ASSESSMENT OF LOAN DEFAULT ON OPERATIONAL PERFORMANCE OF MICROFINANCE

(CASE OF PEACE MICROFINANCE SHARE COMPANY)

A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF GRADUATE STUDIES IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) IN ACCOUNTING & FINANCE

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DECLARATION

I, the undersigned, hereby declare that this thesis entitled **Assessment of Loan Default on Operational Performance of Microfinance Case** ***of Peace Microfinance Share Company*** is my original work, prepared under the guidance of **Muhamed Said (Assis. professor,)** my thesis advisor. All sources of materials used for the thesis have been duly acknowledged, I further confirm that the thesis has not been submitted either in part or in full to any other higher learning institution for the purpose of earning any degree.

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Statement of Certification

This is to certify that Tesfaye Hailu has carried out this research work on the topic of the assessment of loan default on the operational performance of MFIs the in Case of PEACE Microfinance Share Company under my supervision. This work is original in nature and it is sufficient for submission for the partial fulfillment for the award of an MBA in Accounting and Finance.

Advisor **Muhamed Said (Assis. Professor)**

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ST. MARY UNIVERSITY

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ASSESSMENT OF LOAN DEFAULT ON OPERATIONAL PERFORMANCE OF MFIS CASE OF PEACE MICROFINANCE SHARE COMPANY

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ABBREVIATIONS AND ACRONYMS

ACSI	Ahamara credit and Saving Institution
AEMFI	Association of Ethiopian Micro Finance
CGAP	Consultative group to assist the poor
DBE	Development Bank of Ethiopia
DECSI	Dedebit Credit and saving institution
MFIs	Microfinance Institution
NBE	National Bank of Ethiopia
NPLs	None performing Loans
OCSSCO	Oromia credit and saving share Company
PAR	Portfolio at Risk
SME	Small and medium enterprises

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ABSTRACT

Microfinance institutions are found among the institutions which provide different financial service for the poor who are out of the conventional banking system particularly in developing countries. The objective of the study was to assess loan default on the operational performance of MFIs in the Case of PEACE Microfinance Share Company it aimed to explore the impact of loan default on the operational performance of the institution(MFIs) specifically focusing on the case of PEACE Microfinance S.C. The study employed a mixed methods research design, incorporating both quantitative and qualitative data collection technique. The primary data is obtained through a survey questionnaire administered to the staff member of PEACE Microfinance S.C and MF's loan officers. The secondary data, on the other hand, is collected from published reports, articles, and other relevant documents related to the topic. The study's findings indicate that loan default significantly affects the operational performance the institution, including financial sustainability, growth, and outreach. Employee's morale and institutional reputation. The study identifies several factors that contribute to loan default, including borrower's characteristics, poor portfolio management, poor credit appraisal, internal factors, credit risk, management polies, among other based on the research findings, the paper provides recommendations to improve the operational performance of MFI's, including enhancing the credit risk management polies borrower education and financial literacy, and adopting new technologies to streamline their lending processes and enhance their ability to detect and prevent loan default. Additionally, the study identifies the challenges faced by the institution in managing credit risk and suggests possible solutions.

Keywords: Loan Default, and operational performance.

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CHAPTER ONE

1. Introduction

1.1 Background to the study

Microfinance institutions were found among the institutions, which provide different financial service for the poor who are out of the conventional banking system particularly in developing countries. During the last three decades, microfinance has captured the interest of both academics and policy makers. This is, among other things, due to the success of the industry (Assefa et al., 2013). Since the first Proclamation of 1996 G.C that gave the legal background for the operation of the micro-financing business, the industry has witnessed a major boom. There are More than 43 MFIs registered with the National Bank of Ethiopia serving clients. The Ethiopian microfinance market was dominated by a few large MFIs, all of which are linked to regional state government ownership. The three largest institutions account for 65% of the market share in terms of borrowing clients, and 74% by loan provision. These are Amhara (ACSI), Dedebit (DECSI) and Oromia (OCSSCO) Credit and Savings Institutions (Ebisa et al., 2013). Among the numerous challenges currently, facing the Micro Finance institutions in Ethiopia Loan Default takes the Lion’s Share and it is the hampers the operational Performance ofMFIs.

The loan given by MFIs for micro and small enterprises contributes for the acceleration of the development process of the country. Based on the proclamation on microfinance business, micro finance institutions can be engaged in accepting both voluntary and compulsory savings as well as demand and time deposits. In addition to this micro finance business are allowed to participate in extending credit to rural and urban farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs.

The proclamation gives the right to MFIs for drawing and accepting drafts payable within Ethiopia, to participate in micro-insurance business as prescribed by directive to be issued by the National Bank, purchasing income-generating financial instruments such as treasury bills and other short term instruments as the National Bank may determine as appropriate, acquiring, maintaining and transferring any movable and immovable property including premises for carrying out its business.

Financial institutions almost faced with the challenge of loan default which has necessitated the need for reviewing lending policies to mitigate the default risk as well as putting in place mechanisms that monitor the behavior of borrowers. Irena (2014) notes that loan default was one of the major causes of the financial crises of 2008 and consequently, after the Global Financial Crisis, credit management increased, especially with the purpose of improving the resiliency of the banking sector by requiring more and higher quality capital and more balanced liquidity. Per study by Alawiye (2013) credit administration and the incidence of loan defaults, increase in the loses of MFIs result from problem loans and the effects of such loans in the form of bad debt provisions can be minimized through effective monitoring and evaluation to avoid the diversion of facilities for unapproved purposes. and impact of Loan Defaults on the operations of microfinance institutions in Ethiopia, states that some of the loans advanced to beneficiaries underperform and do not earn the projected returns resulting into the reduced quality of the loan portfolio which constitutes a considerable percentage of the assets of the MFIs. In regards to these studies, the importance of credit risk management cannot be taken for granted and this explains why the practice has increased for both borrowers and lenders. Improving delivery of microcredit to the poor as well as small and medium sized Entrepreneurs. However, despite the notable progress, loan default is still a major problem that undermines profitability in institutions. Some studies state that the microfinance institutions in Ethiopia continue to face the major risk of loan delinquencies. Loses in microfinance institutions have resulted from extending huge amounts of credit with little or no credit assessment with the aim of increasing profitability, loans which later materialize into non-performing loans and subsequently erode profits of the institutions.

1.2 What is Microfinance?

Microfinance is the institutions that supply of loans, savings, money transfers, insurance, and other financial services to low-income people. Microfinance institutions (MFIs) —which encompass a wide range of providers that vary in legal structure, mission, and methodology offer these financial services to clients who do not have access to mainstream banks or other formal financial service providers (Lafourcade et al., 2005). Similarly, Parker et al., (2000) defines microfinance as provision of small loans (called “micro-credit”) or savings services for people excluded from the formal banking system

Microfinance is a type of banking service, which provides access to financial and non-financial services to low income or unemployed people. Microfinance is a powerful tool to self-empower the poor people especially women at world level and especially in developing countries (Noreen, 2011). While Steel and Addah (2004) describe micro finance as small financial transactions with low income household and micro enterprises, using nonstandard methodologies such as character-based lending, group guarantees and short term loans.

The definitions of microfinance given by different scholars contain some similar pointes. They describe microfinance as provision of a small amount of loan for the poor, specifically the rural poor living in developing country. Some microfinance institutions provide non-financial services for their clients. However, in our case, most of the micro finances are known by the provision of a small amount of credit and saving services.

1.3 Problem Statement

Micro finance institutions play a great role in supporting the economic activities of the rural and urban poor in developing countries. Studies show that African MFIs are important actors in the financial sector, and they are well positioned to grow and reach the millions of potential clients who currently do not have access to mainstream financial services (Lafourcade et al.,2005) Microfinance institutions were faced the enormous effect of Loan default on operational performance of Microfinance which adversely effect on financial and social performance MFIs. Loan default among Microfinance institutions in Ethiopia has become so crucial ineffectiveness of Financial Institutions. Because of the far-reaching implications of Default Loans on MFIs as well as the overall economy, stringent evaluation, and monitoring strategies have been Putin place by the institutions to ensure the repayment of loans by borrowers to mitigate NPLs. In Ethiopia, The Central Bank of Ethiopia has set prudential guidelines which force MFIs to set aside additional cash as provision for defaults Which is gradually changed into expense to cover the Loan in Default and MFIs are to comply with National Bank of Ethiopia prudential standards and internationally accepted sound MFIs practice by setting aside adequate reserves to protect against anticipated loan delinquencies on other hands it results in Liquidity Constraints and Lack of Loanable fund for MFIs Even though the Extensive research has been done on the Cause of delinquent loans Managements of default Loans and limited has been done on the assessment of Loan default on operational performance of MFIs, Specifically in Peace Microfinance S.Co there were no research done on the assessments of loan Default on operational Performance of Microfinance.

From existing literature, it has already been deduced that the loan default do affect the Operational performance of MFIs, therefore with limited empirical evidence of Loan default on operational performance of MFIs there exists a gap that this research seeks to fill by addressing the question of to what extent loan default affect the operational performance Micro Finance Institution in the case of PEACE Micro Finance S.Co

1.4 Objectives of the study

1.4.1 General Objective of the study

The General objective of this study is to assess the default loan on operational performance of MFIs in general and in particular in PEACE Micro Finance S.Co

1.4.2 Specific objectives of the study

In line with the general objective, the specific objectives are;

I. To assess the problems with the credit delivery procedure of PEACE Microfinance S.Co to Mitigate ate effect of default Loan
II. To assess the current practice of Branch staff on management of default loans in reducing the effect of Default loans on Performance MFIs
III. To assess the effect of loan default on the operational performance of MFI
IV. To assess the Effect of default loans on the financial and social performance of MFIs.

1.5 Research Questions

In order to achieve the main objectives of the study, three research questions were developed.

I. What is the effect of the Default Loan on the profitability of PEACE MF?

II. What factors affect the habit of the borrowers that can significantly disturb the repayment performance of in the selected Branch of MFI?

III. What factors arise from business characteristics that can have a significant effect on loan default?

1.6 Significance of the study

The study will have a number of significances. Principally, it contributes to the efforts being made by micro finances as well as the National Bank of Ethiopia in setting appropriate criteria and standard procedures of loan disbursement that will help to improve the loan repayment performance of microfinance institutions. Accordingly, the result of this study may give insight to micro finances to be aware of the current factors influencing loan repayments and helps in finding relevant recommendations to solve the problem of loan default by clients and help microfinance institutions to design successful loan programs. Furthermore, the finding of the study may help others, who have intentions to investigate the topic further.

1.7 Scope of the study

This study focuses on the assessment of Loan default on operational performance of Microfinance in Ethiopia in the case of PEACE Microfinance S.CO. The study was limited to 142 employees of the PEACE Microfinance S.CO which are directly and indirectly on the operational performance of Microfinance. The study also focused only the assessment of Loan Default on operational performance of Microfinance in the Case of PEACE Microfinance S.CO.

1.8 Limitation of the study

The research concentrated only on one institution specifically on PEACE MF S.Co. The study is also considering only employees of the single institution. In addition, the study was not considering the detail investigation in relation to the effect loan default on operational performance of Microfinance institution, The choice of the limiting the study to only the PEACE MF S,Co this is for several reason the one reason was to ensure that an in-depth and critical study was done and such that the result will provide useful information on loan default and operational performance of PEACE MF S.Co. The second reason was time budget constraint the result of this kind provide base for generalization. Thus, it was accepted that the result might vary from one organization others.

CHAPTER TWO

2. Literature Review

2.1 Literature review

2.1.1 The concepts of Loan Default

A loan is delinquent when payment was late consultative group to assist the poor (CGAP, 1999). A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Delinquency is measured because it indicates an increased risk of loss, warnings of operational problems, and may help to predict how much of the portfolio will eventually be lost because it never gets repaid. There are three broad types of delinquency indicators: collection rates, which measures amounts, actually paid against amounts that have fallen due; arrears rates measure overdue amounts against total loan amounts; and portfolio at risk rates, which measures the outstanding balance of loans that are not being paid on time against the outstanding balance of total loans (CGAP, 1999). Default occurs when a debtor has not met his or her legal obligations according to the debt contract. For example, a debtor has not made a scheduled payment, or has violated a loan agreement (condition) of the debt contract (Amankwah, 2015). A default is the failure to pay back a loan. Default may occur if the debtor is either unwilling or unable to pay their debt. A loan default occurs when the borrower does not make required payments or in some other way does not comply with the terms of a loan. (Murray, 2011). Moreover, Pearson and Greeff (2006) defined default as a risk threshold that describes the point in the borrower's repayment history where he or she missed at least three instalments within a 24-month period. This represents a point in time and indicator of behavior, where in there is a demonstrable increase in the risk that the borrower eventually will truly default, by ceasing all repayments. The definition is consistent with international standards, and was necessary because consistent analysis required a common definition. This definition does not mean that the borrower had entirely stopped paying the loan and therefore been referred to collection or legal processes; or from an accounting perspective that the loan had been classified as bad or doubtful, or actually written-off. Loan default can be defined as the inability of a borrower to fulfil his or her loan obligation as at when due (Balogu

2.1.2 Loan Default.

Loan Default was commonly used to describe a situation in which a borrower misses their due date for a single scheduled payment for a form of financing, Loan default occurs when a borrower fails to pay back a debt according to the initial arrangement. In the case of most consumer Default loans, this mean**s** that successive payments have been missed over the course of weeks or months. The period between missing a loan payment and having the loan default was known as delinquency. Financial institutions were almost faced with the challenge of loan delinquency, which has necessitated the need for reviewing lending policies to mitigate the delinquency risk as well as putting in place mechanisms that monitor the behavior of borrowers.(Irena., 2014) notes that loan default was one of the major causes of the financial crises of 2008 and consequently, after the Global Financial Crisis, credit management increased, especially with the purpose of improving the resiliency of the banking sector by requiring more and higher quality capital and more balanced liquidity. Per study by Alawiye (2013) credit administration and the incidence of bad loans, increase in the loses of MFIs result from problem loans and the effects of such loans in the form of bad debt provisions can be minimized through effective monitoring and evaluation to avoid the diversion of facilities for unapproved purposes. and effect of Delinquent loans on the operations of microfinance institutions in Ethiopia, states that some of the loans advanced to beneficiaries underperform and do not earn the projected returns resulting into the reduced quality of the loan portfolio which constitutes a considerable percentage of the assets of the MFIs. In regards to these studies, the importance of credit risk management cannot be taken for granted and this explains why the practice has increased for both borrowers and lenders. Improving delivery of microcredit to the poor as well as small and medium sized Entrepreneurs. However, despite the notable progress, loan delinquency is still a major problem that undermines profitability in institutions. Some studies state that the microfinance institutions in Ethiopia continue to face the major risk of loan delinquencies. Loses in microfinance institutions have resulted from extending huge amounts of credit with little or no credit assessment with the aim of increasing profitability, loans which later materialize into non-performing loans and subsequently erode profits of the institutions

2.1.3 Performance of Microfinance

Performance of microfinance was viewed as a development tool aiming at alleviating poverty (Barr, 2005; Kyereboah-Coleman, 2007; Hermes, 2007, Kuchler, 2011) especially in developing countries (Barry and Tacneng, 2014). As banks in the formal banking system refuse to serve the very poor, they became non-bankable and lacked access to financial services. The market failures that were caused by the formal banking system led to the rise of MFIs, which took the initiative to serve the non-bankable by offering them a variety of financial services aiming to lift them out of their poverty (Vanroose and D'Espallier, 2009). MFIs offer low-income households services such as microcredit, insurance, and savings and the loan given by MFIs for micro and small enterprises is the major Performance of MFIs in contributing the acceleration of the development process of the country. Based on the proclamation on microfinance business, microfinance institutions can be engaged in accepting both voluntary and compulsory savings as well as demand and time deposits. In addition to this micro finance business, were allowed to participate in extending credit to rural and urban farmers and people engaged in other similar activities as well as micro and small-scale rural and urban entrepreneurs.

2.1.4 Causes of Loan Default.

According to Ntiamoah EB, Oteng E, Opoku B, Siaw A (2014) causes of loan default include; lack of willingness to pay loans coupled with diversion of funds by borrowers, willful negligence and improper appraisal by credit officers. In addition, Hurt and Fesolvalyi (1998), cited by Kwakwa, (2009) found that, corporate loan default increases as real gross domestic product decline, and that the exchange rate depreciation directly affects the repayment ability of borrowers. Balogun and Alimi (1988) also identified the major causes of loan default as loan shortages, delay in time of loan delivery, small farm size, high interest rate, age of farmers, poor supervision, non-profitability of farm enterprises and undue government intervention with the operations of government sponsored credit programmers. Moreover, Akinwumi and Ajayi (1990) found out that farm size, family size, scale of operation, family living expenses and exposure to sound management techniques were some of the factors that can influence the repayment capacity of farmers. According to Olomola (1999), loan disbursement lag and high interest rate can significantly increase borrowing transaction cost and can adversely affect repayment performance.

After surveying different banks in India, Berger and De Young (1995) identified the main causes of default of loans from industrial sector as improper selection of an entrepreneur, deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, unrealistic terms and schedule of repayment, lack of follow up measures and default due to natural calamities. The study conducted by Okorie (1986) in Ondo state in Nigeria revealed that the nature, time of disbursement, supervision and profitability of enterprises, contributed to the repayment ability and consequently high default rates. Other critical factors associated with loan delinquencies are type of the loan; term of the loan; interest rate on the loan; poor credit history; borrowers' income and transaction cost of the loans. Okpugie (2009) also indicated that, high interest charged by the microfinance banks has been discovered to be the reason behind the alarming default. Vandel (1993), who also found that high interest rates charged by banks tend to facilitate default by borrowers, also confirmed this. According to Gorter and Bloem (2002), an inevitable number of wrong economic decisions by individuals mainly cause non-performing loans and plain bad luck (bad weather, unexpected price changes for certain products, etc.).

Under such circumstances, the holders of loans can make an allowance for a normal share of non-performance in the form of bad loan provisions, or they may spread the risk by taking out insurance. The problem of non- performing loans is widespread. Nishimura, Kazuhito, and Yukiko, (2001) state that one of the underlying causes of Japan has prolonged economic stagnation is the non-performing or bad loan problem. They explained that some of the loans made to companies and industries by financial institutions during the bubble era became non-performing when the bubble burst. This delayed structural reforms and prevented the financial intermediary system from functioning properly. Most of the defaults arose from poor management procedures, loan diversion and unwillingness to repay loans, Kohansal and Mansoori (2009). According to them a number of factors can cause loan defaults some of which are: Interest rate ceilings usually imposed by the government, monopoly power in credit markets often exercised by informal lenders, large transaction costs incurred by borrowers in applying for loans, moral hazard problems and many more. From the findings of the study conducted by Warue (2012) in Kenya, most cases of loan delinquency are caused by microfinance institutions and self-help groups' management failure to efficiently manage specific factors which are considered to be within the direct control of the MFIs' and Self Help Groups' (SHGs') management. The external factors outside the direct control of the MFIs' and SHGs' management seem to contribute little to the levels of delinquent loans. Therefore, for effective management of delinquency, it is critical for MFIs to understand and focus more on the internal causes of delinquency which they have more control over and seek practical and achievable solutions to redress these problems.

The upheaval that hit mainstream financial markets and the effects that continue to be felt across the globe from the resulting economic crisis effected MFIs and their clients. The early stages of the downturn saw MFIs experience significant liquidity shortages, but as the capital markets recovered, concerns turned from funding to asset quality (CGAP, 1999). This scenario points to links between external factors and loan delinquency. The relationship between the macroeconomic environment and loan quality has been investigated in the literature linking the phase of the business cycle with lending institutions stability. For instance, Fofack (2005) studied causal analyses and macroeconomic implication on loan default in Sub-Saharan countries. Fofack (2005) showed that, macroeconomic stability and economic growth are associated with a declining level of default; whereas adverse macroeconomic shocks coupled with higher cost of capital and lower interest margins are associated with a rising scope of nonperforming loans. The findings of Waweru & Kalani (2009) indicated that some of the causes of non- performing loans in Kenyan banks were national economic downturn, reduced consumer buying ability and legal issues. The study appreciates that the nonperforming loan and loan delinquency concepts are similar. Inadequate financial analysis according to Sheila (2011) is another cause of loan default.

This is when in the loans department the officers do not take a careful study of the applicants to ensure that he/she has a sound financial base such that the risk of loss was mitigated in case of default. Sheila (2011) also points out that in Uganda; the issue of inadequate loan support is another cause of loan default. He says that it is very important that the loan personnel collectively ascertain the position in which the loanee finds himself/herself so that in case he needs support, it has availed to him or her. Unfortunately, that is not the case even when the support was given it is not adequate which leaves the business crumbling and hence leading to default. The research also pointed out that illiteracy and inadequate skills was another cause of default. Majority of the clients are engaged in traditional, low paying businesses and rarely diversify their businesses and skills.

This implies that they do not have enough knowledge about alternative marketable skills that can benefit them when their businesses do not function properly. Secondly, most of them do not know how to read, write and make simple calculations. As a result, they do not know how to account for their businesses even when the lender makes an error, the borrowers were held liable to the loan. Again, disappearance of loan clients was seen as another cause. Poor business practice is yet another cause. Kasozi (1998) was of the view that, there are weaknesses of the borrower over which the lender has little control. Management of the business is also an essential part that needs to be emphasized. You find that many borrowers lack the technical skills like keeping records and checking on the business performance until the time of paying back the loan. This is usually hard because they never plough back the profits leading to loan default in the long run. Competitive factors cause loan losses and default according to the study. This is occurring when because of existence of many banks/MFIs being involved in the business of lending; it becomes difficult to attract customers so the MFIs even go to the extent of not asking for adequate collateral just have borrowers. Moreover, this has led to many of the people's property being confiscated. Some of the factors that lead to loan default include; inadequate or non-monitoring of micro and small enterprises by banks, delays by banks in processing and disbursement of loans, diversion of funds, over-concentration of decision-making, where all loans are required by some banks to be sanctioned by Area/Head Offices (Bichanger and Aseya, 2013). The study conducted by Nguta, and Guya (2013) in Kenya showed that one of the causes of loan default is the characteristic of the business. It was revealed that high cases of default of loan repayment were common (67.9%) in the manufacturing sector.

This was followed by the service industry (64.0%) then by the agriculture (58.3%). The trade sector recorded the least (34.9%) cases of loan repayment defaults. This could be attributed to the observation that trade industry deals in fast moving products on high demand, which could translate into good business performance and increased revenue that accounts for low default cases. Among businesses that had been in operation for less than two years, 52.4% had defaulted in loan repayment, 44.2% of those that had been in operation for a period of between two and five years had defaulted. It was noted that the highest (78.6%) default cases were regular in businesses that had been in operation for a period of between five and ten years. Loan repayment defaults were rare (0.0%) in business that had survived for more than 10 years. In addition, the businesses located within the municipality had high loan repayment default rates (55.7%) as compared to business outside municipality. Businesses making monthly profits of below Kshs. 10,000 had the highest cases (62.8%) of loan repayment default followed by those that made profits of between Kshs. 11,000 and Kshs. 50, 000 (42.5%). There were 22.7% cases of loan repayment default among businesses that made profits of between Kshs. 51,000 and Kshs. 100,000. Loan repayment default among businesses that made profits of over 100,000 was minimal.

2.1.5 Measures to control Loan Default

Kohansal and Mansoori (2009) were of the view that, lenders devise various institutional mechanisms aimed at reducing the risk of loan default. These include assuring of collateral, third-party credit guarantee, use of credit rating and collection agencies, etc.). Kay Associates Limited (2005) cited by Aballey (2009) states that bad loans could be restricted by ensuring that loans were made to only borrowers who are likely to be able to repay, and who are unlikely to become insolvent. Credit analysis of potential borrowers should be carried out in order to judge the credit risk with the borrower and to reach a lending decision. Loan repayments should be monitored and whenever a customer defaults action should be taken. Thus, banks should avoid loans to risky customers, monitor loan repayments and renegotiate loans when customers get into difficulties (Ameyaw-Amankwah, 2011). MFIs need a monitoring system that highlights repayment problems clearly and quickly, so that loan officers and their supervisors can focus on delinquency before it gets out of hand (Warue, 2012). Sheila, (2011) is of the view that proper and adequate appraisal is key to controlling or minimizing default.

This is the basic stage in the lending process. According to Anjichi (1994), the appraisal stage is the heart of a high quality portfolio. This includes diagnosing of the business as well as the borrower. Before beginning the process of collecting information on the client for determining credit limits, the loan officer should have specific information available, which will guarantee that the data and figures provided by the client will have a pro-margin error (Sheila, 2011). The majority of the information was obtained by the loan officer through direct interaction with the client in such a way that each loan analysis provides valuable insights for evaluating the application for the future client. However, most clients withhold a great deal of information making the evaluation a difficult and unreliable exercise. Furthermore, the loan officer should visit the home or the work place of the client with the main objective of determining whether the client needs the loan program or not.

This information will help the loan officer to assess the ability to effectively utilize the loan. Hunte (1996) observed that the time to assess the applicant's creditworthiness also matters. He argues that the longer it takes to assess the applicant, the better.

This is because he believes that a shorter time is not enough to fully assess the applicant. This is in agreement with Bigambah (1997) who contends that it is necessary to analyse the client before a loan issued; the applicant has to be screened to assess his or her creditworthiness. That is the ability to repay the loan, the business, and the guarantee to secure the repayment of the loan. Bigambah (1997) observed that the loan default in Uganda has identified loan appraisal as the key factor. In a number of cases, the information received was not verified; in some cases, the information received is doctored or falsified.

It must therefore be emphasized that credit risk analysis is another important element in loan appraisal. When lending out money, the lender should consider the borrowing proposition and subsequent repayment in isolation from security. It should be noted that, the borrower should be screened basing on the future and the past. Lending should be based on capital, character, capability, purpose, amount, repayment, term and security. Basing on the knowledge above, the lender should investigate on the customer's record, ability and experience. Security tends to come towards the end and is considered only after the borrowing proposition has met the criteria. This process of appraising the client will help the officer to assess the ability of the borrower to utilize the loan effectively. Furthermore, the loan officer will be able to predict the likely changes or effect on the business for which the money was being lent out. Another stage in the lending process, which is critical to minimizing default, is the disbursement stage according to Sheila (2011).

This stage was regarded as the most demanding to borrowers, which often times leads to failure to meet their loan obligations. This is because most of the financial institutions take long to disburse funds to successful applicants. This affects the borrowers in that they take long to buy inputs needed to carry out their activities hence end up spending it unnecessarily. The most affected are those involved in the agricultural sector because their activities are usually in line with the prevailing weather conditions. If the people involved in the agricultural sector receive the loan late, this will delay the planting season hence they end up not making any profit in time or may yield less as a result they are not able to pay their loans in time. To control default MFIs should also carefully examine the monitoring and control stage in the lending process (Sheila, 2011). Anjichi (1994) lamented that, many of the agonies and frustrations of slow and distressed credits could be avoided by good loan supervision, which helps in keeping a good loan. This was done by visiting the borrowers' premises to investigate the general state of affairs, checking on the state of borrowers' morale and physical stock of finished goods. The general business policy and advice are considered.

If the MFI is sensitive to business development, it can revise its own credit policies and loan procedures as well as advising its customers. It can also monitor the disbursed loans by the use of loan tracking sheets, checking the amount deposited and the remaining balance of the borrowers. He further says that early recognition of the loan default is crucial, and therefore tries to give guidelines on managing loan losses. These guidelines include immediate recognition of non-performing loans, re-appraising the borrowers' financial positions in respect to the market share and extending of payment period where necessary. Sawyer (1998) noted that it is essential for the lender to take an active interest in the borrower and monitor his continuing ability to repay the debt. On monitoring, the lender should focus on the actual sales per month and compare with the monthly budget and reasons for any variance. This regular touch with the borrower will enable the lender to receive early warning of any problem. Bigambah (1997) observed that the frequent visits help to ensure that the client is maintaining the business and intend to repay the loan.

The frequent visits allow the loan officer to understand the client's business and appropriateness of the loan term (amounts, frequency of repayments and repayment period) otherwise; the chances of loan default to occur are high. Mugisha (1995) asserts that non-performing loans in Uganda are usually as observable a result of weak banking systems. He says that lending institutions in Uganda lack enough skilled loan personnel, which become hard to make a follow up of the loan applicants hence they end up defaulting. According to Warue (2012) Microfinance institutions regulators, credit referencing bureau and MFIs policy makers have to be wary about increasing loan delinquency in the industry and put in place appropriate management strategies to mitigate portfolio at risks. In addition, MFIs management should regularly review credit risk techniques used and expand loan-monitoring framework among Self Help Group (SHGs) for effective credit portfolio assessment. Further SHGs management should strengthen group solidarity to facilitate prompt loan repayment by the group members. In the view of Saloner (2007), group lending will also minimize loan default. Many microfinance institutions borrow in groups and choose to lend to groups of borrowers rather than on an individual basis.

As opposed to ROSCAs, the microfinance institutions provide the loans so that the borrowers are not limited to the money that they themselves can contribute. The general organization of group lending consists of a group of borrowers who work together, support, and mentor one another to maximize the effect that the loan can have on each individual. Additionally, in many group-lending situations, the members of the group are responsible for selecting new members and for the timely repayment by other members, known as joint liability. As a result, group lending tends to lead to superior performance by the borrowers in operating their businesses and better rates of loan repayment. Several studies have been performed on the group lending aspect of microfinance, and most research shows it to be an effective method. Woolcock (2001) builds on the theory that group lending leads to improved performance by the borrowers. He explains that in additional to the support and guidance from the group, there is also a strong incentive for each individual to operate effectively due to one's personal reputation within the group. Furthermore, since groups generally are formed of members from the same village or community, repaying loans on time and in full affects a borrowers standing within the community at large, not limited to the lending group. However, while this social effect can produce positive outcomes for the microfinance institutions, some researchers believe that it can lead to an unhealthy social environment. Islam (1995) examines the effect of lending groups from the perspective of the microfinance institutions.

His study finds that group lending provides a strong system of peer monitoring, which in turn provides the institutions with the ability to be more flexible with their finances, either charging lower rates than other lenders or charging the same rate and receiving higher rates of repayment with lower risks. Although most of the research on joint lending finds positive effects, an empirical study of microfinance institutions and borrowers in Thailand concluded that, contrary to conventional understanding, joint lending does not have a significant effect, either positive or negative, on the repayment of loans (Kaboski and Townsend 2005).

The consensus in the literature on group lending and group liability is that group lending benefits both the borrowers and the institutions. The borrowers receive the additional support and assistance from a group of individuals dealing with the same types of issues. Furthermore, the institutions are able to lower costs by relying on the lending groups to provide these services that otherwise would be required from the institution itself. Group lending also works to move institutions into a more client-led realm, which has proven to be more effective in creating sustainable development programs.

2.2 History of Microfinance

Bornstein (1996) cited in (Zeller and Meyer, 2002) stated that Professor Mohammad Yunus, a Bangladesh, addressed the banking problem faced by poor villagers in southern Bangladesh through a program of action research. With his graduate students at Chittagong University, he designed an experimental credit program to serve the villagers. The program spread rapidly to hundreds of villages. Through a special experimental relationship with local commercial banks, he disbursed and recovered thousands of loans, but the bankers refused to take over the project at the end of the pilot phase. They feared it was too expensive andA risky in spite of its success (Zeller and Meyer, 2002). When we see the condition of most microfinance clients, giving loans for them seems risky. Because getting the money back JBAS Vol.6 No. 1 June 2014 7
From the borrower needs special follow up and the absence of collateral for lending aggravate the fear?

2.3 Microfinance institutions in Ethiopia

The development of microfinance institutions in Ethiopia is a recent phenomenon. The proclamation, which provides for the establishment of microfinance institutions, was issued in July 1996. Since then, various microfinance institutions have legally been registered and started delivering microfinance services (Wolday, 2000). The number of micro finance institutions as well as the number of clients is increasing from time to time. The existing political and economic condition of the country contributes a lot for the development of the microfinance industry. According to Getaneh (2005) the Licensing and Supervision of Microfinance Institution Proclamation of the government encouraged the spread of Microfinance Institutions (MFIs) in both rural and urban areas as it authorized them, among other things, to legally accept deposits from the general public (hence diversify sources of funds), to draw and accept drafts, and to manage funds for the micro financing business.

In this case, some MFIs have strong capacity to serve a large number of clients by using their financial and geographical advantage. These three institutions take more than 50% of the market share. This means they are reaching and serving many poor in their areas.

2.4 The need for Microfinance

Microfinance institutions play many roles in the development process. The need for microfinance is also increasing in many countries. According to (Parker et al., 2000), in the right environments, microfinance accomplish many roles such as financer people's economic choices, diversifying household income, making household less vulnerable to downturn in the economy or personal, smoothening income flows of the household, improve quality of life throughout the year and strengthen the economic position of women so that they can take greater control of decisions and events in their lives. In addition to this MF contributes in the process of household asset building. It also provides savings service, allowing poor households to accumulate safe, but flexible cash accounts to draw on when needed.

Microfinance services lead to women empowerment by positively influencing women's decision-making power at household level and their overall socioeconomic status. By the end of 2000, microfinance services had reached over 79 million of the poorest of the world. As such, microfinance has the potential to make a significant contribution to gender equality and promote sustainable livelihood and better working condition for women (Noreen, 2011). According to United Nations Millennium Development Goal (MDGs) microfinance is a strategy to change the life of the poor people in terms of generating revenue to cover the necessary cost and institutions meet the demand (United Nation, 2011). Micro finances support the process of development by changing the situation of the poor through facilitating small Loan for Urban and Rural Poor.

2.5 Theoretical Literature Review

2.5.1Moral Hazard Theory

Moral hazard is a consequence of concealment of crucial information pertaining to a transaction such as a lending and borrowing transaction. According to Wangai (2014), Moral hazard refers the risk in which a party to a transaction provides misleading information about its assets, liabilities or credit capacity, or has an incentive to take unusual risks in a desperate attempt to earn profit before the contract settles. Usually, a party to a transaction may not enter into the contract in good faith, thus providing misleading information about its assets, liabilities or credit capacity. Information from such transactions is vital for the efficiency of financial institutions on which the economic growth rate is dependent. According to Marcello (2003), moral hazard has led to the substantial accumulation of NPLs and the financial systems themselves depend on accurate information about borrowers and the project the funds are used for. The "moral hazard "hypothesis, which was discussed by Keeton and Morris (1987) in their study of why banks' loan losses differ., argued that banks with the relatively low capital respond to moral hazard incentives by increasing the riskiness of their loan portfolio, which in tum results in higher non-performing loans on average in the future. Banks that tend to take more risks, including in the form of excess lending eventually absorbed higher losses and excess loss rates were prominent among banks that had relatively low equity to-assets ratio. Morris (1996) stated that the accumulation of NPLs is generally attributable to a number of factors, including economic downturn, macroeconomic volatility, and terms of trade deterioration, high interest rate and excessive reliance on overly high-priced inter-bank borrowings, insider borrowing and moral hazard.

2.6 Empirical Literature Review

Several studies have been done on the impacts and causes of loan default in MFIs. In a study done by Maina and Kalui (2014) where they assessed institutional factors contributing to loan defaulting in MFIs in Kenya. The study used primary data. The study target population compromise 59 MFIs. A descriptive survey design was used to carry out a census of 59-microfinance institution in Kenya, this is because of the small size population. The data was collected through a structured questionnaire and administered to MFIs loan officers for response. A total of 48 questionnaires were administered of which 45 were adequately respondent to and considered for analysis, this formed 94% response rate. The findings indicated that all the three factors tested had a significant impact on the loan default rate which are credit policies, loan recovery procedures, and loan appraisal process that are viewed as critical drivers of loan.

Delinquency occurrence. Bichanga and Aseyo (2013) conducted a study on the causes of loan default within MFIs in Kenya. They used a target population comprised a total of 400 loan borrowers and 200 MFIs out of which a sample of 150 was picked using simple random sampling for each stratum. The data was collected by use of structured and semi-structured questionnaire. The data was analyzed from questionnaires using both quantitative and qualitative techniques and tabulated by use of frequency tables. The study found out that loan repayment default was as result of non-supervision of borrowers by the MFIs, and because of inadequate training of borrowers on utilization of loan funds before they received loans. The findings also revealed that most borrowers did not spend the loan amount on intended and agreed projects. Another study done by Mpogole, H et al (2012), where he assessed multiple borrowing and its effect on loan repayment among clients and sustainability of MFIs in Iringa municipality in Tanzania. A sample of 250 micro finance clients from 6 MFIs at Iringa municipality was included in the survey. The six MFIs were BRAC Tanzania, FINCA, 25 PRIDE Tanzania, IDYDC, MBF, and Presidential Trust Fund (PTF). Results showed that prevalence of multiple borrowing at Iringa in Tanzania was very high. Over 70% of the 250 microfinance clients had at least two loans from different MFIs at the same time. In addition, about 16% had also borrowed from individual lenders. Major reasons for multiple borrowing were insufficient loans from MFIs, loan recycling, and family obligations. Over 70% of the respondents had problems in loan repayment because of multiple pending loans. They also found that education level and number of dependents of the respondent significantly influenced the number of loan contracts

2.6.1 Effect of Loan Default on Micro Finance Institution

The financial performance of banking institutions is measured in terms of profitability and NPLs have a direct adverse effect on that profitability. As stated earlier the loan portfolio forms the greatest asset of a microfinance institution. Revenues of MFIs depend on lending and as a result, the financial performance and success of MFIs depend on how effectively lending activities were managed because the revenue (interest income) was usually generated from performing loans. Among the studied effects, one effect of delinquent loans on the institutions is paramount, limitation on Financial Performance. The provisions for delinquent loans reduce total loan portfolio of banks and consequently reduce the interest earnings on such assets. (Bismark, 2015). According to Kwan (2003), in his study of the Operating Performance of Banks among Asian

Economies empirically reveals, using regression analysis that an increased delinquent loans negatively influence earnings on loans. According to Achou (2007). NPL ratio has an inverse relationship with MFIs ' profitability. An increase in NPLs rate is evidence of the failure of credit and according to Khemraj (2009), high percentages NPLs are often associated with performance problems of banks and financial crises in both developing and developed countries.

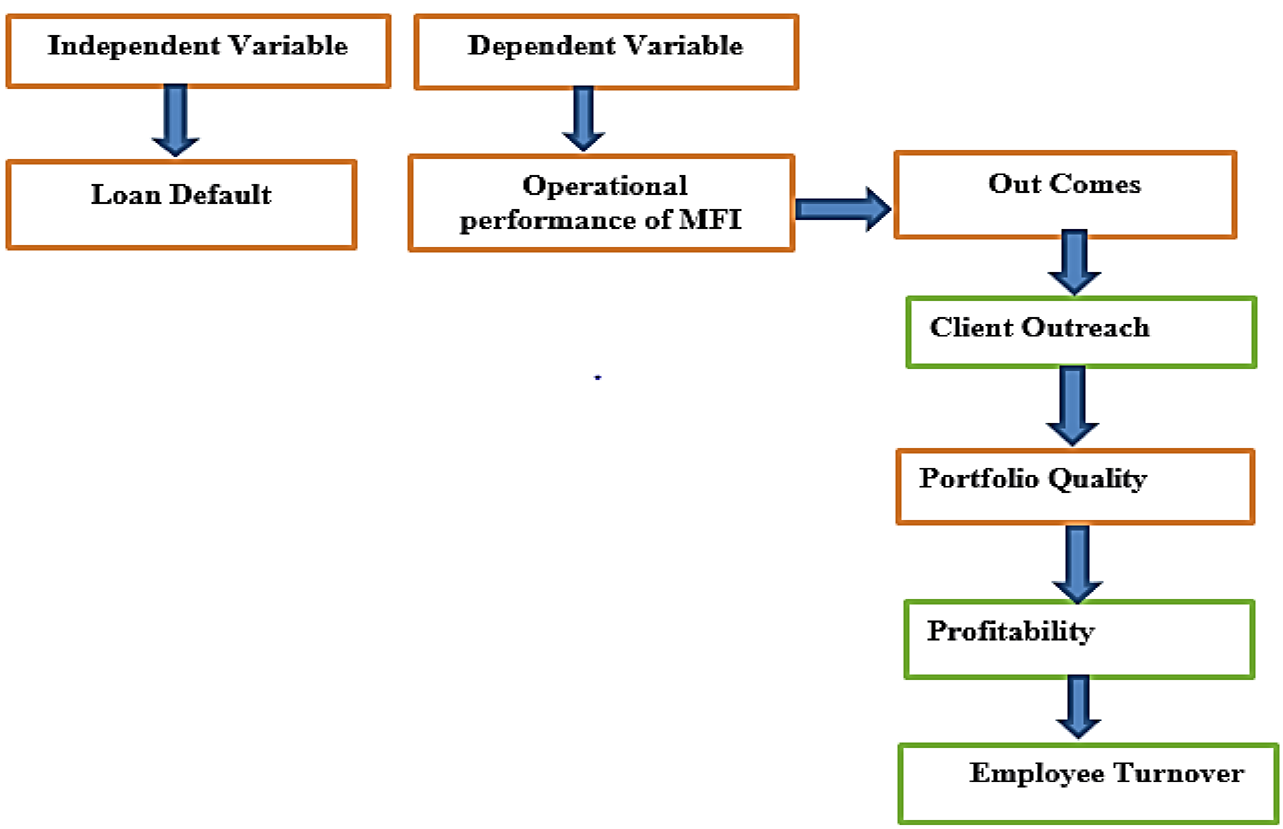
The occurrence of MFIs crises with a massive accumulation of NPLs and further observes that the NPLs account for a significant portion of total assets of insolvent banks and financial institutions. (Fofack, 2005) Many banks in the Central, Eastern, and South-Eastern Europe (CESEE) region experienced a rapid deterioration in assets ' quality, leading to substantial losses and reduction of capital buffers. The fast increase in NPLs not only increased banks' vulnerability to further shocks but also limited their lending operations with broader repercussions for economic activity (Klein, 2013). In the 2012 study with the objective of examining the determinants of commercial banks ' performance in Tanzania Xuezhi (2012) revealed that liquidity and asset quality had positive effect, whilst NPLs had a negative influence on profitability. The Government of Tanzania embarked on financial sector reforms in 1991 with the aim of creating an effective and efficient financial system. The main and most notable reforms in Tanzania's financial sector included liberalization of interest rates, elimination of administrative credit allocation, strengthening the Bank of Tanzania's role in regulating and supervising financial institutions, restructuring of state-owned financial institutions, and allowing the entry of local and private banks into the market. These elements of the financial sector reform were embodied in the Banking and Financial Institutions Act of 1991. (Bikki, 2003) Bikki (2003) also states that the microfinance institutions in Tanzania face the major risk of loan delinquency and as precaution; banks face a major disincentive to comply with Bank of Tanzania prudential standards and internationally accepted sound banking practice by setting aside adequate reserves to protect against anticipated loan delinquencies. Reserves for delinquent loans are usually included as an item to be expensed in a bank's income statement, which would reduce its net operating profits and taxable income. In Kenya Wangai (2014) carried out a study in Nakuru (Kenya) to find out the Effect of Non-Performing Loans on Financial Performance of Microfinance Banks in Kenya: A Survey of Microfinance Banks in Nakuru Town, the results established that credit risk reverse the profitability of MFIs due to increment in NPLs and as such reduces the MFIs financial performance. Failing banks have huge amount of non-performing loans prior to failure and that asset quality is a significant predictor of insolvency (Allen, 1997)

2.7 Conceptual frame work

2.7.1 Variables

An **independent variable** is defining as the **variable** that is changed or controlled in a scientific **experiment Independent variables** are the **variables** that the experimenter changes to test their **dependent variable**. A change in the **independent variable** directly causes a change in the **dependent variable**.

The **dependent variable** is the **variable** that is being measured or tested in the research. For example, in a **study** looking at how tutoring effects test scores, the **dependent variable** would be the participants' test scores, since that is what is being measured



CHAPTER THREE

3 Methodology

3.1 Introduction

This chapter describes the methodology used in order to conduct the study. It describes the types of methods that are used for data collection, analysis, and the reasons for why these methods were chosen in comparison to the other alternative methods. The chapter consists of five sections. The first section presents the research approach and the next section is research design of the study. The third section outlines the population and sampling techniques for this study. The forth and the fifth sections present the data collection instruments and data analysis methods respectively.

3.2 Research Approach

Three research approaches are available. Those are qualitative, quantitative and mixed the hybrid of the quantitative and qualitative approach. The quantitative approach is for only number matters or for specific and only one answer whereas the qualitative deals with subjective matters. Hence, each individually limits the research to meet the expected result. However, according to Creswell (2009) the mixed research approach uses separate quantitative and qualitative methods as a means to offset the weaknesses inherent within one method with the strengths of the other method. By considering and convinced by the scholars the researcher wants to use both the quantitative and qualitative research approach, which is the concurrent mixed approach.

3.3 Research Design

There are four research-designing techniques. Those are explanatory, descriptive, exploratory and evaluation research design. From the four the researcher wants to use Explanatory and a descriptive method of research design, which helps to Explain, and describe the major findings of the study by taking the research questionnaire and secondary data into consideration. Therefore; the study is a quantitative, qualitative and descriptive approach.

3.4 Population and Sampling Methods

There are above Thirty Two Branches in PEACE Micro Finance S.Co and the population the researcher want to focus on is the employees of PEACE Micro Finance S.Co they are the people who are directly Participate on the performance of MFIs and for the Improvement of the assessment of Loan default on operational performance in PEACE Micro Finance S.Co it could be measured by the organizational members who run the operation of the Company. The researcher would have conducted interviews to the most of the employees of microfinance those who involves in the operational performance. The questionnaires there for represent While sampling, questionnaires supposed that they will have the knowledge on the research issue. The researcher has decided to use census because there are currently only 341 Employees out of which 199 employees are service staff those there is no directly connection with the performance of the company and there are 142 active working in PEACE Microfinance S.Co because of this reasons the population selected for research objective were all active employees of PEACE Microfinance S.Co it was the most effective in situations where there are only a restricted number of people in a population who own qualities that a researcher expects from the target population. Researchers prefer to implement census when they feel that other sampling techniques will consume more time and that they have confidence in their knowledge to select a sample for conducting research.

3.5 Data and Collection Instruments

The researcher use both primary and secondary data for the research. The primary data was considered as a major source of information as it directly gathered from the questionnaires through interviews. On the other hand, the researcher uses The Financial Report, articles in the web sites and other published & unpublished materials for the research. Furthermore, previous research works (Directly or indirectly related with the research.

3.5.1 Data Collection Procedure

This study collected quantitative data using a self-administered questionnaire and secondary data from records at the PEACE Micro finance institution. The researcher informed the respondents that the instruments being administered were for research purpose only and the responses from the respondents would be kept secret and confidential. The researcher obtained an introductory letter from the University to collect data from the organization then personally delivered the questionnaires to the respondents and had them filled in and then collected later: the drop and pick later method.

3.5.2 Data Analysis

Data analysis would be engaged after all data has been collected. The type of data analysis tool that would be use dependent on the type of data that is quantitative (Walsh &Wigens, 2003).

CHAPTER FOUR.

4. Presentation, Analysis and interpret of results and findings

4.1 Introduction

In this section, the data was collected through questionnaires and interviews were presented using different tables and Figure. The presented analysis data were also interpreted by the researcher.as stated on the research methodology, questionnaires were distributed to 142 employees which were directly or indirectly connected with operational performance of PEACE Microfinance S. Co that were selected by judgmental sampling method out of the total 142 employees of the institution all were fully filled and returned which makes the response rate to be 100%. The data was collected and analyzed in order to assess the effect of default loan on operational performance of Microfinance in the cases of PEACE MF S.C. The data collected from employees through questionnaire was analyzed and presented using tables followed by its interpretation based on the responses of the respondents mean and standard deviation taken into consideration Rule of thumb.

1.0-1.80	strongly disagree
1.81-2.60	Disagree
2.61-3.40	Neutral
3.41-4.20	Agree
4.21-5	Strongly agree

Source (Bhattacherjee, 2012)

4.2 Demographic characteristic of respondents

The study found that 9.9% of the respondents are below 25 years, 33.1% of respondents are aged between 26 to 35 while the majority that is 39.1% of MF's respondent aged between 46 to 45 years and 17.6 % of them are aged. The study found that gender distribution of the respondents showed that male customers represented 74.4% Percent of the entire population of 142 and 26.6% percent represented female employees. The study found that the work experience of the respondents showed that Below 1 year 1.4%, from 1-2 years 28.9% and above three years 69.7% Percent of the entire population of 142 and more of the respondents were above three years' experience and they have enough experience in microfinance institution answer the given surveys. The study found out that Educational level of the respondents showed that First Degree holders are 58.5% Percent of the entire of respondent, Diploma holders and below are 35.2, Second Degree holders are 6.3%

respectively out of one hundred forty-two respondents and respondents were well equipped by education and have enough knowledge of the microfinance performance to answer the survey Conceder the table below.

Table 1: The Demographic Characteristics of Respondents

Demographic characteristics of respondents

S/No	Discerption	Frequency	Percent
1	**Age of Respondent**		
	Below and 25 years	14	9.9%
	26-35	47	33.1%
	36-45	56	39.4%
	46-55	25	17.6%
2	**Gender**		
	Male	107	75.4%
	Female	35	24.6%
3	**Work Experience**		
	Below 1 years	2	1.4%
	1-2 years	41	28.9%
	Above 3 years	99	69.7%
4	**Educational Level**		
	Diploma and Below	50	35.2%
	Bachelor	83	58.5%
	Master	9	6.3%

4.3. The Factors Responsible for Loan Default by Clients of Microfinance Institutions

The factor responsible, for loan default by the clients of microfinance institution in the case of PEACE Microfinance S,Co summarized through descriptive statistics as follows

Descriptive statistics is a method of summarizing and analyzing a data set. Looking at the data provided, the mean and standard deviation for each factor affecting loan default have been calculated. The main factor of default in Microfinance is the borrowing clients, with a mean of 3.11 and a standard deviation of 1.449 based on the respondent's level of agreement and the thumb's standard the main factor of loan default was not group borrowing clients and it shows that group borrowing was pay their loan base on the schedule because of high peer pressure. There is an increasing trend of loan default in PEACE MF S.Co, with a mean of 3.42 and a standard deviation of 1.445 the respondents were agree that there were increasing trend of loan default in PEACE MF S.Co and as the seconder data collected also shows the fact that there were increasing trend of loan default in the institution. Conversely, there is a decreasing trend of loan default in PEACE MF S.Co, with a mean of 2.42 and a standard deviation of 1.296. the respondents concluded that there were no deceasing trend of loan default in PEACE MF S.Co from year to year it shows the increasing rather than decreasing. Unwillingness to pay the loan is the main factor that affects the health of the loan portfolio by the borrower (clients) of the institution, with a mean of 3.78 and a standard deviation of 1.046 based on the respondent's argument unwillingness to pay loan borrowers were the main factor that affects the health of portfolio in PEACE MF S.Co and it strongly hurt the overall portfolio health of the institution The major causes of loan default are both internal and external factors, with a mean of 3.80 and a standard deviation of 0.896 based on the respondent's level of agreement the major cusses of loan default was both internal and external factor internally when there were no strong internal control on loan disbursement and lack of restrict flow up results in high default and externally when there were climate change, market fluctuation. Multiple loans to clients increase the chances of the loan becoming delinquent, with a mean of 3.85 and a standard deviation of 1.038 the respondents agree that multiple loans to clients increase chance of the loan becoming in default this implies that when the borrowers were taken loan from different Microfinance and other creditors it affects the repayment capacity the clients. Diversion of loan purpose by clients is a key factor in increasing the level of delinquency, with a mean of 3.74 and a standard deviation of 0.973 the respondents were reveal that diversion of loan purpose by clients was a key factor in increasing the level of delinquency when the borrowers change their loan purpose the loan amount was not expended for the planed purpose and finally it results in loan default. A client's awareness of loan delinquency will affect their decision to repay or not, with a mean of 3.83 and a standard deviation of 0.945 based on the respondent's level of agreement lack of awareness about default contributes on their decision to repay or not in other words failure to well aware the clients by the creditors organization results in higher loan default. Finally, bankruptcy and insolvency decrease the probability of business-increased level of loan delinquency, with a mean of 3.91 and a standard deviation of 1.078 according to the agreement bankruptcy and insolvency of the borrowing clients were contribute high default rate because of liquidity constraint due to bankruptcy and insolvency, so the creditors Microfinance should be take care of the borrowing business sustainability and continuity.

Generally

Finally, the descriptive statistics of loan default factors. Provided the mean and standard deviation for each factor, including the main factor being borrowing clients with a mean of 3.11 and a standard deviation of 1.449. Unwillingness to pay the loan is the main factor affecting the health of the loan portfolio with a mean of 3.78 and a standard deviation of 1.046. The major causes of loan default are both internal and external factors with a mean of 3.80 and a standard deviation of 0.896. The study also notes that bankruptcy and insolvency decrease the probability of business-increased level of loan default with a mean of 3.91 and a standard deviation of 1. 078. The study also notes that the main factor of default is borrowing clients, and their unwillingness to pay affects the health of the loan portfolio. Additionally, bankruptcy and insolvency decrease the probability of business and increase the level of loan default. Conceder the table 5 below

Table 2. The Factors Responsible for Loan Default by Clients of Microfinance Institutions

Descriptive Statistics

The factors responsible for loan default by clients of microfinance institutions	Mean	Std. Deviation
The main factor of default in Microfinance is the borrowing Clients	3.11	1.449
There is an increasing trend of loan default in PEACE MF S.Co	3.42	1.445
There is a decreasing trend of loan default in PEACE MF S.CO	2.42	1.296
There is a constant trend of loan default in PEACE MF S.Co	2.35	.932
Unwillingness to pay the loan is the main factor that affects the health of the loan portfolio by the borrower (clients) of the institution	3.78	1.046
The major causes of loan default are internal factors	3.96	1.075
The major causes of loan default are external factors	2.85	1.450
The major causes of loan default are Both internal and external factors	3.80	.896
Multiple Loan to the clients increases the chances of the loan becoming delinquent	3.85	1.038
Diversion of loan purpose by clients is a key factor in increasing the level of delinquency	3.74	.973
A client’s awareness of loan delinquency will affect their decision to repay or not	3.83	.945
Bankruptcy and insolvency decrease the probability of business increased level of loan delinquency	3.91	1.078

Source: Survey result 2023

4.4 The Credit Methodologies used in Loan Default Management

The given table presents the descriptive statistics for various factors contributing to loan defaulters in PEACE MF S.CO. The mean and standard deviation values are calculated for each factor. The data suggests that the major loan defaulters in PEACE MF S.CO are the group borrowers, with a mean of 3.15 and a standard deviation of 1.284 according to the respondents conclude that group were not the major loan defaulter it not mean that the borrower were fail in default at all relatively it was better than other borrowers. The individual borrowers have a lower mean value of 2.98, with a standard deviation of 1.13 based on the respondent's argument have the lower mean value that shows individual borrower were not major defaulter the individual loans were most of time have strong collaterals that protects the loan from failed into default. The MSEs Borrowers have the lowest mean value of 2.80, with a standard deviation of 1.073 according to the respondent's agreement SME loan was also not the major defaulter with the lowest mean value below thumb's rule standard and SME loan was easy to make follow up monitoring by the institution. The credit methodology followed by the company has a mean value of 3.46 and a standard deviation of 1.165, indicating that it has contributed to loan default when the institution fail follows good credit methodology it resulted in higher loan default. The character of the clients themselves could also contribute to loan default, with a mean value of 3.81 and a standard deviation of 0.922 according to the respondent concluded that the character of the clients themselves were the major causes of loan default and the institution will be deeply knowing the character of their customer to mitigate loan from failed in default. Loan processing time taken as per the client's expectation could contribute to loan default with the mean value of 3.85 and a standard deviation of 1.020 based on the arguments of the respondent long time taken in loan processing could contributes the loan default with higher mean value if the process takes long time it affects the profitability of the borrower customer and resulted in loan default. The lack of continuous loan supervision by the branch staff has a mean value of 4.09 and a standard deviation of 0.807, which suggests that it has contributed to loan default lack of restrict pre and post loan follow up also resulted in higher loan default. Poor loan portfolio management and poor credit appraisal techniques have a mean value of 4.15 and 4.23, respectively, indicating that they resulted in loan default according to the respondent's suggestion poor loan portfolio management and poor credit appraisal techniques were resulted in loan default when there were no good portfolio management. Overall, these statistics suggest that there are multiple factors contributing to loan defaulters in PEACE MF S.CO, and identifying and addressing these factors is crucial to minimizing loan default risk.

Based on the study, several factors, such as poor loan portfolio management, poor credit appraisal techniques, and lack of continuous loan supervision, have contributed to loan default. The credit methodology followed by the company has also contributed to loan default. Addressing these factors is crucial to minimizing loan default risk. Conceder the table 6 below

Table 3: The Credit Methodologies used in Loan Default Management

The credit methodologies used in loan default management	Mean	Std. Deviation
The major loan defaulters in PEACE MF S.CO are the group borrowers	3.15	1.284
The major loan defaulters in PEACE MF S.CO are the individual Borrowers	2.98	1.139
The major loan defaulters in PEACE MF S.CO is MSEs Borrowers	2.80	1.073
Who are the major loan defaulters in PEACE MF S.CO are employed, people	3.01	1.021
The credit methodology that the company follows has contributed to the loan default.	3.46	1.165
Apart from the company credit Methodology, the character of the clients themselves could contribute to loan default	3.81	.922
Loan processing time taken as per the client's expectation could contribute to loan default	3.85	1.020
The failure of branch staff to clearly identify the profitability of the client's business before they deliver the loan to them could lead to loan default	4.06	.944
The lack of continuous loan supervision by the branch staff contributed to loan default.	4.09	.807
Poor loan portfolio management leads to a greater percentage of default loans.	4.15	.982
Poor credit appraisal techniques resulted in loan default.	4.23	.794

Source: Survey 2023

4.5 Relationship between Loan Default and Microfinance Operations

The given table presents the descriptive statistics for various statements, which have relationship with loan default and its effects on the operational performance of PEACE MF S.CO. The mean and standard deviation values are calculated for each factor. The data suggests that Default can decrease the operation of the Microfinance with a mean 4.24 of and a standard deviation of 0.825 as per the suggestion the default loan have negatively hamper the operational performance of microfinance the default also hinder the profitability of MFIs by increasing loan loss provision the impact of default loan can lead to staff layoff with mean value of 3.94 with a standard deviation of .727 loan default can the negative impact on the employee of the institution. when there was loan default employee benefit such as salary increment, bonuses salary adjustment was not recolonized The existence of loan default can hamper the provision of loan to the Microfinance's loyal customers with the mean value of 4.18, with a standard deviation of 0.670 the loan default results liquidity constraint of the microfinance and hamper the loan to loyal customer which pays their own time without interrupting it. The presence of loan default leads to the decrease in profitability of the Microfinance has a mean value of 4.56 and a standard deviation of 0.821 loan default can also contribute for less profitability of MFIs by over stating loan loss provision of the fiscal period. There could a positive relationship between investors and the financial sector profitability with a mean value of 4.26 and a standard deviation of 0.905. when the profit abilities of financial institution increase need of the investors to invest were also increase since investors seek to put their money in profitable origination. Default loan can negatively affect the Morales of microfinance staff with mean value of 4.66 and a standard deviation of 0.594 loan default have is own impact on the morel of the employee by challenging their day to day performance. The Default loan is negatively affects the reputation of MFI's with mean value of 4.49 and standard deviation of 0.702 at where there was loan default in microfinance no one can believe the institution for loan borrowing from banks and from any credit organization because they doubt the payment of their obligation on timely base due to less cash flow of the default institution. The default loan Spoil the health of the MF's portfolio with mean value of 4.58 and standard deviation of 0.575 the respondents were arguing that default loan can highly hurt the overall financial and portfolio heath of the institution in other ways at there was loan default the probabilities of the overall loan portfolio the recover was very low and there is high Portfolio at risk (PAR). Default is highly affecting the growth of client out reach of Microfinance with the mean value of 4.53 and standard of 0.741 based on the suggestion of the respondent loan default highly affecting the growth of client outreach of microfinance and the loan default decrease the cash flow of the microfinance, so if there was no enough cash to disburse by Microfinance there was no growth client outreach of MFIs. and the impact of default loan results in the shortage of Loanable Fund with the mean value of 4.65 and standard deviation of 0.755 the respondents were arguing that the impact of loan default results in the shortage of loanable fund beside of the arguments of the respondents the loan default can the shortage of cash flow of the institution and results in money problems liquidity constraint fail to the obligation creditor banks respectively,

Generally, the table below shows that the mean and standard deviation of responses from 142 respondents on how loan default affects microfinance institutions (MFIs). The mean scores range from 3.94 to 4.66 out of 5, indicating that the respondents generally agree that default loans have negative effects on MFIs. The standard deviation scores range from .575 to .905, which suggests that the responses are tightly clustered around the mean. This indicates that there is a high level of agreement among the respondents regarding the negative impact of loan default on various aspects of MFIs such as operations, staff morale, portfolio health, and financial sector profitability. Conceder the table 7 below

Table 4: The Relationship between Loan Default and Microfinance Operations

Descriptive Statistics			
The Relationship between Loan default and Microfinance operations	N	Mean	Std. Deviation
Default can decrease the operation of the Microfinance.	142	4.24	.825
The impact of default can leads to staff layoff.	142	3.94	.727
The existence of loan default can hamper the provision of loan to the Microfinance’s loyal customers.	142	4.18	.670
The presence of loan default leads to the decrease in profitability of the Microfinance.	142	4.56	.821
There could a positive relationship between investors and the financial sector profitability	142	4.26	.905

The Default loan is Negatively affects the morale of MFI's Staffs.	142	4.66	.594
The Default is negative affects the reputation of MFIs.	142	4.49	.702
The default loan Spoil the health of the MF's portfolio.	142	4.58	.575
Default is highly affecting the growth of client out reach of Microfinance.	142	4.53	.741
The impact of default loan results in the shortage of Loanable Fund	142	4.65	.755

Survey Source 2023

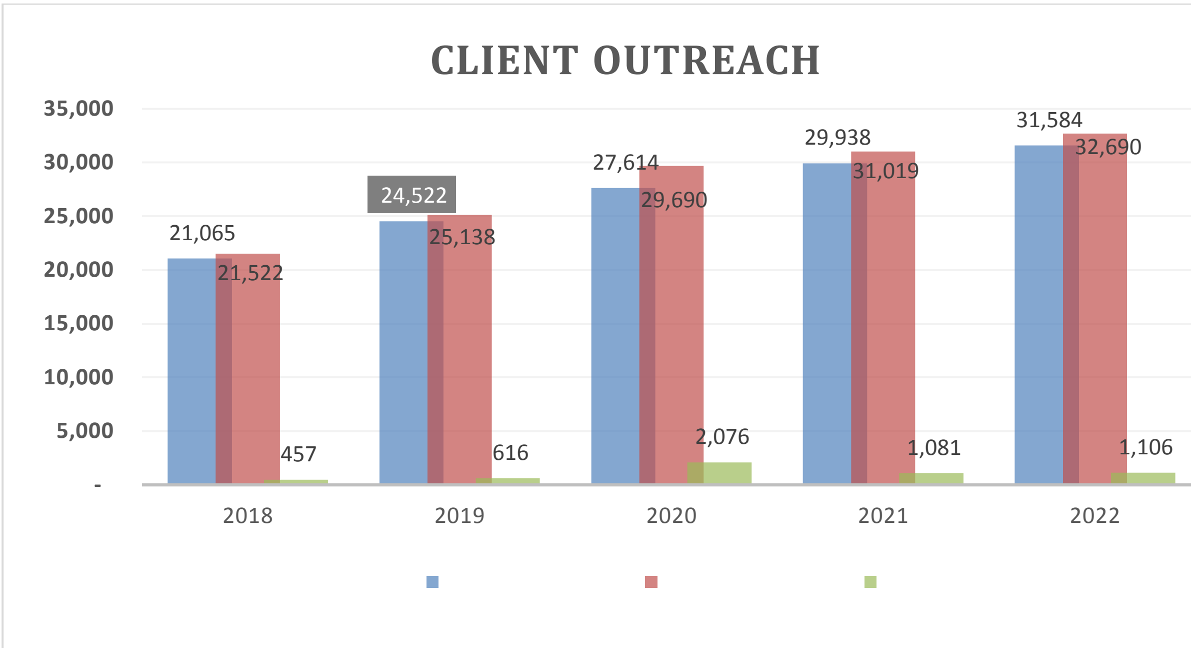
4.6 The Assessment of Loan Default on Operational Performance of PEACE MF S.CO Based on Seconder Data.

4.6.1 Client Outreach

Outreach in microfinance connected with the depth and breadth of outreach of microfinance services. Outreach is typically referred to the efforts put by MFIs in extending loans and financial services to a wider audience and extending it to the poor

one of the operational measurements of MFI is client outreach accordingly the default loan the main problems faced by MFI Which disturb the grosses of borrowing client outreach it based on seconder data the client of the PEACE MF S.CO was decreased from time to time due to the amounts of loan failed in default in different physical years and the table below shows that the changes from year June 30, 2018, to the year June 30, 2022, in the year 2018 the number of clients gets Loan were 21065 (Twenty one thousand sixty five Clients) , 24522 (Twenty four thousand five hundred twenty two Clients) , 27614 (twenty Seven thousand Six hundred fourteen clients) ,29968(Twenty Nine thousand nine hundred sixty eight) and 31,584 (Thirty one thousand five hundred eight four) respectively to the year 2022 and the origination have been considering the amount failed in default would be disbursed fully for its client based on the average loan size the number of the clients increase to 21522, 25138,29960, 31,019 and 32,690 respectively as per the figure 23 Below

Figure: 1 Clients Outreach of PEACE MF S.CO

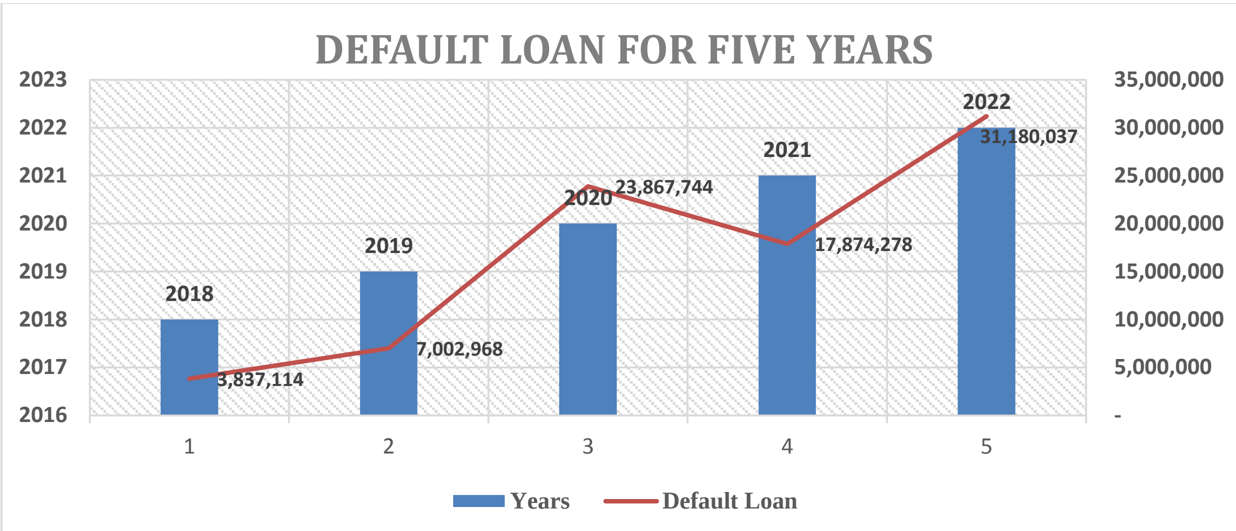


Source: - PEACE Microfinance S.Co Annual Report from 2018-2022

4.6.2 Default Loan During Five Years in PEACE MF S.CO

A delinquent loan becomes a defaulted loan when the chance of recovery becomes minimal. Delinquency is measured because it indicates an increased risk of losses, and warnings of operational problems, and may help to predict how much of the portfolio will eventually be lost because it never gets repaid. Accordingly, the researcher found that there is highly increased for the five consecutive years starting from the fiscal years June 30, 2018, to June 30, 2022, and 3,837,144 (Birr Three Million Eight Hundred Thirty-Seven Thousand One Hundred Fourteen), 7,002,968 (Birr Seven Million Two thousand Nine Hundred Sixty-Eight), 23,867,744(Birr Twenty Three million Eight Hundred Sixty-Seven Thousand Seven Hundred Forty-Four), 17,874,278 (Birr seventeen Million Eight Hundred Seventy For Thousand Two Hundred Seventy-Eight) and 31,180,0037 (Birr Thirty-One Million One Hundred Eighty Thousand Thirty-Seven) only Respectively and it show that there is the highly increasing trend from time to time as per the Figure 2 below.

Figure 2 Loan Default for Five Years

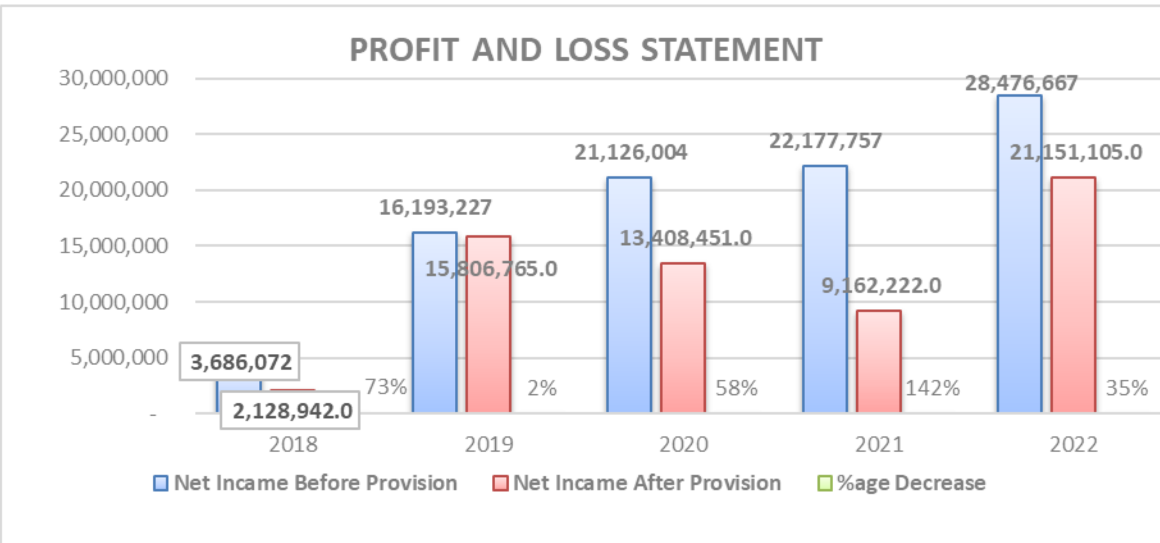


Source: - PEACE Microfinance S.Co Annual Report from 2018-2022

4.6.3 Profit and Loss Statements of PEACE MF S.CO

The profit and loss statement shows whether the organization is going on profitable and sustainable progress or not and it is also predicting the continued and existence of the organization in the business loan loss provision is the main factor which makes lower the profitability of the Microfinance sector the researcher wants to show that the impact of Loan loss provision on the profitability of PEACE MF S, CO During Five Years before it is reserved as loan loss provision and after it reserved as loan loss provision starting from June 2018 to June 2022 profit of 3,686,072 (Birr Three Million Six Hundred Eighty-Six seventy Two), 16,193,227 (Birr Sixty Million One Hundred Ninety-Three Thousand Two Hundred Twenty Seven),21,126,004 (Birr Twenty One Million One Hundred Twenty-Six Thousand Four), 22,177,757 (Birr Twenty Two Million One hundred Seventy-Seven Thousand Seven Hundred Fifty-Seven) and 28,476,667 (Birr Twenty Eight Million Four Hundred Seventy-Six thousand Six Hundred Sixty Seven) only Respectively and after Loan Loss Provision is held the profit of a similar period is decreased by reserved 2,128,942 (Birr Two Million One Hundred Twenty-Eight Thousand Nine Hundred Forty-Two),15,806,765 (Birr Fifteen Million Eight Hundred Six Thousand Seven Hundred Sixty-Five),13,408,451 (Birr Thirteen Million Four Hundred Thousand Four Hundred Fifty-one) 9,162,222 (Birr Nine Million One Hundred Sixty Two Thousand Two Hundred Twenty Two) and 21,121,105 (Birr Twenty One Million One Hundred Fifty-One Thousand One hundred Five) 0nly respectively as per Figure 3 below.

Figure: 3 Profit Loss Statement of PEACE MF S. CO

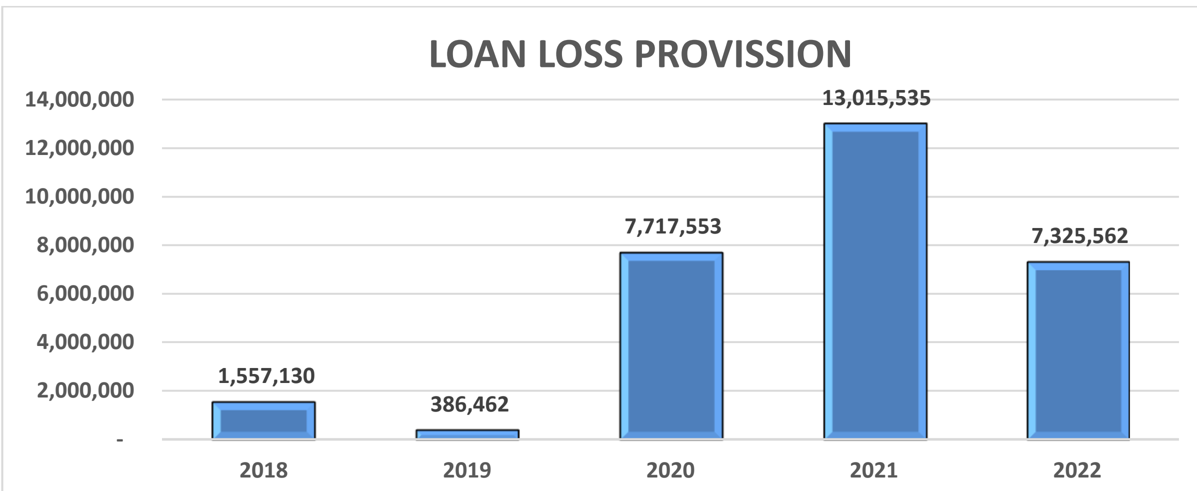


Source: - PEACE Microfinance S.Co Annual Report from 2018-2022

4.6.4 Loan Loss Provision

A loan loss provision is an income statement expense set aside as an allowance for uncollected loans and loan payments. This provision was used to cover different kinds of loan losses such as non-performing loans, customer bankruptcy, and renegotiated loans that incur lower-than-previously-estimated payments. Loan loss provisions are then added to the loan loss reserves, a balance sheet item that represents the total amount of loan losses subtracted from a company's loans and it is an income statement expense set aside to allow for uncollected loans and loan payments Micro Finances are required to account for potential loan defaults and expenses to ensure they are presenting an accurate assessment of their overall financial health By National Bank of Ethiopia(NBE) and Loan loss provisions are added to the loan loss reserves, a balance statement item showing total loan losses and The researcher wants to show the loan loss provision of PEACE MF S.CO during Five years based on seconder data starting from physical Year June30,20218 to June 30, 2022 Birr 1,557,130(Birr One Million Five Hundred Fifty-Seven Thousand One Hundred Thirty), 386,462 (Birr Three Hundred Eighty-Six Hundred Four Hundred Sixty-Two),7,717,553 (Birr Seven Million Seven Hundred Seventeen Thousand Five Hundred Fifty-Three), 13,015.535 (Birr Thirteen Million Fifteen Thousand Five Hundred Thirty-Five) and 7.325,562 (Birr Seven Million Three Hundred Twenty-Five Thousand Five Hundred Sixty-Two) only respectively as it is shown in Figure: 4 Below

Figure: 4 Loan Loss Provision of PEACE MF S.CO

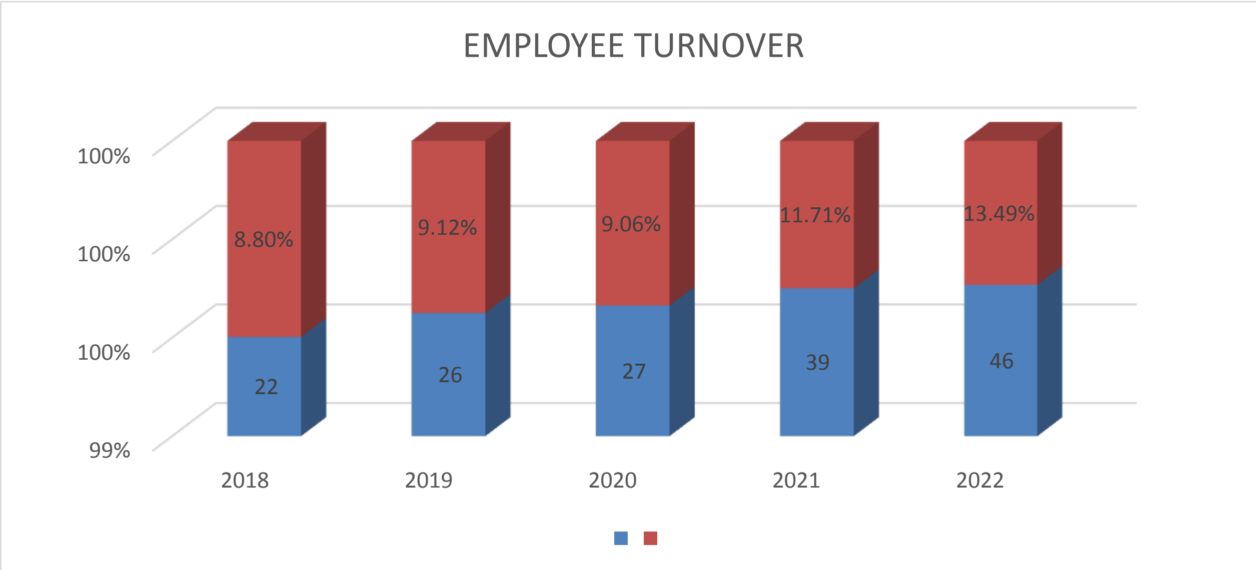


Source: - PEACE Microfinance S.Co Annual Report from 2018-2022

4.6.5 Employee Turnover

Employee turnover refers to workers parting ways with the institution or company they work for. The turnover rate, on the other hand, defines the total number of workers leaving within a certain period. One thing you should know here is that turnover is a generalized term; turnover can occur in different ways, such as demotion and deterioration of employee morale and one of the causes of negative hurts morale of employees in Microfinance is default loans The researcher wants to show that the employee turnover of PEACE MICROFINANCE S.CO During Last five starting from the Physical years June 30, 2018 to June 30, 2022 during the year 2018 22 (Twenty-Two) employees are left the institution, 2019 26 (Twenty-Six) employees are left the institution, 2020 27(Twenty-Seven) employees are Left the institution,2021 39 (Thirty-Nine) employees are left the institution and in 2022 46(Forty Six) employees are left the institution respectively and it indicates that there is increasing trend as per the figure5below

Figure 5 Employee Turnover



Source: - PEACE Microfinance S.Co Annual Report from 2018-2022

CHAPTER FIVE

5.1 Conclusions, and Recommendations

Based on the analysis of respondent agreement, the study found that the credit methodology used by the microfinance institution also played a significant role in loan defaults, with the higher mean value of 3.46 The character of the creditors themselves contributed the most to loan defaults, with the high mean value of 3.81 Other internal weaknesses of the institution, such as poor credit appraisal technique, poor portfolio management, lack of continuous follow-up, and failure to know the profitability of customers' businesses, were also identified as major causes of loan defaults. The study recommends that the institution address these internal weaknesses to reduce loan defaults.

Microfinance institutions (MFIs) are measured by their depth and breadth of outreach, which refers to the efforts made by the institution to extend loans and financial services to a wider audience, particularly the poor the loan default have been a major problem for some MFIs, affecting their client outreach and gross borrowing and according to the findings of the study PEACE Microfinance S.Co's Outreach is increasing at decreasing rate during last five years instead the loans default were accelerating from time to time the highest rate resulting in liquidity constraint which is the main sources of loanable funds for the organization for increasing its clients outreach by giving more loan to borrowers.

Based on the study. The loan default has continued to increase over the years, indicating a potential risk of losses for PEACE Microfinance S.Co. It is crucial for the institution to take corrective actions to recover the loans before they become defaulted loans, which can lead to significant financial losses. The increase in default loans may also indicate operational problems within the institution that need to be addressed.

Based on the study, it could be observed that the loan loss provision has a significant impact on the profitability of PEACE MF S, CO. Before the loan loss provision was held, the organization's profits were consistently increasing over the five-year period. However, after the loan loss provision was held, the profits decreased in each subsequent year by the amount of loan loss provision held. This indicates that the loan loss provisions has negatively affected the organization's profitability and hinder the operation of the institution.

PEACE MF S. CO's loan loss provisions for the past five years, from June 30, 2018, to June 30, 2022, show a total provision of Birr 1,557,130, Birr 386,462, Birr 7,717,553, Birr 13,015,535, and Birr 7,325,562, respectively. These provisions are added to the loan loss reserves, which is a balance sheet item that represents the total amount of loan losses subtracted from a company's loans. By accurately accounting for potential loan defaults and expenses Micro Finances can present an accurate assessment of their overall financial health, as required by the National Bank of Ethiopia (NBE). Based on the study, it can be observed that the loan default has the great impact on the employee turnover of PEACE MICROFINANCE S.CO During Last five years the `employee turnover show increasing trend 22 employees, 26 employees, 27 employees, 39 employees, and 46 employees were left the institution respectively.

5.2 Recommendation

- Therefore, the PEACE MicrofinanceS.CO should analyze the root causes of the delinquency and develop strategies to mitigate the risk of loan defaults. This can involve restructuring the loan terms, improving communication with borrowers, or even taking legal action if necessary.
- I suggest that the organization may need to reconsider its loan loss provision strategy in order to maintain sustainable profitability for year-to-year. Further analysis would be required to determine the cause of the loan loss provision and to identify potential solutions to mitigate its impact on operational performance on the organization's profitability.
- PEACE Microfinance Micro should be present an accurate assessment of their overall financial health, in order to mitigate the problems related to loan default to reduce that the reserve of loan loss provision to care the health of it overall loan portfolio as required by the National Bank of Ethiopia (NBE). According to the study, High levels of default loans in microfinance

institutions can have a negative impact on employees. This were because loan defaults can lead to financial instability and decreased profitability, which in turn can lead to downsizing, layoffs, and reduced job security for employees and increasing the employee turnover in addition, high staff turnover and client dropouts can contribute to loan default in microfinance institutions, further aggravating the problem.

- ❖ Therefore, addressing employee turnover is crucial for preventing loan default and improving financial performance in microfinance institutions.
- ❖ Based on the study, several factors, such as poor loan portfolio management, poor credit appraisal techniques, and lack of continuous loan supervision, have contributed to loan default. The credit methodology followed by the company has also contributed to loan default. Addressing these factors is crucial to minimizing loan default risk

5.3 Future Direction of Research

The study was conducted only based on data collected from PEACE Microfinance S.C which is specific to the single Microfinance however, the assessments of loan default on the operational performance MFIs needs to be expanded to other institution in order to identify whether the same result and conclusion could be obtained since it has the potential benefit in indicating direction to improve the impact of loan default on operational performance of company. Future Research should include the evaluation the effectiveness of risk management strategies in reducing default rates in Microfinances institutions.

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QUESTIONNAIRE FOR STAFF OF PEACE MICRO FINANCE S.C

Dear respondent,

I am Tesfaye Hailu carrying out a research on "The assessment of loan default on operational performance of MFI in Case of PEACE Micro Finance Share Company. The study is entirely academic leading to the award of the Master degree of Accounting and Finance of St. Mary University College Please, I beg you to spare a few minutes and answer the following questions. Information provided will be treated with utmost confidentiality.

SECTION A: PERSONAL BIODATA

1. Gender

(a) Male ☐ (b) Female ☐

2. Age

(a) 25 and below ☐ (b) 26-35 ☐

(c) 36-45 ☐ (d) 46-55 ☐

(e) 56-65 ☐ (f) Above 65 ☐

4. How long have you worked for the institution?

(a) Below 1 year ☐ (b) 1-2 years ☐ (d) above 3 years ☐

5. Educational level

(a) Diploma and below ☐ (b) Bachelor ☐ (c) Masters

(d) PHD ☐ (E) others ☐

SECTION B: THE FACTORS RESPONSIBLE FOR LOAN DEFAULT BY CLIENTS OF MICROFINANCE INSTITUTIONS

Please tick in the appropriate boxes concerning the board characteristics and roles that influence corporate governance practices on a 1-5 scale; 1= Strongly Disagree, 2= Disagree, 3= Uncertain, 4= Agree, 5= Strongly Agree

S/No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The main factor of default in Microfinance is the borrowing Clients					
2	There is increasing trend of loan default in PEACE MF S.Co					
3	There is a decreasing trend of loan default in PEACE MF S.CO					
4	There is a constant trend of loan default in PEACE MF S.Co					
5	Un willingness to pay the loan is the main factor that affects the health of the loan portfolio by the borrower (clients) of the institution					
6	The major causes of loan default is internal factors					
7	The major causes of loan default is external factors					
8	The major causes of loan default is Both internal and external factors					

9	Multiple Loan to the clients increases the chances of the loan becoming delinquent					
10	Diversion of loan purpose by clients is a key factor in increasing the level of delinquency					
11	A client's awareness towards loan delinquency will affect their decision to repay or not					
12	Bankruptcy and insolvency decrease the probability of business increased level of loan delinquency					

SECTION C: TO EXAMINE THE CREDIT METHODOLOGIES USED IN LOAN DEFAULT MANAGEMENT

S/ No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1	The major loan defaulters in PEACE MF S.CO are the group borrowers					
2	The major loan defaulters in PEACE MF S.CO are the individuals Borrowers					
3	The major loan defaulters in PEACE MF S.CO is MSEs Borrowers					
4	Who are the major loan defaulters in PEACE MF S.CO are employed people					
5	The credit methodology that the company follows has contributed to the loan default.					
6	Apart from the company credit Methodology, the character of the clients themselves could contribute to loan default					

7	Loan processing time taken as per the client's expectation could contribute to loan default					
8	The failure of branch staff to clearly identify the profitability of the client's business before they deliver the loan to them could leads to loan default					
9	The lack of continuous loan supervision by the branch staff contributed to loan default.					
10	Poor loan portfolio management leads to a greater percentage of default loans.					
11	Poor credit appraisal techniques resulted in loan default.					

SECTION D: RELATIONSHIP BETWEEN LOAN DEFAULT AND MF OPERATIONS

S/ No	**Statements**	**Strongly Disagree**	**Disa gree**	**Neutr al**	**Agree**	**Strongl y Agree**
1	Default can decrease the operation of the Microfinance.					
2	The impact of default can leads to staff layoff.					
3	The existence of loan default can hamper the provision of loan to the Microfinance's loyal customers.					
4	The presence of loan default leads to the decrease in profitability of the Microfinance.					
5	There could a positive relationship between investors and the financial sector profitability					
6	The Default loan is Negatively affects the morale of MFI's Staffs.					

7	The Default is negative affects the reputation of MFIs.					
8	The default loan Spoil the health of the MF's portfolio.					
9	Default is highly affect the growth of client out reach of Microfinance.					
10	The impact of default loan results in the shortage of Loanable Fund					