers who had some training. The coefficient for amount variable is also negative and significant which suggests in terms of amount of loan the higher the loan amount the lower the probability for default. The coefficient for the variable period of repayment is positive and significant this gives an indication that the probability to default is higher the longer the repayment period.

In general the estimated result of the research from both probit and logit models suggests that the probability to default is not influenced by race, education, age previous occupation, number of dependency, experience, membership in business society, the distance of the business/project to the nearest agro bank office and revenue from the business or project.

Several African studies of loan repayment performance have estimated the determinants of loan performance with a binary loan outcome – defining borrowers as either current on their loan repayments or in default. Loan repayment was positively related to factors such as timeliness of loan disbursement, enterprise profitability, the number of supervisory visits by credit officers, having additional sources of income, established previous loan history, and lower client debt asset ratios (Kamajou& Baker 2010)

Kuhn &Darroch (2011) studied rural medium-term loan repayment performance in KwaZulu Natal using multiple loan repayment categories (current, in arrears, and default) and found that first-time borrowers, and clients that have modest loans, smaller own direct equity contributions, and who manage contract ploughing and broiler ventures, tended to default on loan repayments.

Aguilera-Alfred & Gonzalez-Vega (2013) used a multinomial logit model to analyse the repayment performance of loans disbursed by a typical developing-country specialized lender in the Dominican Republic. They concluded that borrower characteristics (land tenure status and credit rating by the bank), loan characteristics (restriction on use of borrowed funds) and regulatory instruments (bank's own funds and international targeted funds) most affect client loan repayment.

Rose, (2017) Define successful loan repayment as the ability to repay the loan 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 to service the loan. On her study on the causes of default in government micro credit programs in Kenya, she found a strong relationship between major sources of income, diversion of funds, domestic problems and loan defaulting.

Reza and Mansoori, (2013) investigated the factors influencing on repayment behavior of farmers who received loan from agricultural bank in Khorasan-Razavi province, Iran In 2008.

In their research methodology, they use a logit model to find the factors influencing on loan repayment performance. Dependent variable is defined as whether farmers had delayed repayment of loan installments to bank. Hence, If farmer had not any delayed repayment, value of dependent variable will be one and otherwise zero. The Study was done by collecting data through a survey and filling questionnaires for 175 farmers in rural regions of Khorasan-Razavi province of Iran.

The independent variables include, age of respondent, farm land hectares, experience of respondent, income of respondent, interest rate of received loan, time laps between loan application and disbursement. Whether respondent used loan for investment activity (yes=1, no=0), total application costs, whether respondent owned farm machinery (yes=1, no=0), loan size, collateral value, Number of installments for which the loan is due for repayment.

The Logit model limits probabilities for each values of dependent variable between 0 and 1. The logit model seeks to explain the probability of loan on time repayment as a result of any of the 16 identified independent variables. The signs of the coefficient of independent variables and significance of the variables were used determining largely the impact of each variable on the probability of dependent variable that is the repayment performance of the borrowers. The Results showed that farmer's experience, income, received loan size and collateral value have positive effect while loan interest rate, total application costs and number of installment have a negative effect on repayment performance of recipients. Comparing the elasticity of the significant variables, it is indicated that loan interest rate is the most important factor in their model, farming experience and total application costs are the next factors respectively.

2.2.2. ETHIOPIAN EVIDENCE

Jemal, (2013) make a research on Microfinance and loan repayment performance, which was a case study of the Oromia Credit and Savings Share Company (OCSSCO) in kuyu, the study area, Kuyu is found in Oromia National Regional State (ONRS).

In his research methodology, he employed a logit model to find the factors influencing on loan repayment performance in the micro finance institution. The sample size is 203, which is 9.3 percent of the total beneficiaries of the micro finance institution.

The independent variables used on the research includes, age of borrower, sex of borrower, educational level of borrower, loan size in Birr, timeliness of loan release, loan diversion rate (ratio of loan diverted to total loan receive, income from activities financed by loan (annual), annual income from other activities (not financed by the loan), value of livestock in Birr, suitability of repayment period, use of financial records, adequacy of supervision visits made to a borrower, location of residence of borrower, number of dependents number of times borrowed

The estimation results of the descriptive statistics and the tobit model show 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 found to significantly increase loan default. In addition, female borrowers were found better in terms of loan repayment.

Abraham, (2002) make a research on factors behind loan defaulters which was a case study of private borrowers financed by Development Bank of Ethiopia Zway Branch.

In his research methodology, he employed a logit model to find the factors behind loan defaulters. A sample of 102 borrowers, in which 34 are credit worthy borrowers and the rest 68- sample borrowers are defaulters are interviewed.

The independent variables include, age of borrowers (years), educational level of borrowers, loan diversion, sex of borrower, ratio of equity to total investment, ratio of value of collateral to loan amount, repayment period (years), availability of other source of income, household size (number), experience in related economic activity (in years), Sector.

The estimation result reveals that having other source of income, education, work experience in related economic activity before the loan and engaging on economic activities other than agriculture are enhancing while loan diversion, being male borrower and giving extended loan repayment period are undermining factors of the loan repayment performance of projects.

2.2.3. Research Gap

The above Empirical researches on loan repayment performance in Ethiopia mainly focuses on micro and small enterprises as well as on micro finance institutions in Oromia region, in which most of the borrowers are engaged in the industrial and agricultural sector. The research by Abraham 2003 is conducted in Development Bank of Ethiopia, however it is limited to small scale enterprises in Zway in which again most of the borrowers are in the agricultural sector, besides, two of them are conducted based on data before ten years. Now a day there are many changes regarding the bank as well as the general macroeconomic condition of the country, for instance, Development Bank of Ethiopia stops providing loans to micro and small-scale enterprises? Hence, this research will fill the gap by focusing on assessment of successful loan repayment performance on the case of

ADSCI.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The methodology is the philosophical foundation of our path to reality, the way we understand reality and the base or foundation for the claim on reality. This chapter focuses on the research methodology use in the investigation of employees' satisfaction effect on job performance and includes research design, source and instrument of data collection, sample size, sampling methods, reliability and validity test, methods of data analysis and finally ethical consideration of the research.

3.2. Research Design

The study is a descriptive research which is concern with a fact finding study with adequate and accurate interpretation of the finding. It describes what the reality is. It describes what actually exists within a situation, such as current practice of different aspects of research. Since the present study is concern with evaluation of loan repayment performance of micro enterprise on Addis credit and saving institution, the researcher believes that the descriptive type of research it the most appropriate method to be use.

3.3 Research Approach

Research approach is the methodological approach that a researcher follows to understand and address the statement of the problem. There are three type of research approach: qualitative research approach, mixed method research approach and quantitative research approach. The qualitative approach deal with multiplicity of reality and use content analysis, but quantitative research approach states reality is single and objective. Mixed research approach employ both research approaches in which reality is context based and pragmatism. This study mainly employ qualitative research approach. Because the study is aimed at assessing loan repayment performance of Addis credit and saving institution.

3.4 Source and Instrument of Data Collection

The method of data collection which is employed to this study is survey method(a method used to collect information from sample of individual), and the data collection tool that is used to gather data from sample respondents are open-ended(to formulate his own answer) & closed-ended(pick an answer from a given option) questionnaire. The questionnaire is selected because it helps to gather data with minimum cost faster than any other tool.

3.5 Sample Size Determination

There are several reasons for selecting sample from the population. Taking information from the population is difficult because of financial time and capacity limitation. When the population is homogenous, taking sample is as accurate as the information collected from the population.

To carry out this study, to assess the loan repayment performance of micro enterprise in Addis credit and saving institution, there are indefinite numbers of borrowers and a total of 384 borrowers are selected for a sample which by the following formula. We used simple random sampling (unbiased representation of a group). Because borrowers are easily accessible as they are working at the same location.

According to Gosaye, Shibru (2022), The desired sample size is a function of the target population. However, if the target population is unknown we can use the following formula. The maximum acceptable margin of error (also known as the sampling error) and it expressed mathematically as below:

$$n=z^2.Pq./e^2 = (1.96^2 \times 0.5 \times 0.5) / (0.05)^2 = 384$$

Where:

n= required sample size

z= confidence level at 95 % (standard value of 0.05)

p= standard deviation of population (0.5) q= 1-p (1-0.5=0.5)

e= margin of error at 5% (standard value of 0.05)

3.6 Sampling Technique

Sampling technique are sampling instruments used for selection of representative samples from the population. The research apply non-probabilistic sampling technique specifically Convenient sampling methods, in which the selection of sample is non-randomized rather it is based on the researcher own judgment. In this sampling method the researcher select sample representative who are close to him or easily accessible (Babbie, 2009)

3.7 Data Analysis Method

After the data is collected it analyze through qualitative methods. Percentage and tables are used for analysis of data which is collected through questionnaire.

3.8 Ethical Consideration

The study was taking ethical considerations while utilizing data from primary and secondary sources. Ethical concerns included the following: voluntary participation, no harm intended to participants, anonymity and confidentiality of participants ensured, and conveyance of purpose and sponsors of the study. This study was also providing information to the respondents about the purpose of the study and the use of the information as well. Information will be held in strict confidentiality by the researcher. Respondent anonymity was kept so that participates feel free and safe to express their ideas.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.1. Introduction

As mentioned in the methodology, this research is descriptive type research which includes survey and facts finding inquires with regard to loan repayment performance of microenterprise.

Quantitative and qualitative analysis techniques were used to analysis the collected data. So the analyses of the data are presented by percentages and tables.

The survey was conducted by distribution of questionnaires to borrowers of ADCSIs. Close and open ended questionnaire were prepared for respondents on the basis of a simplified lists of yes or no, and detailed information requirements along with any kind of comment given by the requirements.

4.2. Personal information of respondent

As in indicated in table 1, 32.5% (102) of the respondents are males and 67.5% (213) of the respondents are female. This may be an indicator of the fact that the participation of women in receipt of loan is much better than men. Moreover indicated in table 1, the highest numbers of respondents which consist of 40% (126) fall in the range of 18-28 years and 29-38 years. This implies the majority of borrowers are medium age and they can serve the microfinance for long period in the future.

The table 1 also shows that, 52.5 % (165) of the respondents marital status are married. This indicates most of the respondents who are participating in ADCSI are married. As in indicated in table 1, 52.5% (165) of the respondents are Grade 1-8, 25% (79) of the respondents are Grade 9-12, 12.5% (39) of the respondents are TVET and 10% (32) of the respondents are others like degree & illiterate. The largest proportions of respondents qualification is grade 1-8 level. This shows most of the respondents have low level of educational background. This affects the understanding of the institution rules and regulations.

Furthermore table 1 show that, the monthly income of 50% (158) of the respondents earn from 1000 -3000 birr per month, so the majority of the respondents earn form 1000-3000 birr per month. This shows majority of the respondents who borrow from ADCSI are the low level income to support their livelihood and daily consumption. Therefore, ADCSI serves the poor people who have low income and need small and medium capital to work

Table 4.1: Demographic Characteristics of the respondents

Items	Responses	
	Frequency	Percentage (%)
Gender		
Male	102	32.5
Female	213	67.5
Total	315	100
Age		
18-28 years	126	40
29-38 years	126	40
39-48 years	63	20
Above 49 years	0	0
Total	315	100
Marital status		
Single	87	27.5
Married	165	52.5
Divorced	39	12.5
Widowed	24	7.5
Total	315	100
Educational Background		
Grade 1-8	165	52.5
Grade 9-12	79	25
TVT	39	12.5
Other	32	10
Total	315	100
Monthly income (in Birr)		
1000-3000	158	50
3001-6000	79	25
6001-10000	31	10
Above 10000	47	15
Total	315	100

Source: Own Survey, 2023

4.3. Security Provision, Supervision, Follow-Up & Loan Repayment]

The essential for every micro finance is the borrowers to repay their loan on maturity date. ADCSI also needs its borrowers to repay the loan they borrow punctually. To meet this objective ADCSI use, secured loans which need collateral as pledge for fast repayment and to decrease the rate of uncollectible loans. Successive supervision and follow up by their experts. The next table shows how ADCSI control borrowers to use properly and repay their loan as well as the legal action taken by ADCSI if borrowers did not repay their loan in time.

Table 4.2: Security provisions, Supervision, follow up and loan repayment

No	List of factors	Response			
		Yes		No	
		Frequency	Percentage (%)	Frequency	Percentage (%)
1.	Did you repay loan fully on maturity?	173	55%	142	45%
2.	Does your institution take legal action against loan defaulters?	205	65%	110	35%
3.	Does ADCSI supervise and follow up over your loan utilization	110	35%	205	65%
4.	Does your MFI use (Ask) security during members or borrowers borrow money?	220	70%	95	30%

Source: Own Survey, 2023

As in indicated in the above table 4.2, 55%(173) of the respondents did repay the loan on maturity date and 45%(142) of the respondents did not repay their loan on maturity date. Out of 45% of the respondents, 30% of the respondents that respond to their question had a remaining days before there maturity date to repay their loan, and the remaining 15% of the respondents say that they have shortage of supplies and markets. This implies that there is large number of loan defaulters in the institution. For microfinance to operate well and to serve the large low level income peoples, it has to collect its loans using different incentive methods like giving higher credit to whom he/she repaid timely.

Furthermore table 4.2 also show that 65 %(205) of the respondents known that ADCSI take legal action on people who did not repay the loan they take and 35%(110) of the respondents did not known whether ADCSI take legal action against loan defaulters. This shows ADCSI should still aware members about the rules and regulations to manage the overall operation. ADCSI use group lending method to decrease loan default by using the members as guarantee to each other

As in indicated in table 4.2, ADCSI manager must prepare the contact period with borrower in order to supervise them how to they use the borrowing money from their institution and control them from different risk by contacting them with their quarantine.

According to table 4.2, 65% (205) of the respondents replied that the institution does not supervise and follow up over loan utilization by borrowers and 35% (110) of the respondents agree that the institution does supervise and follow up over loan utilization by borrowers. The data above shown that ADCSI supervision and follow up is low and it has to improve its supervision and follow up rates cause's inappropriate use of loan and high loan default rate. It is essential for ADCSI in order to control the loan repayment performance and increases the income of the institution.

According to table 4.2, majority of the respondents (70% (220)) said that ADCSI use security to lend money. These respondents said that the type of security required when ADCSI borrow money use personal guarantee. The use of security to borrow money helps ADCSI to reduce the risk of high loan default and borrowers repaid their loan acceding or agree to the schedule.

4.4Frequency of Supervision by ADCSI over Loan Utilization

As describe in table 4.2, question number 3, 35% (110) of the respondents respond that ADCSI supervise and follow up over their loan utilization. As in indicated in table 3 out of this 35% of respondents, 50%(55) of the respondents are supervise and follow up service once a month, 28.6%(31) of the respondents are supervised twice a month, 21.4%(24) of the respondent are supervised only once until repayment and the remaining 0%(0) of respondents are others. From the table 7 ADCSI supervise and follow up over their loan utilization, majority of members are getting supervision and advice about the lending and usage of money monthly. This helps borrowers to use their money properly and work on profitable area as well as them able to repay their loans timely.

Table 4.3: Frequency of Supervision by ADCSI over Loan Utilization

How often do you get supervision and follow up service over the usage?	Respondents	
	Frequency	Percentage
Once a month	55	50%
Twice a month	31	28.6%
Once until repayment	24	21.4%
Other	0	0%
Total	110	100%

Source: Own Survey, 2023

4.5 Factors Affecting Loan Repayment Performance of MFIS

As in indicated in table 4, the majority of the respondents are affected by the loan size, 35%(112) when the loan size is high the borrowers are losing their confidence to repay the loan. 10% (32) of the respondents affected by Political crisis that the borrowers do not repay the loan on maturity because of the existing unrest the borrowers lack customers and supplies. Educational level affects 22.5% (71) of the respondent like usage of money, understanding of the institution rules and regulation and etc. Lack of Supervision affects 22.5% (71) of the respondents to repay their loans properly, if the borrowers supervise regularly then their motivation to repay the loan is increased. On the other hand other factors other than specified in the above table are affects 5% (16) of the total respondents like lack of competition, reluctance of client and dependency of client work on government. This shows loan size factors hinder respondents to repay their loan defaults. Therefore, this harms the institution in lending and borrowing process.

Table 4: Factors Affecting Loan Repayment Performance of MFIS

What are possible and major factors affecting loan repayment performance of MFIs?	Respondents	
	Frequency	Percentage (%)

Loan size with its interest rate	112	35%
Political crisis	32	10%
Educational level	71	22.5%
Client death	0	0%
Supervision	71	22.5%
Lack of competition	16	5%
Reluctance	8	2.5%
Dependency	8	2.5%
Total	315	100%

Source: Own Survey, 2023

4.6. RESULTS FROM OPEN ENDED QUESTIONS

4.6.1. Usage of Loan by Borrower

Loan should be used effectively for the interested purpose as stated on loan agreement. Effectively usage of money must be enables borrowers to generate income and profit for which loan are repaid to ADCSI as matures. This is possible only when borrowers are able to invest their loan on income generating business activity. According to the study area the usage of loan by ADCSI members most of members are use for income generating activity like Injera Bakery, Manufacturing of Blocket, Food processing activities and etc. but they does not use the money effectively (source: Questioner).

4.6.2. Controlling measures for loan defaulters

ADCSI have their own rules & regulations by which they control the appropriate repayment of the loan taken by their members or other customers. Accordingly, ADCSI has its own controlling mechanism such as penalizing them in terms of finance as a punishment which amounts to 5% of the loan taken (source: Questioner).

4.6.3. Interest Rate Determination

Determination of lending interest rate is essential to ADCSI, when they borrow money to their members. The ADCSI interest rate is 10%, service charge 2% and insurance 1% which is depends on the national Bank of Ethiopia Microfinance Declaration (source: Questioner).

4.6.4. Procedures for Loan Repayment

ADCSI must prepare procedures to repay the loan in order to collect the loan effectively and accurately.

First, ADCSI added the monthly saving amounts of borrowers' money with its interest.

Second: Account the interest of the principal of money and add it with principal by 10% interest rate borrowed from his MFI saved money.

Third: Ask Personal guarantee to repay the loan on maturity date and borrower repay the loan based on the agreement (source: Questioner).

4.6.5. Loan Collection Management

Recovery of a loan is responsible members of managing committee and office with the help of well experienced professionals. All outstanding loans should be reviewed at least once a month to ensure that repayments are being made regularly (source: Questioner).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1. SUMMARY

Microfinance programs are now a key element in the country. Hence, Addis Credit and saving Institution microfinance program is legally registered by the National bank of Ethiopia. It has branches in Addis Ababa region.

The main objective of the credit and saving Institution is to provide credit to the unemployed poor in the city. Micro financing activity to continue in a suitable way, improving the living or economic conditions of the borrowers and reducing poverty, it is important to have a better loan repayment performance.

This section summarizes the out puts and findings of data analysis made in chapter four.

- The largest proportions of respondents qualification is grade 1-8 level. This shows most of the respondents have low level of educational background. This affects the understanding of the institution rules and regulations.
- The majority of borrowers are medium age and they can serve the microfinance for long period in the future.
- The majority of the respondents who borrow from ADCSI are the low level income to support their livelihood and daily consumption
- The loan repayment ability of members on maturity date is not more satisfied, because there are a number of respondents who did not pay their loan on maturity.
- ADCSI use group lending method to decrease loan default by using the members as guarantee to each other.
- The study shows that there are a number of respondents that did not know whether ADCSI take legal action against loan defaulters.
- ADCSI use personal guarantee to borrowers for securing their loan.
- The majority of the respondents are affected by the loan size.
- The usage of loan by ADCSI members are use for income generating activity like Injera Bakery, Manufacturing of Blocket, Food processing activities and etc. but they does not use the money effectively.
- The study shows that ADCSI taking legal actions against loan defaulters are, to pay additional 5% of their loan.

Generally ADCSI must analyze the above explanation and conclusion in order to repay its loan on maturity date by examining principles and procedures, identify factors responsible for loan defaulters, evaluate guiding principles and requirements to offer loans for members and examine the required security to offer loans in order to control loan defaulters.

5.2. Conclusion

Based on the data presentations, analysis and our major findings the researcher has come to draw the following comprised conclusion.

ADCSI's loan repayment performances are primarily affected by the loan size, when the loan size is high the borrowers are losing their confidence to repay the loan. The other factors are political crisis that the borrowers do not repay the loan on maturity because of the existing unrest the borrowers lack customers and supplies. Another factor is Educational level affects like usage of money, understanding of the institution rules and regulation and etc. Lack of Supervision also affects to repay their loans properly; if the borrowers supervise regularly then their motivation to repay the loan is increased.

ADCSI supervise and follow up over their loan utilization, majority of members are getting supervision and advice about the lending and usage of money monthly. This helps borrowers to use their money properly and work on profitable area as well as them able to repay their loans timely.

ADCSI's Recovery of a loan is responsible members of managing committee and office with the help of well experienced professionals. All outstanding loans should be reviewed at least once a month to ensure that repayments are being made regularly.

ADCSI's supervision and follow up is low and it has to improve its supervision and follow up rates cause's inappropriate use of loan and high loan default rate. It is essential for ADCSI in order to control the loan repayment performance and increases the income of the institution.

5.3. Recommendations

In light of the findings of this study, the researcher presents the following recommendations in order to overcome the problems being observed in the loan repayment performance of ADCSI in the study area.

ADCSI should still aware members about the rules and regulations to manage the overall operation. ADCSI use group lending method to decrease loan default by using the members as guarantee to each other.

ADCSI supervision and follow up is low and it has to improve its supervision and follow up rates cause's inappropriate use of loan and high loan default rate. It is essential for ADCSI in order to control the loan repayment performance and increases the income of the institution.

Member should get basic training on proper utilization of credit and saving habit by ADCSI professionals that works in the organization for many years.

ADCSI should carefully analyze assess the credit worthiness of loan to members purpose and elements of 5 "C"s (Capacity, Capital, Character, Conditions, Collateral) lending before granting loan members.

ADCSI should serve the poor people who have low income and need small and medium capital to work by using different incentive methods like giving higher credit to whom those who repaid timely.

ADCSI should aware members about the rules and regulations to manage the overall operation.

ADCSI should properly supervise and follow up of loan utilization by borrowers by meet them in short period of time.

ADCSI should prepare the contact period with borrower in order to supervise them how to they use the borrowing money from their institution and control them from different risk by contacting them with their quarantine.

REFERENCES

Abafita,J. (2003), „**Microfinance and loan repayment performance: A Case Study of the Oromia Credit and Savings Share Company (OCSSCO) in Kuyu‟,** MSc thesis, Addis Ababa University, Addis Ababa.

Abdulfettah (2013), **“Credit Risk Management in Micro-Finance: the conceptual framework.”**

Abreham Gebeyehu (2002), „**Loan repayment and its Determinants in Small-Scale Enterprises Financing in Ethiopia: Case of private borrowers Around Zeway Area**“, M. Sc. Thesis, AAU.

Abreham (2011), **Microfinance Business Proclamation, Proclamation** No. 626/2009. Federal Negarit Gazeta published on 12th May 2009, Ethiopia.

AEMFI (2015), **Annual Reports, December 2015. Available from Association of Ethiopian Microfinance Institution (AEMFI)** E-Book [14 September 2016].

Alemayehu Y. (2008), **The performance of Microfinance Institutions in Ethiopia; Case of six MFIs, Ethiopia**

Armendariz de Aghion, B., & Murdoch, J. (2000), **Microfinance beyond group lending. Economics of Transition,** 8(2), 401-420.

Bayeh (2012); **Financial sustainability of Microfinance Institutions (MFIs) in Ethiopia; Vol. 4 Dire Dawa, Ethiopia**.

Berhanu Lakew (1999), “**Micro Enterprise credit and poverty alleviation in Ethiopia. The case of the project office for the creation of small-scale Business opportunities (POCSSBO) in Addis Ababa**”, M.Sc. Thesis AAU.

Berhanu A. (2005), **„Determinants of formal source of credit loan repayment performance of smallholder farmers: the case of north western Ethiopia, North Gondar“,** M.Sc. Thesis, Alemaya Univeristy, Ethiopia.

C.A.Wongnaa & D. Awunyo-Vitor (2013), **Factors affecting loan repayment performance among Yam farmers in Sene district**, Ghana; Kwame Nkrumah University of Science and Technology.

Coyle, B. (2000), **Framework for Credit Risk Management**. CIB Publishing, UK.

CSA (2008), **“The 2007 Population and Housing Census of Ethiopia: Statistical Report for Oromiya Region**”, Central Statistical Agency (CSA), Ethiopia.

Alemu (2012):www.hisoryofloanrepaymentperformance.com

Anne Perkins (2008), **Short History of Micro Finance**, www. theguardian.com

CSA(2019), **Central Statistical Agency Report** ,Ethiopia

Degefe Duressa (2019), **Microfinance in Ethiopia**, Ethiopia

Duval (2016) www.characteristcsofindividuallendingmodel.com

Gibbons, Davis S (2012), **The Grameen Reder**, 2nd edition, The Grameen Bank

Godiqine(2014), **Microfinance Repayment Performance in Bangladesh**, Bangladesh

Khandiker, Shahidur R (2015), **Grameen Bank Performance and Sustainability, World Bank,** Washington

Ledgerwood (2019), Microfinance: **An institutional and Financial Perspective**

Maria Otero (2012), **The New World of Microenterprise**

Mengistu B (2017), **Determinants of Micro Enterprise Loan Repayment and Efficiency of Screening Mechanisms in Ethiopia**, Ethiopia

Olomola (2020), **Determinates of Small Holder Loan Repayment Performance**

Pindback (2018), **Economics Forcast,** 2nd edition. McGraw Mill Book Company, New York.

Rechard C. (2017): **Farm Planning as Basic for Extending Agricultural Credit**.

Reinke (2016), **Altering Models for Micro credit in South Africa**, South Africa

Robert Peck Christen (20177), www.centerforfinancialinclusion.org

Von Pischke (2011), **Debt Capacity and the Role of Credit in the Private Economy**

APPENDIX

ST. MARY'S UNIVERSITY

DEPARTMENT OF ACCOUNTING AND FINANCE

GRADUATE PROGRAM UNIT

Dear respondent

This questionnaire is designed to study micro enterprise loan repayment performance in Ethiopia. The answers given by respondent are confidential and will not be disclosed to any party for purpose other than strictly research.

I would like to thank you in advance for your cooperation.

Please put a tick mark ( ) in the box of your choice and write your suggestion on the space provided.

Part One: Personal Information

1.1 Sex:

Male Female

1.2 Age:

18-28 39-48

29-38 Above 48

1.3 Marital status:

Single Divorced

Married Widowed

1.4 Educational level

Grade 1-8 Above grade 12

Grade 9-12 TVET (Vocational School)

Others____

1.5 Income per month (in birr)

1000 – 3000 6001 – 10000

3001 – 6000 Above 10000

Part Two: Issues concerning loan and loan repayment

2.1 How much did you receive from the Arada Sub-City credit and saving office in loan?

700-50,000 birr 100,001-200,000 birr

50,001-100,000 birr above 200,000birr

2.2 What was the repayment period (time) in month?

6 month 12 month 24 month

18 month 36 month 60 month

2.3 What was the amount birr you pay at installment period? Birr ____________
____.

2.4 Did you repay loan fully on maturity?

Yes No

2.5 If your answer for question number 2.4 is No, please specify? Why?

____
____
____

2.6 Does your lender party penalized (take legal action) against loan default?

Yes No

2.7 If your answer question number 2.6 is yes please list down the legal actions?

____

2.8 How much interest did you pay on the loan till now?

____

2.9 Was the loan you receive enough for your work (operation)?

Yes No

2.10 Was the repayment and the period suitable?

Yes No

2.11 If your answer question number 2.10 is No please specify?

____

____

2.12 Did you use the loan (or part of the loan) for other purpose than you planned?

Yes No

2.13 If you use the loan partially or fully for other purpose, how much did you spend on those other purpose? Birr

____

____

2.14 Does your MFIs (Lenders) provide you supervision and follow up services over the utilization (usage) of your loan borrowed from it?

Yes No

2.15 If your answer for question 2.14 is yes how often (how many times) do you get this services?

Once a month Once until repayment (maturity date)

Twice a month

If any other please specify____

____

2.16. Does your MFIs use (ask) collateral to provide loan for borrowers?

Yes No

2.17 Does your answer for question number 2.16 is yes which collateral an individual borrower will furnish (Offer)?

Personal guarantee Property Both

If any other please specify ____

________________________________ ____.

2.18 What are possible and major factors affecting loan repayment performance of MFIs? (Choose more than one).

Loan size (amount) Educational level

Political crisis Client death Supervision

If any other please specify ____

____

____

____