



**ST. MARY'S UNIVERSITY**

**SCHOOL OF GRADUATE STUDIES**

**FACTORS AFFECTING LOAN REPAYMENT PERFORMANCE: THE  
CASE OF AWACH SAVING AND CREDIT COOPERATIVE**

**BY**

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**ADDIS ABABA, ETHIOPIA**

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**A THESIS SUBMITTED TO ST. MARY'S UNIVERSITY, SCHOOL OF  
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## **CERTIFICATE APPROVAL**

This is to certify that the thesis entitled “Factors Affecting Loan Repayment Performance” a case of Awach Saving and credit cooperative submitted in partial fulfillment of the requirements for the degree of master’s in Business Administration, the graduate program of the department of Management, and has been carried out by Hermela Zemedkun, under our supervision. Therefore, we recommended that the student has fulfilled the requirements and hence hereby can submit the thesis report to the department.

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## **DECLARATION**

I, the undersigned, declare that this thesis is my original work, prepared under the guidance of Desta Mulugeta (PhD). 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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## ENDORSEMENT

This thesis has been submitted to St. Mary's University, school of Graduate studies for examination with my approval as a university advisor.

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St. Mary's University,  
Addis Ababa July, 2023

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## **LIST OF ABRIVATION**

**SACOO:** Saving and Credit Cooperatives

**SPSS:** Software package for social science

**RUSSACO:** Rural Saving and Credit Cooperatives

**ICA:** International Cooperative Alliance

**ACCOSCA:** African Confederation of Cooperative Savings and Credit Associations

**EPRDF:** Ethiopian people's revolutionary democratic front

**FCA:** Federal Cooperative Agency

**EMI:** Equated Monthly Instalments

**ACCOSCA:** African Cooperative Confederation of Saving and Credit Associations

**NBE:** National bank of Ethiopia

**SD:** Standard Deviation

## ABSTRACT

*SACCOOs are very important in Ethiopia for delivering various services to large number of people who cannot afford to obtain credit service from formal financial institutions such as banks due stringent rules and regulations of formal financial institutions. The critical problem which is facing most of SACCOOs in Ethiopia is loan default. Therefore, the study sought to assess Loan disbursement and repayment practice and factors affecting loan repayment performance among one branches of Awach SACCOOs in Addis Ababa. The study used descriptive and explanatory research design and sample size of 205 borrowers who were selecting stratifying random sampling. The study used the survey strategy where primary and secondary questionnaires were used to collect data. The collected data was coded, summarized and verified using SPSS computer software version 27 program. The study used a descriptive and multiple linear regression method to analyses the collected data.*

*The findings established that most borrowers use their loans for the purpose what they want, but only a few can pay on time. This shows the purpose for which the loan is being used is not an income generating activity. And the educational status as well as business experience of the borrower's reveals that borrowers who are relatively endowed with these factors are less likely to default. In other words, these three variables make the borrower to be rich on how to effectively and efficiently manage the borrowed fight fierce competition to have a good market share (more of business experience effect) of which enabling the borrower to pay the loan on time. Finally, the research result assures that frequent follow up and supervision by credit analyst help the borrower not to end up being defaulter that means less likely to be a defaulter.*

*The study recommends that the lending institutions should focus on the repayment challenges which are stated by the borrowers and take corrective actions. In order to solve the internal and external problems of the institution, the main thing might be improving the financial capacity of the institution and expand the services and upgrade the skill of loan officers in line with loan appraisal, loan monitoring and supervision.*

*Key Word: Saving and Credit Cooperatives, Borrower, Loan Repaymen*

# CHAPTER ONE

## INTRODUCTION

This is the first chapter of the paper that intends to give the general clue about the study by providing general background for the study. This chapter consisted of background of the study; statements of the problem, basic research question, objective of the study, scope of the study, significance of the study, and organization of the study are dealt in detail. It begins with more general issues and tries to get the point.

### 1.1 Background of the study

Savings and Credit Co-operatives (SACCOs) are community membership based financial institutions that are formed and owned by their members in promotion of their economic interests (Nuwagaba, 2012).

According to Owen (2007), Savings and Credit Co-operatives offer a much broader range of services to broader clientele. Deposit services offered typically include business accounts, savings accounts, and fixed deposits. SACCOs also offer both non-financial and financial services to its members. Its non-financial services are critical to the sector. These services include representation, advocacy, education and training, and business plan development and consultancy services. Its financial services include savings, credit and insurance products.

In recent years, economists, international organizations, and governments in developing countries have placed increasing emphasis on the mobilization of deposits, not only to increase domestic savings to achieve sustained economic growth and development, but also to strengthen domestic financial intermediaries (Admass & Vogel, 1986; Besley, 1995).

Germany was the first country in the world to apply the principle of cooperation in the field of saving and credit. The cooperative saving and credit movement was started in Germany in the middle of the 19th century. At that time, the economic condition of German was extremely deplorable and the peasants and artisans felt crushed under the heavy weight of indebtedness. Jews rule over the market and the poor labourers and farmers had no way out to buy articles of their requirement from them and sell their product to them. Hence, German labourers and peasants were passing such bad time. Raiffeisen tries to reduce the suffering of the people who are living in rural areas while Schulze adopted the new measures for giving relief to the people in the urban areas (John, 1986).

Savings and Credit Co-operatives are promoted not only for money; they contribute to the promotion of total human development. Savings and Credit Co-operatives develop people's minds by providing motivation,

creating initiative, promoting self-development and self-reliance and providing leadership. They also develop material well-being by raising the living standards of members, making possible regular savings and wise use of money, providing loans at low interest rate and by making possible economic emancipation of members (Dejene, 1993).

The first Savings and Credit Co-operatives Society, in Africa, was introduced in Ghana in 1959. The Savings and Credit Co-operatives was intended to assist villagers improve their economic conditions (Ng'ombe& Mikwamba, 2004). English speaking nations were the first to adopt Savings and Credit Co-operatives. The first entrants into Savings and Credit Co-operatives community include Ghana, Uganda, Nigeria, Tanzania, and Kenya. Most of the Non-English-speaking nations in Africa started appreciating Savings and Credit Co-operatives in 1960s, with major influx into Savings and Credit Co-operatives community in 1970s (Mwakajumilo, 2011).

According to Sweden International Development Association (1996), Cooperative as a legal institution first came into being in Ethiopia in 1960s/1953 E.C by cooperative proclamation number 44/1961/1953E.C. The first saving and credit co-operative in Ethiopia was established in 1964 by employees of Ethiopian Airlines. During the same period, one Savings and Credit Co-operatives was established by employees of the Ethiopian Road Authority and the Telecommunication Agency.

Different proclamation numbers have been provided to the National Bank of Ethiopia by the Derg regime and the current government to promote and organize saving and credit cooperatives. But the rooted problems of cooperatives are continued. Collecting and distributing available savings, credit and other services are performed traditionally. The aim of promoting these Savings and Credit Co-operatives in developing countries like Ethiopia, there are low levels of saving culture owing to poor, underdeveloped stock markets, deposit taking institutions, and non-regulated micro finance institutions in the financial markets as vehicles for savings. (Dagnew, 2004).

Savings and Credit Co-operatives contribute in reduction of poverty, through mobilization of members to engage in productive activities so as to generate income, create employment opportunities, stimulate the economy of a well-defined area and thereby improve their livelihoods situation (Sebhatu, 2012).

Majority of the Savings and Credit Co-operatives are facing rising rate of loans default. Though Savings and Credit Co-operatives take necessary action to appraise loan and use methods like credit rationing, rate of default is still growing. SACCOs incur huge funds to monitor and make loan recovery that in turn will affect

its efficiency providing finance (Olando 2013). Loan default is defined as the failure to pay back a loan when due which may occur if the debtor is either unwilling or unable to pay its debt.

Unrecovered loans were considered delinquent and hence defaulted. Most Savings and Credit Co-operatives either have no loan policy and procedures or what exists is not very clear and comprehensive. There are cases where loan-aging analysis is hardly practiced, there are no provision for loan write offs and losses. No guidelines exist as to what to do in cases where a member defaults in loan repayment. Where they exist, they are inadequate to serve the purpose as intended. Practice like the one risk analysis management is therefore made impossible. Failure to prevent loans default risk has implication with sustainability and performance of Savings and Credit Co-operatives. If the Savings and Credit Co-operatives have large number of overdue loans implies that borrowers hold the capital of the Savings and Credit Co-operatives, hence this affect their operations. Those Savings and Credit Co-operatives are faces rising rate of default fails to issue new loans (Magali 2013).

Sacco's loans require staff that can assess creditworthiness of loan applicants and monitor closely repayment of loans issued. They also require loan management systems that allow staff and managers to generate the necessary types of reports for proper loan monitoring and recovery management. Lack of good computerized systems is a major constraint in efficient operations. In its absence, it is very difficult to track loan-delinquencies, aging and provisioning and loan write offs, and ensure 3 that accountants and financial managers apply business rules consistently. Most Savings and Credit Co-operatives have manual or simple spreadsheet-based accounting and MIS systems (Owen 2007). Loan default s attributed to both individual member and the Savings and Credit Co-operatives themselves since failure on the institution to thoroughly screen the potential of the member to repay the loan could lead to providing loan to unworthy member. The chances of such a loan to be recovered is slim and on the other hand, if the member qualifies on the set criteria for the loan but intentionally or unintentionally fails to service the loan when it falls due, then delinquency will be experienced.

According to Fofack (2005), unlike commercial banks, Savings and Credit Co-operatives fails to charge higher interest rate however, high default rate persists. High interest charged by the microfinance banks has been discovered to be the reason behind the alarming default.

Yibeltal (2016), argue that loan disbursement lag and high interest rate can significantly increase borrowing transaction cost and can adversely affect repayment performance. These factors are within the domain of the institution providing the loan.

Berger and De Young (1995) assert that the main causes of default of loans is deficient analysis of project viability, inadequacy of collateral security/equitable mortgage against loans, schedule of repayment, lack of follow up measures and training.

Awach Savings and Credit Co-operatives is a saving and credit cooperative established on 13/07/1999 E.C. in Arada Sub-city.

The institute vision is to be a World-Class Saving and Credit Cooperative Society in 2030. And their mission is to improve socio-economic conditions of members & other people through mobilizing saving and creating access of credit & asset building using relevant technology and highly motivated staff in consideration of social governance aspects.

Awach Savings and Credit Co-operatives has disbursed a loan that amounts to over 6 billion Ethiopian birrs for more than 23,177 members. A thorough post-credit evaluation shows that more than 99% of credit users have utilized their loans to open their own shops, construct houses used for renting, own business cars, and most members are able to participate in different business activities to increase their income (<https://awachsacco.com>).

Awach SACCOS was established in March 2007 with 41 (33 females and 8 male) founding members and legally registered on the same year Arada sub-city. But due to its gradual increase in membership, it went beyond the sub city's boundary, and required a registration by Federal Cooperative Agency (FCA) in September 20, 2016 with a registration number No.AG/S/C/005/09.

The chart of growth shows Awach SACCOS 2019/2020 growth/success from its previous years. For instance, in the chart, the members of Awach SACCOS in 2017/18 were only 9,763 and this number increased by more than three fold in 2019/2020 and reached to be 31,624 (40% of which are female). Members' savings in 2017/18 were 238,700,823.96 ETB (\$6,262,220.71) and by the end of June 2020, it reached to be 624,448,849.98 ETB (\$16,382,165.98). Also, the asset of Awach SACCOS in 2017/18 were 177,490,600 ETB (\$4,656,394.95) and this increased to be 952,964,216.52ETB (\$25,000,635.31). All the above figures shows that Awach SACCOS is growing very rapidly in the sector and that it is playing a great role in financial inclusion to the people living in Addis Ababa and in some parts of the Oromia region.

Sacco's are experiencing repayment problems as can be observed from their declining repayment Rates, (Getaneh, 2005). Abraham (2002) asserted that credit default risk has been a critical problem faced by many micro finance institutions that offer credits. Now the question arises is what are the factors that influence the loan repayment performance of Awach Sacco's clients or borrowers? The researcher will investigate these

factors that influence the repayment performance for Awach credit and saving institutions, for a better understanding of these factors so that they could be managed accordingly to enhance the repayment performance and laying strong ground work in the development of financial industry as well.

Now the question arises is that, what are the factors that enhance or influence the loan repayment performance of microfinance clients or borrowers. The researcher will investigate these factors that influence the repayment performance for Awach credit and saving institution, for a better understanding of these factors so that they could be managed accordingly to enhance the repayment performance and laying strong ground work in the development of financial industry as well.

## **1.2 Statement of the problem**

Saving and Credit Cooperatives (SACCOs) are likely to be the most viable and sustainable institutions to provide accessible and affordable financial services to the vast majority of urban poor (Aregawi, 2014). They are the main financial solution of the people who have low income level. The SACCOs are considered as semi-formal financial institutions, which are not regulated and supervised by NBE. The informal financial system includes Equib, Eddir, and others, which are not regulated (NBE annual report, 2009).

SACCOs have been developed to meet the fundamental human need to find a way of saving and borrowing methods without taking risks and without handing over too much power to a moneylender (Getachew, 2006). SACCOs' core business is mobilizing savings from members, and then providing them with credit at affordable interest rates. (Alecia, Elizabeth, Gideo&Dancan, 2012).

SACCOs plays a critical role in economic development by facilitating funds to segment of low-income earners who cannot meet the required standards of commercial banks. Since commercial banks targeted mostly performing businesses. However, there are escalating challenges of loan default by SACCO members. (Karikari, 2011).

SACCOS have been established and supported by the government and the governments have focused on ensuring sustainability of the SACCOS as one of the ways towards poverty reduction strategy. The sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on the repayment performance. High repayment performance enables the institutions to decrease the processing costs and consequently increase supply of loans. Repayment performance, thus, serves as a positive indicator for increasing the volume of credit availability to various sectors of the economy and attaining a high loan collection rate is a necessary condition for SACCOs to become self-sustainable in the long run (Nigussie, 2015).

Non-repayment of loan leads to queue of loans for other borrowers. Having Loan queue in SACCOs resulting discourages members' motive to borrow, Arega (2007).

Quite a number of challenges are associated with SACCOs in their bid to sustain rural livelihoods; with the major ones being failure to recover loans, competition from more established cooperatives, lack of start-up capital, poor financial and managerial skills and the general national economic meltdown (Karikari, 2011).

The sustainability and continuity of the financial institutions to increase the volume of credit to stimulate the poverty reduction goal depends on the repayment performance. High repayment performance enables the institutions to lower the interest rates and processing costs and consequently increase supply of loans. Besides, high repayment rates reduce the subsidy dependence of the credit institutions to assist them attain a better sustainability level. Repayment performance, thus, serves as a positive indicator for increasing the volume of credit availability to various sectors of the economy and attaining a high loan collection rate is a necessary condition for MFI to become self-sustainable in the long run (Wolday, 2005).

According to Hunte (1996), loan default problems destroy lending capacity as the flow of repayment declines, transforming lenders into welfare agencies, instead of a viable financial institution. It incorrectly penalizes creditworthy borrowers whenever the screening mechanism is not efficient. Credit default may also deny new applicants access to credit as the SACCOs institution's cash flow management problems increase in direct proportion to the increasing default problem. Besides, loan losses which arise as a result of loan default problems often have been the largest cost borne by the institutions and the principal cause of insolvency and illiquidity (Nawai&Shariff, 2013).

Nigussie (2015) points out that low repayment of loans has been a great challenge of SACCOs, the first problem is concerning the requirement (disbursement process) that has to be provided for receiving a loan. And the other one is less awareness that borrowers have about SACCOs.

Given the above indicated repayment problems in SACCOs along with the gap in the literature in the best of researcher knowledge with regard to credit default problem of Awach SACCOs, it necessitates the need for empirical investigation on factors behind default problem so that the lending unit in SACCOs would make appropriate precautions in its lending decision. Therefore, this study attempted to examine the critical factors that affect loan repayment performances of Awach Credit and Saving Institution.

### **1.3 Research Question**

Based on the problems stated above, this study will answer the following basic questions:

- 1) What does Awach SACCOs loan disbursements and repayment practices look like?
- 2) What are the factors that influence loan repayment of Awach SACCOs?
- 3) To what extent do the critical factors affect the loan repayment performance Awach SACCOs?

### **1.4 Objective of the study**

#### **1.4.1 General Objective**

The general objective of this study was to assess the loan disbursement and repayment practices of Awach SACCOs.

#### **1.4.2 Specific Objective**

- To assess the loan disbursement and repayment practice of Awach SACCOs.
- To identify factors affecting loan repayments of Awach SACCOs.
- To explain the effects of critical factors on the loan repayment performance.

### **1.5 Scope of the Study**

The study will be conducted to assess loan disbursement and repayment practices of Awach SACCOs. Conceptually, the studies involve assessing disbursement and repayment practices, identifying factors affecting loan repayment performance, and explain the effects of critical factors on loan repayment performance of Awach SACCOs. Geographically, the study also delimited to cover only 205 sample members from one Awach branches located inside Addis Ababa city.

### **1.1 Limitation of the Study**

This study supposed to be carried out on the entire branches of Awach Sacco's but because of limited resources and time, it only focuses on one Awach Sacco's branches to cover only 205 sample members.

The other one is that the study focuses on the borrowers who are in default and out of loan default so it is difficult to find them when the question is dispersed, specially the defaulter respondents. Also the information given by the respondents may not necessarily portray the true fact as some of the information may be purposely concealed by the respondents due to they are being regarded as private life or confidential by most of the societies like education, age and/or are they defaulter or not. I can find out who are defaulters and who are not with the cooperation of the institution. Also, if they are not physically present, asking for a response

by phone was considered as a solution. But all this cannot be given as an excuse to discourage the researcher on conducting the study.

### **1.2 Significant of the study**

This study tries to provide information for better understanding of the disbursement and repayment performance of Awach SACCOs. The primary advantage of this study is to establish a knowledge base that enables to makes a sound decision and take corrective action. And it will be a great resource for the institution being evaluated, by improving their performance on the loan disbursement and repayment process. In addition, the information will be useful other lending institutions and stakeholders. Also it serves as input for further researches.

### **1.3 Organization of the paper**

The study comprises five chapters. Chapter one was deals with the introduction of the research was consists of the background of the study, statement of the problem, objectives of the study, Research questions, significance of the study, scope and limitation of the study. Chapter two consists of literatures related to the study to gain an understanding of the research topic. Chapter three present the research methodology. Chapter four was show data analysis results and discussion. Chapter five deal about summary of finding, Conclusion as well as recommendations.

## CHAPTER TWO

### REVIEW OF RELATED LITERATURE

#### Introduction

This chapter presents what other researchers and writers have written about saving and Credit cooperatives, their loan disbursement practices, their contributions, accessibility, and development.

#### 2.1 Theoretical Literature

##### 2.1.1 Concepts and definition of Co-operative

“A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.” (International cooperative Alliance, ICA as stated by Tsegay, 2008, p 208. Finance is one of the key elements addressing development issues in Ethiopia. It plays a leading role in guiding development interventions in the country. Development strategies or programs (poverty reduction strategy, rural development strategy) require finance and financial systems to support implementation. To develop an inclusive financial system in the region, there is a need to have well-functioning financial system and institutions in place. In order to increase outreach, expansion of branches, efficiency, inclusiveness, appropriateness, innovations and sustainability, there is a need for interventions/support by banks, microfinance and RUSSACOs/SACCOS providers (Esayas, 2019).

##### 2.1.2 Cooperative Principles

The cooperative principles are guidelines by which cooperatives put their values into practice (ICA, 1995). According to International Cooperative Alliance, there are seven cooperative principles listed as follows; **Voluntary and Open Membership:** Cooperatives are voluntary organizations open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

**Democratic Member Control:** Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

**Members Economic Participation:** Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership.

### **2.1.3 Saving and Credit Perspective**

The idea of savings and credit as it is known to day, originated in German where Fredric W. Reiffeisen, mayor of flamer's field, organized a rural savings and credit in 1846. This was a year of economic crisis and famine. His aim was to assist the poor in an attempt to alleviate their financial problems. He asked them to cooperate by pulling together their meagre savings and lending to each other at a low rate of interest. The idea worked like magic, people worked hard and the savings and credit society proved success (ACCOSCA, 1980). In 1885, the idea was introduced to Australia and other countries of Europe where the institutions were called people's Bank. In 1892, France picked up the idea and was known as mutual credit mutual. The idea was introduced to the United States by Edward. A. Dilenes in 1909. In US the idea was known as credit union. Then, the idea spread to Latin America and Asia (ibid). Credit unions idea was introduced to Africa, particularly Ghana in 1955 by a White Fathers missionary called Rev. Fr. Macunttly. It was the first credit union in Africa (ibid). 13 In Tanzania, Savings and credit co- operatives began during the early days of the colonial period, mainly by Asians and later by religious leaders. The late Cardinal LaurianRugambwa and Mr. Joseph Mutayoba, were the first pioneers of the idea of credit unions in Tanzania (Parrot, 1995). After the Tanzanian's independence in 1961, the Roman Catholic Church in alliance with other international organizations carried out a campaign calling people to engage in the formation of such societies. The call, went to the extent that scholarships were granted to study in the United State of America and Canada, on how savings and credit co- operatives were organized and managed as a result, many SACCOS were registered. Moreover, during this period from Canada- Nova Scotia was stationed at Nyegezi social training institute, where he managed to design and come up with the first by- laws of these types of societies in the country (Rilley, 1969) SACCOS in Tanzania, are ones of the institutions in the emerging micro-finance industry dedicated to serve the financial needs of the marginalized poor people, who cannot have an access to financial services of main stream existing commercial banks and other financial institutions. They are regarded as the way of making the disadvantaged poor households, to participate in sharing the national cake through involving them into productive activities, which can be properly devised by using an appropriate financial service.

### **2.1.4 Definition of Saving and Credit Cooperative**

Saving and Credit Cooperatives are user-owned financial institutions that offer both savings and credit services to their members. Saving and Credit Cooperatives are an integral part of the financial system by which communities are mobilized to engage in productive activities so as to generate income, create employment opportunities, stimulate the economy of a well-defined area and thereby improve their livelihood situation (Adalbertus, 2018). Saving and Credit Cooperatives is financial cooperative society established by

voluntary people based on the philosophy of building self-help society or “people helping people”. Saving and Credit Cooperatives is owned, managed, and controlled by members. Members have the right to decide on its issues, members have the right to 8 benefits from its service. Saving and Credit Cooperatives is formed initially for the poorer to provide financial services such as safe place for savings and providing easily accessible loans to members. Saving and Credit Cooperatives is “not for profit or for charity” but serve members at fair profit margins. In saving and Credit Cooperatives member’s savings form a good pool of money, from which loans are made to members with fair lending interest and the interest rate is decided by members. In Saving and Credit Cooperatives once overhead and other expenses are paid, reserve for cushion against any loss, and for expansion of services set aside, the remaining income from loans is returned back to members in the form of dividend on savings, share or both (Getachew, 2006). Saving and Credit Cooperatives is financial institutions designed for people, to have their own efficient financial service giving institutions that empowers themselves in building asset by teaching thrift culture and make themselves accessible to credit in sustainable way (Getachew, 2006). What makes Saving and Credit Cooperatives different from other cooperatives and financial institutions is that Saving and Credit Cooperatives operations are concentrated within their own membership and a person must be a member in order to save, borrow or receive other services from the Saving and Credit Cooperatives. In developing saving and Credit Cooperatives, working funds are comprised mostly of member shares; in mature saving and Credit Cooperatives, working funds are mainly deposits. Saving and Credit Cooperatives is “make loans to members, emphasizing primarily the character and ability to repay. Saving and Credit Cooperatives “rely to a significant extent upon the volunteer efforts of the members; the key element in the development of saving and Credit Cooperatives “ is volunteerism. The difference between a saving and Credit Cooperatives and other forms of co-operatives is that the saving and Credit Cooperatives can accept deposits from its members as savings and also issue out loans to qualifying members of the Saving and Credit Cooperatives (Tesfaye, 2018). Livelihood improvement is all aspects that involve improved life standards for people, including economic growth, health and education services, assets and investments (Ashley & Hussein, 2000; Krantz, 2001). Poverty leads to poor health, education, social life, and poor environment, spiritual and political conflicts (URT, 2009). Being poor can therefore force to sell physical assets, reduce quantity and quality of food consumed, move to inferior accommodation, postpone medical treatment or withdraw from savings. The hypothetical idea behind saving and Credit Cooperatives is that, they improve the livelihood of their members. This has been explained by different groups of people who are getting services from the saving and Credit Cooperatives. This was the major intention of the study to identify the impact 9 of Saving and Credit Cooperatives in education, assets, medical services, adequate food and diet improvement which all determines the individual livelihood.

### **2.1.5 Types of SACCOs**

According to (Bwana & Mwakujonga., 2013), various types of SACCOs exist, depending on the membership profile and the products extended to the SACCO members differ accordingly. In essence, there are three broad categories of SACCOs: -

- **Community-based SACCOs:** These SACCOs can be found in urban areas or regional towns, but are most frequently encountered on village level. A variety of group and individual loans can be found, including women solidarity loans, business loans for individual members, or loans for small and micro enterprises.
- **Employee-based SACCOs.** These represent SACCOs where all the members are drawn from one employer and these SACCOs are generally located in urban areas or regional level. Specific salary-based loans are extended which are often guaranteed by the employer.
- **Agricultural SACCOs.** To date these, represent primarily small-scale cane growers in areas such as the rural region. Both individual farmers and farmers' associations can be treated of the SACCO. Loans are extended for various purposes, including agricultural production loans.

### **2.1.6 Types of SACCOs Saving**

Getachew Mergia (2006) expresses the terms, concepts and types of SACCOs saving in the following way:

- ✓ **Savings:** means the accumulation of money regularly or irregularly by the members of saving and credit cooperative societies to secure or to gain interest rate or both. Saving can be defined simply as holding something back from today's consumption for future use. In the SACCO society, saving is an asset to members, and a liability to the SACCO society. In the SACCO society, saving is collected from member to on lend to members. Saving is sources of income to the SACCO society because it lends to members with interest. In SACCO societies we have three kinds of Savings: 1) Compulsory Savings 2) Voluntary Savings, 3) Contract Savings (Time Deposits).
- ✓ **Compulsory savings:** Compulsory saving is a saving that a member forced to save on regular basis; it is a membership saving i.e. must be saved on monthly basis. This compulsory saving is collected to on lend to members. If members fail to save on time they will get penalized based on the saving policy of the society. Unless the members quit from membership, they should save on regular basis. If a member wants to withdraw from the SACCO society, they have the right to take this compulsory saving with one-month priors notes to the Board of Directors. The society will provide interest for this savings.

- ✓ Voluntary savings: Voluntary savings are deposited and withdrawn as the member sees fit. This maintains the fundamental function of the SACCO and allows individuals with seasonal incomes to be members. Technically speaking, this is referred to as saving up. This ensures regular flow of cash to the SACCO society and promotes member's participation. This kind of saving can be withdrawn at any time when the owner needs it.
- ✓ Contract savings (time deposits) or fixed deposit: This kind of saving will not be invited unless the SACCO society acquires good experience in managing their savings and loans properly. This kind of saving will be invited in the future when the SACCO society is in a good capacity and position of managing its savings and loans properly and if there is a shortage of feasible financial demand by members. This kind of saving can be collected from members and none members but the amount, period of collection and interest for this saving should be decided by the General Assembly of members (Getachew, 2006).

### **2.1.7 Role of Saving and Credit Cooperatives**

Access to finance offered by SACCOs influence growth of youth entrepreneurship. There was increased growth of youth entrepreneurship as a result of different aspects employed by saving and Credit Cooperatives to increase access to finance (Mwangi & Wanjau, 2013). For traders the main problem is a shortage of working capital and SACCO's could be very useful; especially Saving and Credit Cooperatives of traders.

Establishment of micro-business both in the rural areas and urban areas which has raised the standard of living for the people, Provision of financial services to all vulnerable groups including women, the youth and the disabled. This has helped to elevate their status in Society through economic and social empowerment. Inculcation of a culture of savings in the lives of people and discouraging non-productive expenditures, source of direct employment for the members and the staff of the Saving and Credit Cooperatives and indirectly impacting the lives of many households who depend on the members and staff of the Saving and Credit Cooperatives. Many rural micro projects i.e. restaurants, taxis, salons handicrafts, shops and kiosks have been started from the loans taken by members of saving and Credit Cooperatives. Saving and Credit Cooperatives have enabled the savers to acquire the capacity to build low cost, yet high quality, housing units, and to buy vital household items, and put their children through affordable school system. Saving and Credit Cooperatives have enabled members to put some of their loans in agricultural development thereby increasing the productivity in the agricultural sector and enhancing food security (Okoye, 2009).

Through saving and Credit Cooperatives, members can get micro and macro credit to create/start small businesses. A member in saving and Credit Cooperatives has access to credit as a primary service. Saving and Credit Cooperatives members have equal opportunity to get access to credit within the cooperatives. Almost

all of males and female members within the saving and Credit Cooperatives had access to credit. Thus, the participation of males and females in getting access to loans within the saving and Credit Cooperatives was high. The Saving and Credit Cooperatives also provide loans to all members without gender discrimination (Dessalew, 2014) The main objectives of any Saving and Credit Cooperatives are Encouraging and promoting to develop thrift culture within the members as well as the community by teaching wise use of their money and efficient management of their limited resources, teaching people how to create an asset that helps them to have a guarantee and collateral for future loan access, Making finance more accessible for members when they need it, and developing a linkage between the rural people and urban banks in order to have broader financial flows into the community and a safe haven for rural peoples' savings (Getachew, 2006).

The two-fundamental function of a saving and Credit Cooperatives Society is financial intermediation and investment. That is bringing savers and borrowers together in a system that enables them to pool their money as savings and shares, and after capturing funds transforming into loans by calculating all of the costs of doing this business to make profitable/useful to both parties (the S Saving and Credit Cooperatives Society and its members). Saving and Credit Cooperatives Society is a financial institution that purely deals with mobilizing money from members as savings, shares and providing easy accessible loans to members on time (Getachew, 2006).

#### **2.1.8 Significance of Saving and Credit Cooperatives**

Saving and Credit Cooperatives are legally constituted cooperative institutions established, in most cases, under national cooperatives law to meet the basic financial service needs of primary low- and middle-income citizens who generally cannot obtain these services through the existing banking system (Galor, 1995). It is well recognized that saving and Credit Cooperatives provide a means to learn the value of regular saving and wise use of credit. Some even consider them as a form of economic empowerment, where members collectively control and manage their own financial institution which provides saving, credit and financial management services (Galor, 1995) As a result; Saving and Credit Cooperatives are appreciated for creating an opportunity for people to take responsibility for their own financial organization (SACCOL, 2013). Saving and Credit Cooperatives mobilize local resources and return them to members in the form of loans and hence the money stays and works within the members. SACCOL in its website listed a number of advantages of Saving and Credit Cooperatives and among these the notable ones are: better interest rate on both saving and loans, low overhead cost compared to banks, encouraging members to save with the objective of economic empowerment and educating members on prudent handling of money (SACCOL, 2013). In Saving and Credit Cooperative each member is not another customers to the cooperative, he/she is rather a member as well as an owner of the cooperative, who even gets a share of the profit in the form of dividends. Savings are mobilized

locally from the members and are returned to them in the form of loans and this way the money stays and works within the members. Saving and Credit Cooperatives encourage and educate members to regularly save their money and aim at liberating members from dependence on money lenders and unfriendly banking terms.

### **2.1.9 Historical Development of Saving and Credit Cooperatives**

The history of SACCOS in the world can be traced based on two origins of modern cooperation. The first modern cooperation emerged in certain working-class environments in European industrial cities in 1840s, particularly in Great Britain and France (Churk, 2015). These pioneers invented models of the consumer and labor cooperative that defend and promote the interest of working class in the face of the social disasters endangered by the Industrial Revolution (Assenga, 2008). The second generation of the pioneers of modern cooperation emerged in certain European rural environments in the late 19th century. The countryside was economically out of sync with the industrial cities; agricultural cooperatives enabled families of farmers and livestock raisers to organize on their own supply system of agricultural inputs and market their products and no longer depend on the merchants and businessmen in the cities (Assenga, 2008). Also, the SACCOS enabled them to no longer depend on money lenders (usurers) and to find the credit necessary to modernize their agricultural operations (MUCCOBS., 2005). In African countries, the first experiences of savings and credit cooperatives were to a large degree the work of foreign missionaries (Mwelukilwa, 2001). Many of the first savings and credit cooperatives emerged in the English- speaking countries, primarily in Ghana 1955, Uganda 1946 and in Nigeria dates back to 1951- (Mbwana & Mwakujonga, 2013).

#### **2.1.10 Saving and Credit Cooperatives in Ethiopia**

Saving and credit is the living conditions in Ethiopia and has long year of experience as traditionally. This cooperation's may be assisted by cultural or religious association that makes the people get together. For example, Iddir (focuses on funeral services), Ikuib , (which helps for saving money and self-help to the members ), Debo, which is focused on the cooperation on labor peak times, in the rural area at the time harvesting, wedding ,when emergency happened (zerfeshewa,2010) Modern cooperative in Ethiopia was started at the time of emperor Haileselaie-I in 1961 by decree number 44/1961.and later on proclamation were pass on 1966.With all shortcomings, this legal ground gave contribution for co-operative development in the Ethiopia were pass on 1966 With all shortcomings, this legal ground gave inputs for co-p-operative development in the Ethiopia. During the durg regime, tremendous effort was exerted to organize different types of co- operatives in line with proclamations No 138/1983.During this time, co- operatives were mainly organized to transform rural economy to the socialist style rather than benefiting their members. In this process, internationally accepted cooperative principles were violated which consequently led to the

dissolution of co-operations and devastations of their properties during the transitions period (Adisu, 2016). However, the recent enactment of cooperative society proclamations no.85/1994 and 147/1998 created fertile ground for restructuring the previous cooperatives and organizing new ones, in line with the new market oriented economic policy of the government, EPRDF (Kifle, 2012).

#### **2.1.11 The Concept of Loan/Credit**

The terms loan and credit are used interchangeably. The study adopts the credit definition of Aryeetey (1995), who defined credit as an arrangement in which a lender gives money to a borrower, and the borrower agrees to repay the money, usually along with interest, at some future point(s) in time. He also adds that, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan.

#### **2.1.12 The Concept of Loan/Credit Default**

The study adopted the definition of Abel and Eberly, (2004) who defined credit default as the failure of the borrower to repay loan in accordance with the terms of the lender.

##### **2.1.12.1 Group Lending**

One essential feature of group lending schemes is that members provide one another with mutual insurance against default. Members of a group are self-selected; thus, fellow members of a group single out a potential defaulter at the very beginning. That is, the bank is able to exploit the local knowledge of the members in a group. Loan Default is a threat to the operation of Saving and Credit Cooperatives and the causes of loan default has a substantial importance to both individual and the institution at large. Scholars have identified causes from different perspectives. A threat runs across individual and institutional factors and according to Deban et al. (2005), they grouped loan default causes into three perspectives namely; borrower's attributes and their business nature, the institutional characteristics and market risk from external sources. Similarly, Silwal, (2003), concur with them but add loan characteristics as another factor that has an influence on loan default. up to make the corresponding credit granting decisions.

##### **2.1.12.2 Social Factors**

Social characteristic of individual borrowers refers to the attributes of the borrowers, which can influence the ability of the repayment of the loan. These attributes have an impact on the loan repayment directly or indirectly and they include age, and education marital status as discussed below.

Marital statuses Salem et al. (2010) posit that marital status has a significant influence on repayment of loan.

According to Dinh and Kleimeir (2007), marital status affects the borrower's level of responsibility, reliability, or maturity. The probability of default is higher for married than single borrowers. They discover that the marital status is typically related to number of dependents that in turn reflects financial pressure on the borrower and borrower's ability to repay a loan. In addition, Dodson & Koenig (2014) examined the consumer and residential finance and found that individuals undergoing a change in their marital status tend to be more likely to default.

#### **2.1.12.3 Education**

According to Abreham (2002), and Mekonnen (2015), education level is significantly associated with loan repayment performance. An increase in education level, could lead loan repayment rate to be improved. Nimoh et al. (2012) classified education level of farmers into literate and illiterate and concluded that the relationship between the education and loan default is negative. It meant that the higher the level of education, the lower the default rate. Saleem et al. (2010) concur with the above argument that education has a significant influence and noted that educated farmers learn easily ways of improving their farm input through application of modern methods.

Muruku (2015) examined factors influencing default in servicing agricultural loans and identified education as among the variables that predict loan repayment. The study noted that repayment performance increases with an increase in education levels. In addition, Bhatt (2002) believes that training and education affects the business performing ability of borrowers. Gebrehiwot (2006) examined loan repayment performance and reported that educational status among other variables has a positive significant effect on the loan repayment performance.

#### **2.1.12.4 Age**

Pasha and Negese (2014) argue that the aged individuals tend to have business experience and rarely default their loan as opposed to the young people who are main defaulters in loan. Age individual tend to have accumulated a lot of wealth overtime, which enable them to be cautious in their investment.

Age was having also been considered as one of the factors used in default risk modeling. Thomas (2000) and Boyle et al. (1992) confirm that older borrowers are more risk adverse, and therefore less likely to default. Arene (1992) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, character, distance between home and source of loan, Training, education, household size, adoption of innovations, supervision, collateral and credit needs.

### **2.1.13 The Concept of Loan Repayment**

Loan repayment, refers to a situation of pay back money that you have borrowed from an individual, groups or financial institutions. It is the act of paying back money previously borrowed from a lender. Repayment usually takes the form of periodic payments that normally include part principal plus interest in each payment. The other common method of repayment is a lump sum with interest at maturity (Wenner, 2010). Arene (1992) outlines the main factors that determine loan repayment performance as loan size, enterprise size, income, age, number of years of business experience, the distance between home and source of loan, education, household size, adoption of innovations, and credit needs. Von Pischke (1980), identified two problems as major causes of poor loan recovery performance: credit project design problems and credit project implementation problems. 9 Credit project design problems include debt versus equity, realism versus aspiration (how realistic the projection of the project designer is), expected value versus dispersion (detailed consideration of the variety of results which occur in the field), book keeping convenience versus borrower cash flow patterns, collection mechanism, institutional scope or range of services offered and interest rates. Credit project implementation problems include low service levels, coordination, access (i.e. information problem and lack of decision-making experience in lending to specific target groups) and financial recording (ibid). Findings above have revealed that, the probability of loan repayment depends on the borrowers' specific characteristics (i.e. age, education, experience, sex, household size, loan utilization), loan contract terms (i.e. repayment installment, collateral, frequency of maturity, grace period, loan volume, interest rate, number of disbursements) and other factors such as political influence, technical advice, level of social cohesion (for micro enterprises).

### **2.1.14 The Concept of Cooperative Society**

A cooperative society, is defined as an association of persons who have voluntarily joined together, for the purpose of achieving a common need through the formation of democratic, controlled organization and who make an equitable contribution to the capital required, for the formation of such an organization and who accept the risk and the benefits of the undertaking, which they actively participate (URT, 2003)

### **2.1.15 Establishment and Successes of Awach SACCOs**

Awach SACCOs is a community-based primary saving and credit cooperative which endeavors to reach out and serve all interested individuals and especially the lower- and middle-class societies. Awach SACCOs was established in March 2007 with 41 (33 females and 8 male) founding members and legally registered on the same year Arada sub-city. But due to its gradual increase in membership, it went beyond the sub city's

boundary, and required a registration by Federal Cooperative Agency (FCA) in September 20, 2016 with a registration number No.AG/S/C/005/09.

The chart of growth shows Awach SACCOS 2019/2020 growth/success from its previous years. For instance, in the chart, the members of Awach SACCOS in 2017/18 were only 9,763 and this number increased by more than three fold in 2019/2020 and reached to be 31,624 (40% of which are female). Members' savings in 2017/18 were 238,700,823.96 ETB (\$6,262,220.71) and by the end of June 2020, it reached to be 624,448,849.98 ETB (\$16,382,165.98). Also, the asset of Awach SACCOS in 2017/18 were 177,490,600 ETB (\$4,656,394.95) and this increased to be 952,964,216.52 ETB (\$25,000,635.31). All the above figures shows that Awach SACCOS is growing very rapidly in the sector and that it is playing a great role in financial inclusion to the people living in Addis Ababa and in some parts of the Oromia region.

## **2.2 Theories of Loan Repayment**

Repayment is the act of paying back money previously borrowed from a lender. Typically, the return of funds happens through periodic payments, which include both principal and interest. The principal refers to the original sum of money borrowed in a loan. Interest is the charge for the privilege of borrowing money; a borrower must pay interest for the ability to use the funds released to them through the loan. Loans can usually also be fully paid in a lump sum at any time, though some contracts may include an early repayment fee.

When consumers take out loans, the expectation by the lender is that they will ultimately be able to repay them. Interest rates are charged based on a contracted rate and schedule for the time that passes between when a loan was given out and when the borrower returns the money in full. Interest is usually expressed as an annual percentage rate (APR) (Alexandra, 2021).

Loan is the thing that is lent, specially a sum of money, the action of lending something or the state of being lent. For each lender a loan is an investment comparable to bonds, stocks or other assets, one the other hand, for each borrower, a loan is a debt, an obligation to repay the borrowed money plus interest (Ledger wood, 1999). **Loan:** Members are encountered to save toward loans. Loans are the ratio based on members saving and share. Individuals who have established credit worthiness through regular savings in the form of loan (pindyack, 1981).

**Loan repayment:** It is an arrangement of in which a lender gives money or property to a borrower and borrower agree to return the property and repay the money, usually along with interest at some future time. Usually there is predetermined time for repaying a loan and generally the lender has to bear the risk that

borrower may not repay a loan, generally it is a time that a borrower or debtor to repay his debt or loan at the right time. Borrowers who satisfy the entire loan contract conditions and repay their loan without any problem (Pindyack, 1981).

**Defaults:** Defaults is defined as failure to pay a debt loan at the right time or who did not repay the loan within due date (Pindyack, 1981).

**No defaults:** are borrowers who has no loan repayment problem or who did repay the loan with in the due date (Pindyack, 1981).

### **2.2.1 Why Is Loan Repayment Important?**

Loan Repayment should be taken seriously because not only do they reduce your loan liability and interest accrued, they are also reflected in your credit history. The immediate financial implication would be anywhere from higher interest component (for missed instalment payments) to declaring of bankruptcy (in the event of failing to repay altogether). There is also a long-term implication on your credit health which is reflected on your credit history.

### **2.2.2 Types of Loan Repayment Methods**

Listed below are some of the loan repayment options; however, the loan repayment option available to you may depend upon your lender and the type of loan that's issued:

**A. EMIs:** - Equated Monthly Instalments or EMIs, are the most popular loan repayment option. Every instalment involves a part of the principal and a part of the interest, which is scheduled, is pay every month over a fixed tenure.

That said, some banks allow their borrowers to pre-pay the loan after a certain number of instalments have been made. Some banks may charge a pre-payment fee, if you want to pre-pay your loan. Pre-payment can be done in two ways:

- **Partial or Part Pre-Payment:** This is when you pay off your loan in part; it helps you reduce the principal. This saves money on interest as the interest is applied on the new reduced principal.
- **Full Pre-Payment or Pre-Closure:** This is when you completely pay off your loan before the loan tenure.

**B. Bullet Repayment** – Some loan products may allow you to repay the loan through bullet loan repayment method. In this option, you need to pay only the interest component every month. When the loan tenure ends, you need to make one bullet repayment that pays off the entire principal loan (Musafiri, 2009).

## **2.3 Empirical Studies**

Regarding to the loan repayment performance of borrowers several studies have been conducted in many countries by different authors. This section, reviews various studies done by the previous researchers concerning factors, influencing loan repayment among Awach SACCOS in order to identify the knowledge gap to be filled.

### **2.3.1 Empirical Studies in other country**

Regarding impact of saving and Credit Cooperative Societies; various literatures were reviewed. According to Prakash D. (2003) there are many theorists in many parts of the world that have made major contributions to cooperative thought, and most of that thought has been concerned with cooperative values.

**‘Self-Help’** is based on the belief that all people can and should strive to control their own destiny. Cooperators believe that full individual development can take place only in association with others. Individuals also develop through cooperative action by the skills they learn in facilitating the growth of their cooperative. **‘Self-Responsibility’** means that members assume responsibility for their cooperative – for its establishment and its continuing vitality. Members have the responsibility of promoting their cooperative among their families, friends and acquaintances. Members also ensure that their cooperative remains independent; **‘Equality’** Members, whether an individual or a group, are all equal. It does not depend on the social and economic status of the member; achieving ‘equity’ within a cooperative is continuing, never-ending challenge. It also refers to how members are treated within a cooperative. They should be treated equitably in how they are rewarded for their participation in a cooperative, normally through patronage dividends, allocation to capital reserves in their name, or reduction in charges;

**‘Solidarity’** ensures that cooperative action is not just a disguised form of limited self-interest. A cooperative is more than in association of members; it is also a collectivity. All members including the employees and the nonmembers who are closely associated with the cooperative should be treated fairly. This also means that the cooperative has a responsibility for the collective interest of its members. It has historical roots. Cooperators and cooperatives stand together. Solidarity is the very cause and consequence of self-help and mutual help – two of the fundamental concepts at the heart of cooperative philosophy. It is this philosophy which distinguishes cooperatives from other forms of economic organizations;

Founders of the Cooperative Movement have, through their foresight and deep involvement has been able to refine the concept. They are found everywhere. Their contributions were practical, ethical and moral. Many of the early cooperatives of the 19th century, most obviously the Rochdale Pioneers, had a special commitment to honesty – fair dealings in the market place, honest measurements, high quality and fair prices. Over the decades agricultural cooperatives have prospered because of their commitment to high quality, honestly-labelled produce. Honesty, openness, social responsibility and care for others are values which may be found in all kinds of organizations, but they are particularly cogent and undeniable within cooperative enterprise.

Haque et al., (2011), in their study carried out in Bangladesh which applied the multivariate regression model and found out that, **age** influenced negatively on loan repayment performance for small business owners, farmers and fishermen. The study also noted that, the amount of loan receipts contributes positively to loan repayment. Moreover; Ojiako and Ogbukwa (2012) in their study carried out in Nigeria, analysed loan repayment capacity of the smallholder cooperative farmers by using descriptive statistics, correlation and regression techniques whereby they revealed that, the average age and repayment rate of borrowers were 43 years and 44% respectively.

Likewise; Kohansal et al., (2011) in their study carried out in Iran, revealed that, there was a positive influence of borrowers' years of experience on loan repayment performance for farmers and fishermen.

Mansoori (2009), in his study carried out in Iraq, used a logit model and a cross sectional data find that, collateral affected positively the repayment performance while number of installments and total loan application fees, affected negatively the repayment of agricultural loans.

Al- Mamun et al., (2011), employed a structural equation model to examine the household factors affected repayment performance in Malaysia whereby, they reveal that, more than 50% of the SACCOS members default their credits because they allocated their credits in non-income generating activities.

Furthermore, Nawai and Shariff (2010) used a literature review to analyze the determinants of loan repayment performance in SACCO's programs and they stated that, repayment problems become the main obstacle for the SACCOS continue providing microcredit services. Their study also disclosed that, determinants of loan repayment performances in SACCOS can be divided into four factors namely, borrower characteristics, low supervision of loans by the lender, lack of knowledge about purpose of SACCOS and usage of loans.

Kithinji (2010) used a descriptive and regression model to assess the relationship between the credit risk management and profitability for SACCOS in Kenya and found out that, the main sources of defaults for SACCOS in Kenya include loan requirements, disbursement practices and follow-up of the credits.

### **2.3.2 Empirical Studies in Ethiopia**

In Ethiopia saving and credit cooperation can be enhanced through having another source of income. This effect on improving the economic condition of membership such as improving their economic and social capabilities, and contribute to the wellbeing of their families' and communities (kifle, 2012).

Berhanu (2010) studied on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. In order to analyze the factors that affect loan repayment, he employed the tobit model. A total of 17 explanatory variables were considered in the econometric model. Out of these seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder.

Abafita (2012) analyzed the microfinance repayment performance of Oromia Credit and Saving Institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment rate. The negative sign implies that the use of diverted funds for non-income generating purposes.

Addisu (2015), the study that carried out in Ethiopia and its revealed that; there was a positive influence of lenders business experience on loans repayment performances, also he applied a descriptive, multivariate regression and logit analysis to assess the SACCOS repayment problems in Addis Ababa (Ethiopia) and found out that, Government owned and NGOs microfinance institutions were found to have a high default rate because they perceived risk as a grant and not a liability.

Abreham (2009) did a study on loan repayment and its Determinants in Small-Scale Enterprises Financing in Ethiopia concluded that having other sources of income, education, and work experience in related economic

activity before the loan are enhancing while loan diversion, being male borrower, and giving extended loan repayment period are undermining factors of the loan recovery performance of projects.

Fikirte (2011), Samuel (2011) and Abdissa (2012) indicated that age, education, income, loan supervision, training, experience, suitability of repayment period, availability of other credit sources and livestock holding are important and significant factors that enhance the loan repayment performance of borrowers, while loan diversion, celebration of social ceremonies, household size and loan size are found to significantly increase loan default. The study also revealed that being female and business experiences of the borrower were found to be significant in enhancing loan repayment performance of borrowers.

## **2.4 Research Gap**

As shown above, most of these studies have looked at factors that enhance and influence the loan repayment performance of borrowers and failure to have a streamlined loan repayment/recovery mechanism would seriously damage the liquidity of these Saving and Credit Cooperatives. This study is hence being undertaken in total recognition of the research gap already exhibited by previous researchers. It is for this reason that it is therefore imperative to critically look at these factors and to what extent which they critically affects loan repayment performances among Awach SACCOs.

## **2.5 Conceptual Framework**

A conceptual frame work is structured from a set of broad ideas and theories that help a researcher to properly identify the problem they are looking at and frame their questions and find suitable literature and it also used to give explanation of how the researcher perceives the relationship between variables deemed to be important in the study. The study conceptualizes that the given independent variables affect loan repayment performance of the microfinance.

Many studies have focused on the factors that affect the loan repayment performances. The gap that my research fills is that I can see to what extent these factors critically affect the loan repayment performances, which makes my research unique.

## Factors affecting loan repayment

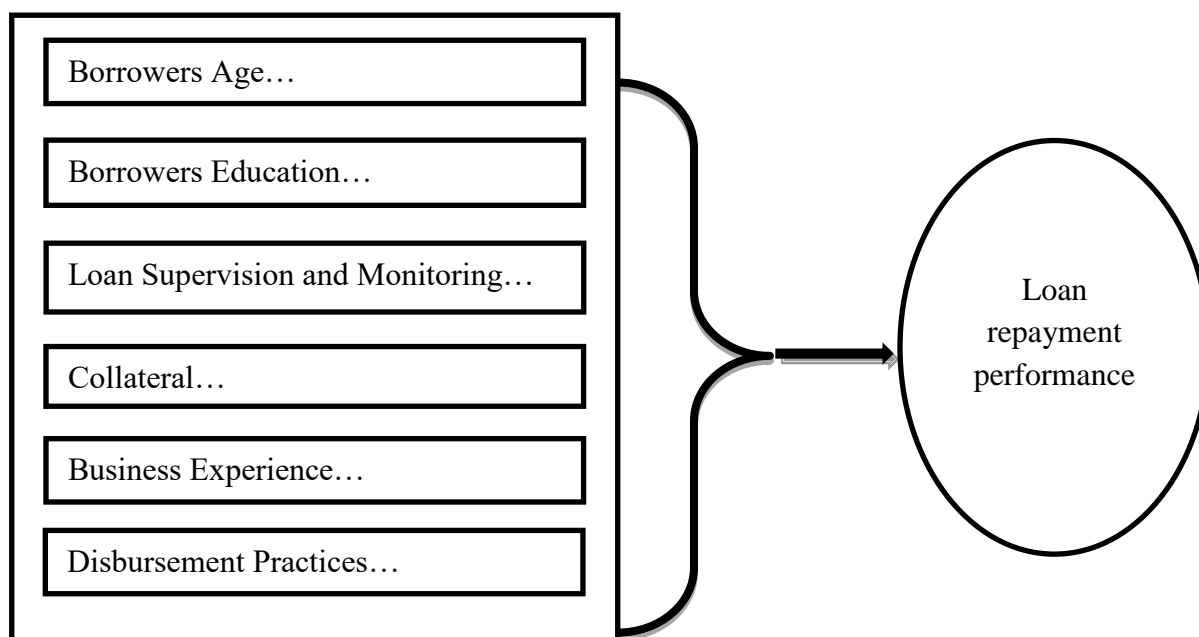


Figure 1: Dependent and Independent variables of the study

Source: Developed by Researcher Based on Literature Review

### 2.5.1 The relationship between dependent and independent variable

**Age of the borrower:** is defined as the period from his/her birth to the time of interview and is measured in years. It is hypothesized to influence repayment in the borrowers acquire experience, knowledge of the loan use and accumulate wealth through time which will enable borrowers to effect repayment than younger borrowers. It hypothesized age of the borrowers are a positive effect in loan repayment performances.

**Education level of the borrower:** - the number of years of school attained by the respondents up to the time of the survey. Educated borrowers are assumed to have more exposure to external environment, to be acquainted with risk management and skills and knowledge through training. Education increases borrowers' ability to get information, a more educated borrower is expected to use the loan effectively as compared to a less educated one. Therefore, under ceteris paribus assumption educated borrowers will be expected to settle their loan timely than illiterate borrowers or clients.

**Loan Supervision and Monitoring:** - Monitoring by lenders or loan committee enables them to identify borrowers' financial status and to estimate the possible outcome (profit or loss) and may warn the borrower. Based on the recommendations given by supervisors, correction measures may be taken by the lenders and borrowers. However, it is difficult for the lenders to know the status of disbursed loans with loose supervision

and monitoring. It is hypothesized that supervision and loan monitoring have a positive effect in loan repayment.

**Collateral:** - When the collateral amount increases, the loan amount also increases equally. Because if the property they are reserved is strong, they will pay off their loan properly so as not to be confiscated. So it's hypothesized a positive effect in loan repayment.

**Business Experience:** - As experience in the business of the borrower increases, the more knowledgeable he/she would be about the business and the more efficient and profitable it would become in its operation. Further, borrowers who acquired extensive experience in similar economic activity before the loan knows how to run a profitable business than new ones hence could have better repayment record (Abraham, 2002). Thus, a positive sign is expected.

**Disbursement Practice:** - The better the loan service, the more the borrower will have a sense of ownership over the company. If this is the case, the company will reduce the risk of loan default. The more the disbursement practice is good the more the loan will be repaid, thus a positive sign is expected.

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODS**

#### **Introduction**

This chapter was discuss briefly and precisely about the methodologies tools that the researcher will use to accomplish the study there by achieving the objectives. The chapter consists of the study area, research approach, research design types and source of data sampling design, data collection techniques, validity and reliability and methods of data analysis.

#### **3.10 Description of Awach**

Awach SACCO Is a saving and credit cooperative established on 13/07/1999 E.C. in Arada Sub-city by Mr. Zerihun Sheleme, founder and general manager with 41 initial members (33 female and 8 male individuals) co-founders on March 22/ 2007 to promote the saving culture among community members in Arada sub-city. During this long run, Awach managed to expand to enrich the community of the Addis Ababa City and the vicinity dwellers.

The legal personality certificate was first gained from Arada sub-city on March 13/1999 E.C. and due to its expansion; it was re-registered by the Federal Cooperative Agency (FCA) in 2009 with registration No.AG/S/C/005/09.

Awach has been certified as competent SACCOS, based on regulation No.018/2007, by scoring 81.65 points in competency evaluation.

Awach is the first SACCO in Ethiopia to be a member of the International Cooperative Alliance (ICA) and an associate member of the African Cooperative Confederation of Saving and Credit Associations (ACCOSCA)

#### **3.11 Research Design and Research Approach**

This research design was assess the loan disbursement and to investigate critical factors in loan repayment of Awach SACCOs. For this study a mixed approach was implemented. Because it help to gain a more complete picture than a standalone quantitative or qualitative study, as it integrates benefits of both methods. The Qualitative research approach was used to help the researcher to assess the thought, and opinions of the respondents towards the loan repayment and disbursement practices of the institute, while the quantitative research approach was used to quantify the problems and to indicate the frequency and percentage of the responses to present different data in organized way. This also ensures the data collection was more reliable and accurate.

This study was use descriptive and explanatory research design type. A descriptive research type use because the research aim is to assess and identify characteristics, frequencies, trends, and categories of loan disbursement, repayment practice of Awach SACCOs. And an explanatory research type used because i have a general idea that i want to study but there is no preexisting knowledge or paradigm with which to study about to what extent the critical factors affect the loan repayment performance in Awach SACCOs.

### **3.12 Population, Sample size and sampling technique**

#### **3.12.1 Population**

According to Ngechu (2004) a population is a well-defined set of people, services, elements, events, and group of things that are being investigated. Awach SACCOS have 10 branche offices in addisababa (Addisugebeya, Kaliti, 6 kilo, stadium, Lideta, SealiteMihret, Jemo, Megenagna, Selassie and Bole) and 4 branch offices in regional city (Sebeta, Holeta, Bishoftu and Chanco). This research mainly will focus on onebranch in Addis Ababa because it is difficult to consider all branches as a target population, (which will be explained in detail on the next sub-topic). The population of this study is 205 from the selected branche in Addis Ababa.

#### **3.12.2 Sample size**

A sample refers to a set of individuals/companies/ selected from an identified population with the intent of generalizing the findings to the entire population. A sample is drawn as a result of constraints that make it difficult to cover the entire research population (Leedey &Ormord, 2005).

There are different sample size determination formulas adopted by various researchers. For this study, the simplified sample size determination formula of Yamane (1967) will be used by considering 95% confidence level or 5% margin error. The formula is given by

$$n = \frac{N}{1+N(e)^2} \text{ where } N = \text{total number of borrowers}$$

n = sample size of the study

e = the level of precision.

$$n = \frac{205}{1+205(0.5)^2} = 193$$

Therefore, the sample size of this study is 193.

#### **3.12.3 Sampling technique**

According to Kothari (2008), sampling is “the process of selecting a sufficient number of elements from the population. Currently Awach Saving and Credit Cooperative Society Ltd operated in 10 different branches in Addis Ababa. This study, however, focused on only one selected branches of Awach SACCOs in Addis

Ababa. The branch was selected as the best because it was the first branch to open and had the highest number of borrowers. Also, I was able to choose this branch as it is close to my work due to my time constraints and space distance.

The sampling technique used for this study Stratified sampling method. Stratified random sampling was used to achieve representation of the respondents. Borrowers have been stratified based on the loan repayment conditions. Borrowers who paid their loan as per the agreement called non-defaulters are in one stratum. Borrowers who did not repay their loan as per the loan agreement were called defaulters in another stratum. Then after equal proportion of households were selected randomly from each stratum.

The major reason to select such type of sampling is to ensure specific subgroups are present in their samples and ease of assembling the sample also considered as a fair way of selecting a sample from a given population.

### **3.13 Types and sources of data**

In order to achieve the study's objective both primary and secondary source of data type will used.

#### **3.13.1 Primary data**

The primary data was collected through questionnaire because it's a critical and easy to get direct response and feedback from the respondents and that was include both open ended, close ended questions. And it was be collects from the sampled borrowers (both defaulters and non-defaulters), Credit analyst and branch managers.

#### **3.13.2 Secondary data**

Secondary data is also used because it allows generating insights from previous analysis which brings unexpected new insights related to the subject. This was implemented using progress reports from Awach SACCOs head offices. It also includes some material related to loan payment and disbursement systems.

### **3.14 Data collection techniques**

Primary data have been gathered through the questionnaire. The questionnaire includes both close-ended and open-ended questions, and distributed to sample respondents involving branch managers, credit analyst working on loan processing, defaulters and non-defaulters of loan was the target for the data collection, where all the issues on the questionnaire were properly addressed. The closed ended questions were used to test the rating of various attributes and this helped in reducing the number of related responses in order to obtain more varied responses. The open-ended questions provided additional information that may not have been captured

in the close-ended questions; also include instructions on how to complete the questionnaires, confidentiality and researcher information's.

### 3.15 Method of data analysis

In this study, after data is collected, both descriptive and statistical data analysis was used to analyze and interpret the findings. The data was presented using mean, St. Deviation and percentages, the reason for using this procedure is to make it easier for the reader to compare and understand the findings. Regarding statistical data analysis correlation analysis is used in order to examine the variables relationship. Also, Multiple Regression analysis is also used to show the impact of independent variables on dependent variable.

### 3.16 Model specification

The multiple linear regressions model was run using SPSS software to test the relationship between independent and dependent variables. The model was used in the following form:

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

**Where:**

**Y** is the dependent variable (disbursement practices and factors that affect loan repayment performance)

$X_1$  = Age,

$X_2$  = Education,

$X_3$  = Supervision and monitoring

$X_4$  = Collateral

$X_5$  = Business experience

$X_6$  = Disbursement Practice

$\beta_0$  is the y-intercept term- constant term (coefficient of the model)

$e$  is the error term.

**$\beta_1$ ,  $\beta_2$ ,  $\beta_3$ , and  $\beta_4$**  are the regression coefficients associated with each component of independent variables. All the above variables were measured using open ended and close ended questionnaire.

### **3.17 Validity and reliability**

In research validity and reliability of data gathering instruments are important factors to arrive at the required conclusion. A measuring instrument is reliable if it provides consistent results in different time of measurement. Reliability refers to the degree to which data collection techniques was give consistent findings with similar observation made or conclusions reached by other researchers or there is transparency in how sense was made from the raw data (Kothari, 2008).

The reliability of data gathering instruments will be checked using Cronbach's Alpha test of reliability. Cronbach Alpha is a coefficient of reliability that is commonly used as a measure of the internal consistency or reliability of a sample of examinees.

### **3.18 Ethical Consideration**

Before starting data collection, letter of cooperation was received from St. Marys' University and submitted to Awach Saving and Credit Cooperatives head office to get permission to conduct the study. By asking permission from the institution, the data was collected for the study. The privacy of all respondent was respected and the respondent be assured that their response was not be exposed to other party to receive participants informed consent a cover letter is attached to the questionnaire to explain the purpose of the study and the right to accept or refuse. All assistance of collaboration of others source from which information were drawn was acknowledged.

## CHAPTER FOUR

### RESULT AND DISCUSSION

#### INTRODUCTION

This chapter discusses the interpretation and presentation of the findings obtained from the study on an assessment of loan disbursement and repayment practice's in the case of Awach saving and credit cooperative society Ltd. Descriptive and statistical data analyses were used to discuss the findings of the study. All statistics were calculated using the Statistical Package for Social Sciences (SPSS).

#### 4.1 Respondent Rate

The study targeted a population size of 205 respondents, to perform the study under Awach SACCOs 193 questionnaires' is distributed and from 193 questionnaires' 193 filled in and returned. This confirms that 100% of the surveys were completed. This response rate was satisfactory to make conclusions for the study. Descriptive statistics was used to describe characteristics of respondents; regression model was applied to analyze the quantitative data collected through questionnaire.

Table 1: - Response rate

Description	Respondent	Response rate
Sample Size	205	100%
Questionnaires distributed	193	100%
Properly filled and returned	193	100%

Source: Own survey, 2023

#### 4.2 Reliability Test

Following the data collection, the study looks at the respondent's stability and validation tests to see if they are precise, stable, and repeatable. In order to do so, the researchers used the Cronbach's alpha test, which yielded an average score of 0.730.

#### Reliability Statistics

Cronbach's Alpha	N of Items
.669	7

**Table: - 2 Cronbach's Alpha Total Statistics**

<b>Item-Total Statistics</b>					
Scale Mean if Item Deleted		Scale Variance if Item Deleted	Corrected Item-Total Correlation	Squared Multiple Correlation	Cronbach's Alpha if Item Deleted
LoanR_Mean	20.701	3.54	0.007	0.534	0.709
EDU_Mean	20.901	2.745	0.356	0.404	0.643
SupMon_Mean	20.752	2.521	0.427	0.394	0.621
COLL_Mean	20.26	3.217	0.362	0.426	0.647
BUSEXP_Mean	20.378	2.689	0.555	0.573	0.586
DESPRA_Mean	20.327	2.782	0.502	0.289	0.603
Age_Mean	20.527	2.387	0.483	0.415	0.601

Source: Own survey, 2023

Cronbach's Alpha quantifies the level of agreement on a standardized 0 to 1 scale. Higher values indicate higher agreement between items. A frequently cited acceptable range of Cronbach's Alpha is a value of 0.70 or above. This is derived from the work of Nunnally (1978). Cronbach's Alpha in this study is called good alpha so it's reliable and accepted. All Cronbach alpha values are above 0.5 so that they passed the reliability test.

The reliability coefficient must be  $> 0.7$  for composite reliability (Kock and Lynn, 2012) cited on Tjondro et al. 2019. Hinton et al., (2004) cited on Tjondro et al. 2019, whose Cronbach's alpha value with a range of 0.5-0.7 is called moderate alpha, which means that it is still acceptable. Based on a study by Dall'Oglio et al. (2015; 2010) cited on Tjondro et al. 2019, Cronbach's alpha of 0.5 is still acceptable if the study consists of a few indicators. So, Cronbach's alpha in this study can be accepted or still reliable. All Cronbach's alpha values are above 0.5 so that they are passed the reliability test.

### 4.3 Descriptive Statistics Results of Respondents

#### 4.3.1 Respondents Profile

This section provides a profile of respondents who involved in the study and data collected basic characteristics. Accordingly, the following variables about the respondents were summarized and described in the following tables. These variables include, age of respondents, educational level of respondents, Categories of the respondent, gender of respondents.

**Table 2: - Age of respondents**

#### Customer category \* Age of the customers

Count

		Age of the customers				Total
		19 to 27	28 to 36	37 to 45	46 and above	
Customer category	Defaulter	20	47	18	20	105
	Non defaulter	10	29	20	29	88

Total	30	76	38	49	193
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Source: survey Result, 2023

Table 2, indicates that age of sample respondents ranges from 19 – 46 years. Accordingly, a substantial part of the default's borrowers 19.23% ranges from 19-27, the respondents' age range from 28-36 constitutes 44.23%, the age range from 37-45 comprises of 17.30% and the remaining 19.23% of the respondents were composed the age range of above 46. The proportion of non-defaulters' age was highest in range of 28-36 by constituting 34.83%, and lower in the age range of 19-27 representing 10.11%.

The survey result showed that the borrowers at younger stages become more defaulter than at older age. Because at elder as age of borrowers' increases they develop into matured and accumulate wealth, obtain experience in business management and credit use than youngsters. Then these and related positive variables enables elder borrowers to be better payers than youngsters.

**Table 3: - Gender of Respondents**

**Customer category \* Gender of the customers**

Count

		Gender of the customers		Total
		Male	Female	
Customer category	Defaulter	64	41	105
	Non defaulter	50	38	88
Total		114	79	193

Source: survey Result, 2023

Table 3, indicates that the gender of sample respondents. Accordingly, a substantial part of male defaulter borrower's is 56.14% and a defaulter female borrower is 51.89%, which shows the more defaulter gender of respondents is Male borrowers. And non-defaulter male respondents are 43.85% and female non- defaulter respondents are 48.10%, which shows the more non-defaulter respondents of borrowers are females. The survey result showed that male borrowers are become more defaulter than female borrowers.

**Table 4: - Marital status of the respondents**

**Customer category \* Marital status**

Count

		Marital status		Total
		Married	Single	
Customer category	Defaulter	57	48	105
	Non defaulter	59	29	88
Total		116	77	193

Source: survey Result, 2023

Table 4, indicates that the marital status of sample respondents. Some part of married defaulter borrower's is 29.53% and a defaulter single borrower is 24.87%, which shows the more defaulter marital status of respondents is married borrowers. And non-defaulter married respondents are 30.56% and single non-defaulter respondents are 15.02%, which shows the more non-defaulter respondents of borrowers are married. The survey result showed that the more defaulter and non-defaulter respondents of marital status are married.

**Table 5: - Level of Education**

**Customer category \* Level of education**

		Level of education				
		Illiterate	Secondary education	Tertiary education	Above degree	Total
Customer category	Defaulter	9	10	57	29	105
	Non defaulter	0	10	48	30	88
Total		9	20	105	59	193

Source: Survey Result, 2023

Table 5 showed that, from the total respondents of defaulters, 4.66% respondents are illiterate, 5.18% respondents are Secondary education, 29.53% respondents are Tertiary education, and 15.02% respondents are above degree. This indicates how low level of education is negatively affecting loan repayment performance or higher level of education influences loan repayment positively.

The educational level of non-defaulters was: 0% respondents are illiterate, 5.18% respondents are Secondary education, 24.87% respondents are Tertiary education, and 15.54% respondents are above degree. This illustrate as the level of education increases, it enhances the probability of loan repayment by borrowers.

**Table 6: - Description Analysis for Supervision and Monitoring**

1.	Supervision and Monitoring	N	Mean	St. deviation
1.1	The monitoring practice about loan repayment by the lending company is less.	193	2.58	.495
1.2	Credit monitoring is helping me repay my loan properly.	193	2.61	.482
1.3	The institution (Lenders) provides me supervision and follow up services over the usage of the loan.	193	3.47	.500
1.4	I configure supervision is a positive impact on my loan repayment.	193	2.72	.411
1.5	The lender confirms that I am eligible to repay the	193	4.47	.500

	loan I have applied for.			
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 6, the value with the highest mean score that the first choice of the respondents among the questions are the lender confirms that I am eligible to repay the loan I have applied for. Which the mean score of 4.47 (SD= 0.500) that fall into the good range. The monitoring practice about loan repayment by the lending company is less, Credit monitoring is helping me repay my loan properly, the institution (Lenders) provides me supervision and follow up services over the usage of the loan, I configure supervision is a positive impact on my loan repayment is fall into Average with the mean range of 2.58-3.47 (SD= .495-.500). It indicates

**Table 7: - Descriptive analysis for Business Experience**

<b>2.</b>	<b>Business Experience</b>	<b>N</b>	<b>Mean</b>	<b>St. deviation</b>
2.1	My previous experience helped me to know how to manage my current loan repayment.	193	2.41	.421
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 7, it falls into the fair range with the mean score of 2.41 (SD= .421) and it indicates business experience of borrowers are helped them fairly to repay their loan on time.

**Table 8: - Descriptive analysis for Disbursement Practice**

<b>3.</b>	<b>Disbursement Practice</b>	<b>N</b>	<b>Mean</b>	<b>St. deviation</b>
3.1	The disbursement practices followed by the lender are suitable.	193	3.41	.494
3.2	Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults	193	4.84	.363
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 8 , the value with the highest mean score that the first choice of the respondents among the questions was Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults with the mean score of 4.84 (SD=.363),. The disbursement practices followed by the lender are suitable of the mean scores are categorized in moderate range with the mean score of 3.41 (SD= .363). In general, the disbursement practice of Awach SACOOs was satisfactory for borrowers and they all agree on the guarantee policies are decreases the chances of loan defaults.

**Table 9: - Descriptive analysis for Loan Repayment Performance**

<b>4.</b>	<b>Loan repayment</b>	<b>N</b>	<b>Mean</b>	<b>St. deviation</b>
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	<b>Performance</b>			
4.1	I repay my loan fully on maturity	193	1.58	.393
4.2	I use the loan for the purpose for which it was taken	193	4.79	.889
4.3	I use the loan for the purpose for which it was taken	193	4.84	.363
4.4	My loan default is coming due to High loan interest settle by the lender	193	3.00	.000
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 9 , the above value mean score fall in to excellent with the mean score of 4.79 I use the loan for the purpose for which it was taken. I repay my loan fully on maturity and 1.58 (SD= .393). My loan default is coming due to High loan interest settle by the lender which fall in to average with the mean score of 3.00 (SD= .000).

Table 10: - **Descriptive analysis for Loan queue**

<b>5.</b>	<b>Loan queue</b>	<b>N</b>	<b>Mean</b>	<b>St. deviation</b>
5.1	I get the loan at the right time immediately I apply for the loan	193	2.53	.500
5.2	I failed to timely provide the precondition (necessary documents) to the lender?	193	2.56	.498
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 10, both of the above value mean score fall in to average with the mean score of 2.5 respectively. The borrowers are said that they got the loan in moderate delay of the institution, it may cause by their failure of timely provide the loan requirements.

Table 11: - **Descriptive analysis for Training**

<b>6.</b>	<b>Training</b>	<b>N</b>	<b>Mean</b>	<b>St. deviation</b>
6.1	Before the loan is granted, the association provides me training.	193	1.41	.324
6.2	The training is helped me increasing my income.	193	1.48	.351
6.3	The training has had a positive impact on my loan	193	1.34	.311

	repayment process			
	Valid N (list wise)	193		

Source: Survey result, 2023

As can be seen in Table 11, all of the above value mean score fall in to poor with the mean score of 1.41 (SD= .482) Before the loan is granted, the association provides me training, The training is helped me increasing my income with the mean score of 1.48 (SD= .494), The training has had a positive impact on my loan repayment process with the mean score 1.34 (SD= .494).

**Table 12 Descriptive analysis for Supervision**

**Have you ever been supervised regarding loan utilization by Awach staff?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	193	84.6	100.0	100.0
Missing	System	35	15.4		
Total		228	100.0		

Source: Survey result, 2023

As can be seen in table 12, 84.6% of respondents are said yes about the supervision of loan utilization given by the institution. And it shows the supervision helps them to understand what they should spend their loans on. And it's a good sign that supervision positively affects loan repayment of the borrowers.

**Table 13 Descriptive analysis for Supervision**

**Do you consider supervision as being important for loan repayment?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	193	84.6	100.0	100.0
Missing	System	35	15.4		
Total		228	100.0		

Source: Survey result, 2023

As can be seen in table 13, 84.6% of respondents are confirmed supervision is important for their loan repayments, and it indicate that borrowers are know how supervision is important and makes them understand that they should at least invest in something that will earn them extra income and that if they do this, they will be less likely to get into loan defaults.

**Table 14 Descriptive analysis for Monitoring**

**To what extent does monitoring affect the loan repayment of the borrowers?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Great Extent	81	35.5	42.0	42.0
	Moderate Extent	112	49.1	58.0	100.0
	Total	193	84.6	100.0	

Missing	System	35	15.4		
Total		228	100.0		

Source: Survey result, 2023

As can be seen in table 14, respondents are said 49.1% monitoring affect the loan repayment in moderate extent and 35.5% in great extent.

Table 15: **Descriptive analysis for collateral**

**Is collateral that the institution asked to provide the loan is adequate?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	101	44.29	36.8	36.8
	no	92	43.35	38.3	75.1
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source: Survey result, 2023

As can be seen in table 15, most of respondents are said the collateral that the institution asked to provide the loan is adequate in 44.29%, and 43.35% of respondents are said not adequate, it indicate that some borrowers are not satisfied by the institution collateral policies because the institution is ask them beyond their capacity.

Table 16: **Descriptive analysis for collateral**

**To what extent do collateral that the borrowers give affect their loan repayment performances?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Great Extent	26	11.4	13.5	13.5
	Great Extent	167	73.2	86.5	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source: survey Result, 2023

As indicated in table 16, most of the respondents are said collateral are affect loan repayment performances 73.2% great extent, and 11.4% very great extent. And it shows the borrowers are only responsible for their collateral, they are willing to pay their debts only for their collateral are not be inherited by the institution.

**Table 17: Descriptive analysis for Business Experience**

**To what extent is the loan repayment affected when borrowers who have no previous business experience take a loan?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Great Extent	71	31.1	36.8	36.8
	Great Extent	74	32.5	38.3	75.1
	Moderate Extent	48	21.1	24.9	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source: Survey Result, 2023

As indicated in table 17, more of the respondents are said (32.5%) borrowers who have no previous business experience are affect loan repayment in great extent, 31.1% very great extent, 21.1% Moderate extent. It indicates borrowers who have business experiences know how to use their loan and how to earn income, so they don't fall into Loan defaults.

**Table 18: Descriptive analyses for Disbursement Practice**

**If your answer for question No 1 was yes to what extent does the disbursement practice affect loan repayment of the borrowers?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Great Extent	82	36.0	42.5	42.5
	Moderate Extent	111	48.7	57.5	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source, survey result 2023

As indicated in Table 18, 48.% of respondents are said the disbursement practice affect loan repayment of borrowers in moderate extent and the rest 36% of respondents are said Great extent.

**Table19: Descriptive analysis for Disbursement Practice**

**Did you take the loan from Awach Saving and credit Institution more than one times?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	yes	26	11.4	13.5	13.5
	no	167	73.2	86.5	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		

Total	228	100.0		
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Source, survey result 2023

As indicated in Table 19, 73.2% of respondents are not take loan more than one times, which means having no previous credit experience can be seen as a great opportunity for the institution. This shows that the respondents have no experiences about the actions taken by the institution against them.

Table 20: **Descriptive analysis for loan Disbursement**

**Did you get the loan at the right time after you apply for the loan?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Yes	25	11.0	13.0	13.0
	No	168	73.7	87.0	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source: survey result 2023

As indicate in Table 20, 73.7% of respondents are said that they didn't get the loan immediately they apply for the institution. And the rest 11% of respondents are got the loan immediately they apply for the loan. This indicated that the borrowers are failing to fulfill the requirements due on time asked by the institution. And it causes delay of disbursement process.

Table21: **Descriptive analysis for disbursement Practices**

**If your answer to question 4 is no, what is the reason for delay?**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Lengthy period the institution took in loan processing.	26	11.4	13.5	13.5
	Failure to timely provide the necessary documents by the promoter.	167	73.2	86.5	100.0
	Total	193	84.6	100.0	
Missing	System	35	15.4		
Total		228	100.0		

Source: Survey result 2023

As indicate in Table 21, the loan may be delayed if the borrowers are not able to fulfill the things that the institution requires the borrowers to fulfill. For example, if they bring a salary guarantee, proof that the company has been in business for more than 10 years, business license, renewed ID and married or single certificate, etc. It is delayed because the borrowers are unable to fulfill these and similar things quickly.

### 4.3 Descriptive analysis for Interview questions

#### 4.4 Regression Analysis

Although correlation analysis is a valuable research technique, it provides information regarding the predictive power of variables (Field, 2005). A regression analysis was used to support the correlation tools. The relation of the independent variables in predicting the dependent variable was investigated further using regression analysis. The assumptions of multiple linear regressions must be validated before to regression analysis. The following is the assumption test:

##### 4.4.1 Dependent Residuals Are Independent Test

The Durbin-Watson statistic can be used to test the assumption that our residuals are independent in this case (or uncorrelated). The Durbin-Watson scale is 0 to 4. This value should be close to 1. Values of 3 are concerning and may invalidate our analysis. Therefore, the data shows below is .729 it means the value close to normal so there are no correlated variables.

Figure 3: Durbin Watson statistics

Model Summary <sup>b</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.731 <sup>a</sup>	.534	.514	.23603	1.996

a. Predictors: (Constant), DISPRA\_Mean, Age\_Mean, COLL\_Mean, SupMon\_Mean, EDU\_Mean, BUSEXp\_Mean

b. Dependent Variable: LoanR\_Mean

Survey result, SPSS 2023

The above model summary specifies Loan repayment Performances as a function of Age, Education, and Collateral, Supervision and monitoring, Business Experience and Disbursement practices. The adjusted R square of the model is .514; meaning 51.4% of Loan repayment Performances was explained by the independents variables. Loan repayment Performances is described by this model which is good.

##### 4.4.2 Test of Multiple Linear Regression Analysis

The purpose of multiple regression analysis is to figure out how a dependent variable and two or more independent variables are related. It attempts to forecast Loan repayment Practice as the dependent variable, with Age, Education, Supervision and Monitoring, Collateral, Disbursement Practices as the independent variables used to predict loan repayment practices. A relationship model is proposed, and parameter values are approximated to create an estimated regression equation. The estimated regression equation can be used to predict the value of the dependent variable based on the values of the independent variables. When all

independent variables are equal to zero, and the coefficients, or multipliers, describe the magnitude of the independent variables' effect on the dependent variable.

**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.876	6	1.479	26.554	.000 <sup>b</sup>
	Residual	7.744	139	.056		
	Total	16.620	145			

a. Dependent Variable: LoanR\_Mean

b. Predictors: (Constant), DISPRA\_Mean, Age\_Mean, COLL\_Mean, SupMon\_Mean, EDU\_Mean, BUSEXP\_Mean

Figure 7: ANOVA

Source: - Survey result SPSS, 2023

Analysis of variance in this study was used to determine whether the model was a good fit for the data. The F value of the test for the data in above Figure7 is 26.554. The p-value is associated with the F value of .000 which is lower than the alpha value of 0.05. In addition, the ANOVA table indicates that there was a significant impact of the independent variables on the dependent variable and the model applied was significantly suitable to predict the dependent variable.

#### 4.4.2.1 Multicollinearity Test

Multi-collinearity assumption of regression indicates the existing correlation among independent variables. Tabachnick and Fidell (2007) suggested that multi-collinearity diagnosis can be tested by Tolerance and Variance Inflation Factor (VIF) values. Tolerance is an indicator of how much of the variability of the specified independent variable is explained by other independent variables in the model.

Multicollinearity occurs when there are significant correlations between two or more independent variables. Multicollinearity was originally defined as a "perfect," or exact, linear relationship between some or all of the independent variables in a regression model. The simplest multicollinearity test is conducted by testing the correlation coefficient between the independent variables (IVs). According to Tabachnick and Fidell (2001), if the tolerance value is  $< 0.1$  and the VIF is  $> 10$ , it indicates the presence of multicollinearity in the data. This is essentially the assumption that your predictors are not too highly correlated with one another. Therefore, the data shows below have no multicollinearity problem.

Figuer 2: Coefficients Statistics

Coefficients <sup>a</sup>									
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Collinearity Statistics	
	B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	1.840	.291	6.327	.000	2.432	4.693		
	Age_Mean	-.224	.043	-.355	.000	-.068	.076	.710	1.408
	EDU_Mean	.037	.043	.064	.392	.010	.173	.610	1.640
	SupMon_Mean	.607	.076	.506	.000	-.560	.263	.839	1.192
	COLL_Mean	-.407	.060	-.521	.000	-1.083	-.393	.567	1.763
	BUSEXP_Mean	.115	.054	.143	.036	.318	.920	.734	1.363
	DISPRA_Mean	.230	.037	.413	.000	-.032	.467	.746	1.341

a. Dependent Variable: LoanR\_Mean

Source:

survey result, SPSS 2023

The result here above showed that all independent variables: Age, Education, supervision and monitoring, collateral, business experience and disbursement practices had impact on the dependent variable (loan repayment practices) with standardize Beta and Significance level (1) age of the respondent  $-.355$  and  $\text{Sig.} = .000$ , (2) education  $.064$  and  $\text{Sig.} = .392$ , (3) supervision and monitoring  $.506$  and  $\text{Sig.} = .000$ , (4) collateral  $-.521$  and  $\text{Sig.} = .000$ , (5) business experience  $.143$  and  $\text{Sig.} = .036$  and (6) disbursement practice  $4.13$  and  $\text{Sig. value} = .000$ . As shown in the table 13, all independent variables had  $\text{Sig.} < 0.05$  except for age and collateral which is insignificant to predict the loan repayment practices. The rest were found to significantly contribute to loan repayment practices. According to Pallant (2005), on the above table 13, we need to look in the column labeled Beta under Standardized Coefficients. Under the Beta column we select the largest value. In this research case the largest beta coefficient is  $-.521$ , which is collateral. This means that this variable makes the strongest unique contribution to explaining loan repayment, when the variance explained by all other variables in the model is controlled for.

#### 4.4.2.2 Homoscedasticity Test

The assumption of homoscedasticity is that the variation in the residuals or amount of error in the model is similar across the board. In other words, the dispersion of the residuals across the linear model should be fairly constant at each point of the predicted variables. Therefore, the plot of standardized residuals vs. standardized predicted values showed no obvious signs of funneling; suggesting the assumption of homoscedasticity has been met.

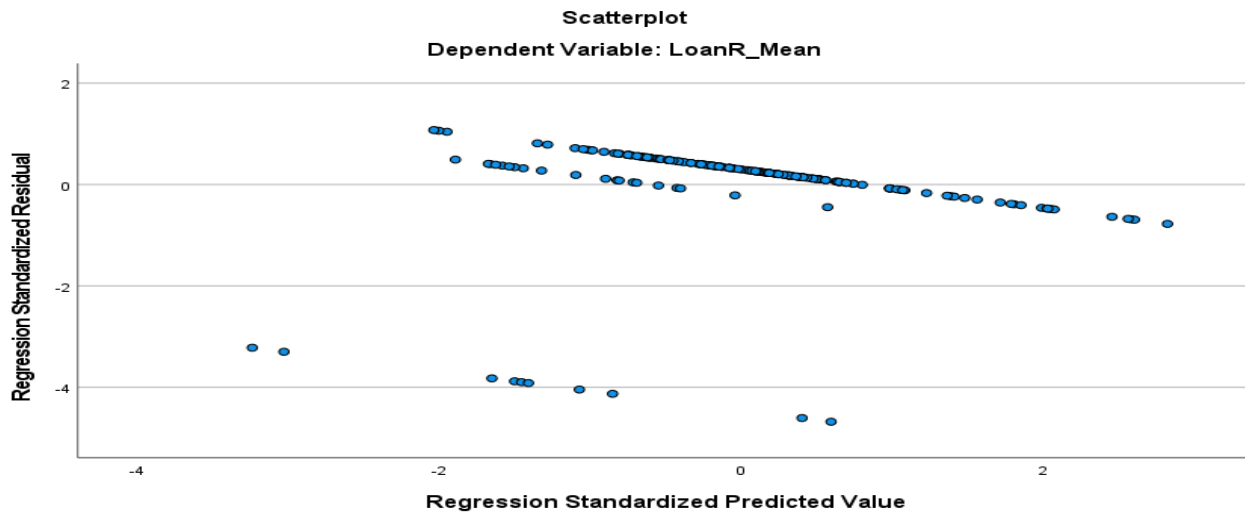


Figure 4: Homoscedasticity test

Source: Own survey, SPSS result 2023

#### 4.4.2.3 Test of Multi variety Normality

The P-P plot for the model can be used to test this assumption. The residuals are distributed closer to normal, the closer the dots are to the diagonal line. From the below p-p plot we have noticed that the closer the dots lie to the diagonal line, the closer to normal residuals are normally distributed. Thus the assumption of multivariate normality is had been met.

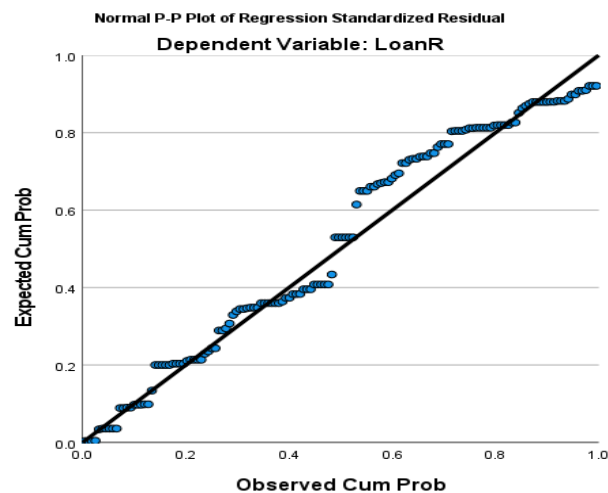


Figure 5: Normality test

Source: Own survey, SPSS result 2023

#### 4.4.2.4 Test of no outlier's result

This assumption states that there are no influential cases of biasing of your model in other word it's the way of identifying points that that negatively affect the regression model. It is used to discover whether one or more cases have such a large effect that they might distort the overall results of the regression Cook, RD., (1977). To check this assumption, by looking at the Cook's distance values as its running in SPSS. The cooks distance statics for each participant any value over 1 are likely to be significant outliers and which may place undue influence on the model, and it should be removed and need to be rerun the analysis again Cook, RD., (1977). The cook's all values are less than 1 meaning there is no biasing of model or there are not any points that negatively affect the regression model. As you seen in the figure below, the maximum cook's value is 0.203 and as it's less than 1 there is no biasing of model or there are not any points that negatively affect the regression model.

<b>Residuals Statistics<sup>a</sup></b>					
	Minimum	Maximum	Mean	Std. Deviation	N
Predicted Value	2.8171	3.7624	3.2732	.24742	193
Std. Predicted Value	-1.843	1.977	.000	1.000	193
Standard Error of Predicted Value	.029	.101	.049	.015	193
Adjusted Predicted Value	2.8209	3.7798	3.2721	.24636	193
Residual	-.63133	.33331	.00000	.23110	193
Std. Residual	-2.675	1.412	.000	.979	193
Stud. Residual	-2.726	1.532	.002	1.002	193
Deleted Residual	-.65585	.39210	.00114	.24226	193
Stud. Deleted Residual	-2.792	1.539	.000	1.009	193
Mahal. Distance	1.243	25.420	5.959	4.855	193
Cook's Distance	.000	.059	.007	.011	193
Centered Leverage Value	.009	.175	.041	.033	193

a. Dependent Variable: LoanR\_Mean

Figure 6: Cook's Distance Source:

Own survey, SPSS result 2023

#### 4.5 Correlation Analysis

To investigate the relationship between independent variable (Age, Education, Supervision and Monitoring, Collateral, Business experience ) and the dependent variable (Loan repayment performance), Pearson's correlation analysis was used. The purpose of Pearson's correlation test was to determine whether there existed an association between performance appraisal procedures and the motivation level of employees. According to Kothari (2008:138), regarding to the direction of correlation coefficient, positive correlation coefficient indicates that there exists direct relationship between variables, and negative correlation coefficient

Table 22: Correlation between study variables

**Correlations**

		Age	EDU	Sup& Mon	COLL	BUSEXP	DISPRA	LoanR
Age	Pearson Correlation	1						
	Sig. (2-tailed)							
	N	193						
EDU	Pearson Correlation	.400**	1					
	Sig. (2-tailed)	.000						
	N	193	193					
Sup & Mon	Pearson Correlation	.097	.006	1				
	Sig. (2-tailed)	.001	.000					
	N	193	193	193				
COLL	Pearson Correlation	.012	.019	.046**	1			
	Sig. (2-tailed)	.000	.000	.000				
	N	193	193	193	193			
BUSEXP	Pearson Correlation	.050	.016	.055	.899**	1		
	Sig. (2-tailed)	.000	.002	.001	.000			
	N	193	193	193	193	193		
DISPRA	Pearson Correlation	.017	.095	.226**	.026	.059	1	
	Sig. (2-tailed)	.000	.000	.000	.000	.000		
	N	193	193	193	193	193	193	
LoanR	Pearson Correlation	.249	.160**	.182	.684**	.451	.471	1
	Sig. (2-tailed)	.000	.001	.001	.000	.000	.001	
	N	193	193	193	193	193	193	193

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

Source: survey result, SPSS 2023

indicates that the relation is reverse. Based on the suggestions of Kothari (2008) on correlation values, the magnitude or strength or degree of the relationship is determined as very low relationship if (below 0.19), low if (0.20-0.39), moderate or medium if (0.40-0.59), high if (0.60-0.79) and very high or strong relationship if (0.80-1.00). The correlation was made based on the assumption of 95% confidence interval and it was calculated using SPSS version 27.0. The correlation was presented in the following table and analyzed below.

From Table, the correlation coefficient between Age of borrowers and Loan repayment performances is  $r = 0.249$ , sig. (2-tailed) value = 0.000. This value of correlations suggested that there is statistically significant relationship between the two variables at 95% confidence interval ( $P < 0.01$ ).

Similarly, the correlation between Borrowers level of Education and Loan repayment is 0.160, sig. (2-tailed) value = 0.01,  $p < 0.01$ . This value confirmed that Loan repayment performances has statistically significantly relationship with Borrowers Education ( $p < 0.01$ ).

On the other hand, the correlation between Supervision and Monitoring is 0.182, sig. (2-tailed) value = 0.01,  $p < 0.01$ . The value of correlation and sig. value suggested that the two variables (loan repayment and supervision and monitoring) has statistically significant relationship since  $p < 0.01$ .

The correlation between Collateral and Loan repayment is 0.684, sig. (2-tailed) value = 0.000,  $p < 0.01$ . The value of correlation and sig. value suggested that the two variables have statistically significant relationship since  $p < 0.01$  and the value of  $r$  is god level.

The correlation between borrowers business Experience and Loan repayment is 0.451, sig. (2-tailed) value = 0.000,  $p < 0.01$ . The value of correlation and sig. value suggested that the two variables have statistically significant relationship since  $p < 0.01$  and the value of  $r$  is moderate level.

The correlation between Disbursement Practice and Loan repayment is 0.471, sig. (2-tailed) value = 0.001,  $p < 0.01$ . The value of correlation and sig. value suggested that the two variables have statistically significant relationship since  $p < 0.01$  and the value of  $r$  is moderate level.

## CHAPTER 5

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 INTRODUCTION

This chapter is the last one in this study paper. It covered the conclusion and the possible recommendation provided by the researcher based on the findings identified in chapter four. In this chapter, depending on the analysis of the data, conclusions and recommendations have been made. To remind, the major objective of this study was to asses' loan disbursement and repayment practices, to identify factors affecting loan repayments and to explain the effects of critical factors on the loan repayment performance of Awach Saving and Credit Cooperative. The study also used a multiple linear regression method for the estimation of variables coefficient under regression models. The following sections discussed about final conclusion remarks of the study and applicable recommendations.

#### 5.2 SUMMARY AND FINDING

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

- ✓ Regarding to the demographic information of participant respondents of the study from Awach SACOOs, the descriptive statistics indicates that the majority of defaulter respondents in this study were males (56.14% )
- ✓ The majority non-defaulter respondents are females (48.10%)
- ✓ Married non defaulter respondent (30.56%) and educational level of respondents are tertiary in 24.87%.
- ✓ The analysis of correlation suggested that collateral has highly statistically significant relation with Loan repayment performances ( $r= 0.684$ ). Borrowers level of education, Supervision and monitoring, age of the borrowers, disbursement practices is ( $r=0.160$ ,  $r=0.182$ ,  $r=0.249$  and  $r=$ ) also moderately but positively correlated with loan repayment performance.
- ✓ Based on the evaluation of the institution's Disbursement Practice, I see that a person must first become a member of the institution before taking a loan, and after becoming a member, they can apply for a loan and has to deposit advance savings for the loan.

Once the savings that they have gone is seen by the institution and it is confirmed that it is good, they will be allowed to start the loan process. The type of collateral they bring depends on the amount of loan they are borrowing and the collateral can be salary, car libre, and home equity.

According to the information given by the institution, they told me in the interview session that they will ask for a property guarantee of more than one hundred thousand birr. The reason for this is that in the past, as long as the salary of the guarantee is enough, even five hundred thousand birr is given as a salary guarantee, and this is causing the institution to incur unwanted losses. The borrowers do not pay their debts because they know that there is no serious damage that can be done to them if they do not pay their debts properly after securing a salary guarantee. The worst that can happen to them is prosecution. It takes a long time for a court case to reach a verdict, so in the meantime, they get a gap in not paying their debts.

- ✓ Borrowers are not happy about asking for high collateral for their loans. This is caused by a lack of understanding of the problems faced by the institution.
- ✓ It is seen that the institution's loan repayment practices' is good with the supervision and monitoring work they do.
- ✓ The loan repayment ability of members on maturity date is not more satisfied, because there are a number of respondents who did not pay their loan on maturity.
- ✓ The institution ensures that borrowers are eligible for the loan.
- ✓ Business experienced borrowers stated that their previous business experience helps them to manage their current loans.
- ✓ The disbursement practice of the institution has been given a moderate observation by the borrower.
- ✓ Most borrowers use their loans for the purpose what they want, but only a few can pay on time. This shows the purpose for which the loan is being used is not an income generating activity.
- ✓ The loan is delayed because the borrower is unable to meet the requirements of the lending company to provide loans to the borrowers.
- ✓ The study shows that Awach SACCOs taking legal actions against loan defaulters.
- ✓ Generally the institution must examining principles and procedures, identify factors responsible for loan defaulters, evaluate guiding principles and requirements to offer loans for members and examine the required security to offer loans in order to control loan defaulters. In addition borrowers' age, education level, business experience, type of collateral, and the disbursement practices all have positive implications for the study.

### **5.3 CONCLUSION**

From the study findings it can be fulfilled that even though many factors can lead to loan defaults, some of the factors were regarded to be of higher effect. This is evident from the way respondents replied to questions and the analysis arising thereof.

The institution does not provide follow up service continuously.

Warranty policy keeps borrowers from going into default.

Borrower's business experience contributes to the loan repayment performance positively or negatively with varying degree of impact.

This study strengthens the need to treat women as good repair than men. The study discloses that male borrowers, other things remaining the same, are less likely to fail in repaying their loan as compared to their female counter parts.

The educational status as well as business experience of the borrowers reveals that borrowers who are relatively endowed with these factors are less likely to default. In other words, these two variables make the borrower to be rich on how to effectively and efficiently manage the borrowed fight fierce competition to have a good market share (more of business experience effect) of which enabling the borrower to pay the loan on time. Finally, the research result assures that frequent follow up and supervision by credit analyst help the borrower not to end up being defaulter that means less likely to be a defaulter.

We can see from the data results that all the independent variables are significant factors for the Loan repayment performance. When we look at how critically they affect the loan performances of borrowers are, collateral and business experience affect it in great extent. Monitoring and disbursement practice will affect it with moderate extent.

## **5.4 RECOMMENDATION**

Based on the conclusions made before, the researcher suggested and forwarded the following possible recommendations to Awach Saving and Credit Coop Ltd and other related institutions to examine factors that affect loan repayments and to what extent that they critically affect loan repayment performances.

- Loan supervision and monitoring systems were also found to be important factors that enhance loan repayment performance. Therefore, Awach SACCOs should pay due attention on supervision of borrowers immediately after loan disbursement to minimize the willing defaulters. Moreover, loan monitoring has to be given due attention since Credit Agents' technical assistance will improve borrowers' business performance and also enable lenders to evaluate the status of disbursed loans at different stages. Monitoring, to understand the borrowers feeling and suitability of the lenders also improves the lender- customer relationship thereby encouraging borrowers to stay long with the organization and finally develop trust and sense of ownership.
- Although continuous follow up and supervision is important for loan repayment, there is not enough supervision made by loan officers. This is due to the increasing number of clients in the institution

with un-proportionate number and competency level of loan officer. Therefore, it is recommended to make the number of clients and loan officer comparable.

- Finally the lending institutions should focus on the repayment challenges which are stated by the borrowers and take corrective actions. In order to solve the problems of the institution, the main thing might be improve the financial capacity of the institution and expand the services and upgrade the skill of loan officers in line with loan appraisal, loan monitoring and supervision.

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## APPENDIX I

**ST. MARY'S UNIVERSITY  
SCHOOL OF GRADUATE STUDIES  
DEPARTMENT OF MASTERS OF BUSINESS ADMINISTRATION  
Questionnaire for Borrowers of Awach SACCOs**

**Dear respondent,**

My name is Hermel aZemedkun, currently I am conducting a survey on an Assessment of loan disbursement and repayment practices in Awach SACCOs.

This questionnaire is aimed at collecting information from Awach SACCOs. The ultimate objective of collecting the information is purely for the academic purpose. The output of the study entirely depends on the accuracy of the information. So, you are kindly requested to fill this questionnaire accurately and truly. Moreover, all of your responses will ever expose your identity.

**“Thank you in advance for taking the time to complete this questionnaire.”**

**N.B:**

1. You don't need to write your name.
2. The researcher has scheduled to get the filled questionnaire back within three days.
3. All information given would be treated with utmost confidentiality.

**Researcher address:**

Hermela Zemedkun

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### **Part One: Respondents Personal Details**

1. Age of the borrower: \_\_\_\_\_
2. Gender: ☐ Female ☐ Male
3. Category of the Respondent by loan repayment performance  
☐ Defaulter  
☐ Non-defaulter
4. Marital status  
☐ Married  
☐ Unmarried/Single  
☐ Divorced  
☐ Widowed
5. What is your level of education?  
☐ Illiterate  
☐ Primary Education (Grade 1-8)  
☐ Secondary Education (Grade 9-12)  
☐ Tertiary education (Degree)

☐ Above Degree

## Part Two: Scale Questions

**Instruction:** Please read each statement carefully and respond to the following questions by placing a check mark (✓) in the answer box that corresponds to your response and/or fill in the blank where indicated. Show your agreement/disagreement using this 5-point Likert scale where 1= Strongly Disagree (SD), 2= Disagree (D), 3= Neutral (N), 4= Agree (A), and 5= Strongly Agree (SA).

S/N	Questions items	1	2	3	4	5
<b>1.</b>	<b>Issues related to Repayment performances</b>					
1.1	I repay my loan fully on maturity					
1.2	I use the loan for the purpose for which it was taken					
1.3	I agree if the lender penalized (take legal action) against my loan defaults					
1.4	My loan default is coming due to High loan interest settle by the lender					
<b>2.</b>	<b>Issues Related to Loan queue</b>					
2.1	I get the loan at the right time immediately I apply for the loan					
2.2	I failed to timely provide the precondition (necessary documents) to the lender?					
<b>3.</b>	<b>Issues Related to Disbursement policy</b>					
3.1	The disbursement practices followed by the lender are suitable.					
3.2	Enforcement of guarantee policies provides chances for loan recovery in case of loan defaults					
<b>4.</b>	<b>Issues Related to Business experience</b>					
4.1	My previous experience helped me to know how to manage my current loan repayment.					
<b>5.</b>	<b>Issues Related to training</b>					
5.1	Before the loan is granted, the association provides me training.					
5.2	The training is helped me increasing my income.					
5.3	The training has had a positive impact on my loan repayment process					
<b>6.</b>	<b>Issues Related to Supervision and monitoring</b>					
6.1	The monitoring practice about loan repayment by the lending company is less.					
6.2	Credit monitoring is helping me repay my loan properly.					
6.3	The institution (Lenders) provides me supervision and follow up services over the usage of the loan.					
6.4	I configure supervision is a positive impact on my loan repayment.					
6.5	The lender confirms that I am eligible to repay the					

	loan I have applied for.					
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### Part Three:

#### Issues related to supervision and monitoring

1. Have you ever been supervised regarding loan utilization by Awach staff?  
☐ Yes  
☐ No
2. If yes to question No 1, how many times where you supervised  
☐ Per month  
☐ Per weak  
☐ Per day
3. Do you consider supervision as being important for loan repayment?  
☐ Yes  
☐ No
4. To what extent does monitoring affect the loan repayment of the borrowers?  
☐ Very Great Extent  
☐ Great Extent  
☐ Moderate Extent  
☐ Low extent  
☐ Not at all

#### Issues related in collaterals

5. Is collateral that the institution asked to provide the loan is adequate?  
☐ Yes  
☐ No
6. To what extent do collaterals that the borrowers give affect their loan repayment performances?  
☐ Very Great Extent  
☐ Great Extent  
☐ Moderate Extent  
☐ Low extent  
☐ Not at all

#### Issues related in business experience

7. To what extent is the loan repayment affected when borrowers who have no previous business experience take a loan?  
☐ Very Great Extent  
☐ Great Extent

☐ Moderate Extent

☐ Low extent

☐ Not at all

8. What was the impact of the delay of loan repayment?

☐ Limit the business cash flow

☐ Hinder the business growth (not be able to take new projects)

☐ Credit delinquency is created

#### **Issues related to disbursement practice**

9. Do you think the method of disbursement process will affect the repayment practices?

☐ Yes

☐ No

10. If your answer for question No 1 was yes to what extent does the disbursement practice affect loan repayment of the borrowers?

☐ Very Great Extent

☐ Great Extent

☐ Moderate Extent

☐ Low extent

☐ Not at all

#### **Issues related to Credit Utilization**

11. Did you take the loan from Awach Saving and credit Institution more than one times?

☐ Yes

☐ No

12. Did you get the loan at the right time after you apply for the loan?

☐ Yes

☐ No

13. If your answer to question 4 is no, what is the reason for delay?

☐ Lengthy period the institution took in loan processing.

☐ Failure to timely provide the necessary documents by the promoter.

☐ Failure of the promoter to timely fulfill the preconditions stipulated on the loan contract

☐ Delay in settlement of the previous loan.

☐ Others (specify)

Further Information/Relevant Inputs Kindly provide us with any matter information, input, or comments you think are important to the objectives of this study in the space provided below;

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**Thank you for your participation.**