Available online at http://www.journalcra.com

International Journal of Current Research
Vol. 7, Issue, 09, pp.20757-20764, September, 2015

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

CHALLENGES AND CONSTRAINTS OF LOAN REPAYMENT PERFORMANCE: THE CASE STUDY OF DENDI MICROFINANCE INSTITUTIONS

***Firafis Haile**

Department of Rural Development and Agricultural Extension, Ambo University, Ethiopia

ARTICLE INFO

Article History:
Received 20th June, 2015
Received in revised form
23rd July, 2015
Accepted 15th August, 2015
Published online 30th September, 2015

Key words:
Loan repayment,
Performance,
Microfinance,
Policy makers.

ABSTRACT

The study was conducted in Dendi district of West Showa zone (Oromia), Ethiopia. This study intended to assess the problems and challenges that affect both institution and borrowers regarding loan repayment process. The survey was conducted in four purposively selected Kebele Associations which having the maximum number of borrowers by selecting 130 sample households through systematic random sampling technique after defaulters and non-defaulters stratification of the respondents. Out of 130 borrowers 50% were defaulter, and the remaining half were non-defaulters. Pre-tested structured interview schedule and other secondary sources were used to collect primary and secondary data respectively. Key informant interviews and Focus Group Discussions mainly helped to generate the necessary qualitative data. The collected data were analyzed by employing simple descriptive statistics. Which model was initially fitted with twelve variables, of which five were found to be statistically significant, and all did not exhibit the expected signs. These significant variables were: loan diversions, loan sizes, family size, number of dependent within and out household, availability of training, time laps between loan application and disbursement, business types, family sizes, supervision and advisory visit were highly important. The qualitative result revealed that the probability of default increase as the family sizes increases, lack of borrowers perception on repayment period, lack of availability of training, low business experience, lack of saving objective and one source of income. Dendi microfinance institutions had a number of internal and external challenges like shortage of loanable funds for further expansion, competition and improper interference of the third part. On the basis of the study findings, it is recommended that reducing family size through expanding family planning program, providing training to bring attitudinal changes, increasing borrower's perception on repayment period through training, selecting experienced person in the business, increasing their business entrepreneurs' skills through provision of different and improving internal and external challenges of the institutions.

Citation: Firafis Haile, 2015. "Challenges and constraints of loan repayment performance: The case study of Dendi microfinance institutions", *International Journal of Current Research*, 7, (9), 20757-20764.

INTRODUCTION

Lending to the poor or lower income group raises many debates among practitioners and academicians. The poor are usually excluded from credit facilities because of many reasons. These include insufficient collateral to support their loans, high transaction costs, unstable income, lower literacy and high monitoring costs. Usually they survive through involvement in micro business activities or informal activities that comprises food processing and sales, small scale agriculture, services, crafts and petty trading. However, these activities actually contribute a number of total employment and gross domestic product (GDP) to the country. Micro and small enterprises (MEs) have been recognized as a major source of employment and income in many countries of the Third World (Mead and Liedholm, 1998). The most challenges faced by MEs around the world are lack of access to credit (Cotler and Woodruff, 2008; Mel *et al.*, 2007; Tambunan, 2007; Schoombee, 2000; Kurwijila and Due, 1991). Schoombee (2000) finds that lack of access to formal bank credit is one of the important problems faced by South African micro entrepreneurs in the informal sector. Mel *et al.* (2007) confirm that missing credit markets is the main limitation for small businesses to grow. The calculation of performance indicators is important for donors, practitioners, and consultants to determine the efficiency, viability, and outreach of Microcredit programs. Performance indicators collect and restate financial data to provide useful information about the financial performance of the microcredit institutions. The sustainability and viability of MFIs is important to make sure that MFIs can continually provides financing to MEs without depending on donors and government.

****Corresponding author: Firafis Haile,***
Department of Rural Development and Agricultural Extension, Ambo University, Ethiopia.

Therefore, financial sustainability is a prerequisite for making micro financial services permanent as well as widely available (ICC, 2001). Llanto *et al*. (1996) argue that to continue providing financial services to the poor on a sustaining basis, the MFIs themselves must be viable and sustainable and the study shows that many of the MFIs are far from attaining these goals. Currently, the country has one commercial and two specialized government owned banks and 14 privately owned commercial banks, one government-owned insurance company and eleven private insurance companies. There are also 30 micro-financing institutions established by private organizations (NBE, 2010). Microcredit helps the poor to be involved in income generating activities that allow them to accumulate capital and improve their standard of living. As quoted by the late Milton Friedman, Nobel Prize winner in the Economics 1976, “The poor stay poor not because they are lazy but because they have no access to capital” (Smith and Thurman, 2007, p.1). This is true since many of poor people around the world are already benefiting from microfinance.

The issue of loan delinquency/default among banks and Microfinance Institutions has been discussed in many public lectures and for a as one of the reasons why commercial banks have not shown much interest in financing Micro, Small and Medium Enterprises (MSMEs). According to Balogun and Alimi (1990), loan default can be defined as the inability of a borrower to fulfill his or her loan obligation when due. High default rates in MSMEs lending should be of major concern to policy makers in developing countries, because of its unintended negative impacts on MSMEs financing. Microfinance institutions all over the world including Ghana are faced with the challenge of loan default/delinquency.

The positive impacts of microfinance institutions on the socio-economic welfare of the poor can only be sustained if the institutions can achieve a good financial and outreach performance. Throughout the world, financial sustainability of microfinance institutions has been one of the issues that have recently captured the attention of many researchers due to its importance in the livelihood of microfinance institutions. The financial sustainability of microfinance institutions is a necessary condition for institutional sustainability (Hollis and Sweetman, 1998; Baskar B, 2011; Ramesh R, 2013). As it has been argued “unsustainable MFIs might help the poor now, but they will not help the poor in the future because the MFIs will be gone” (Schreiner, 2000, p. 425). Moreover, it has been reported that it may better not have MFIs than having unsustainable ones (Ganka, 2010).

One way to tackle the loan repayment problem is to investigate the factors which affect the loan repayment of MFIs., (Onyeagocha *et al*, 2012) although loan repayment is determined by willingness, ability and other characteristics of the borrowers; businesses characteristics and characteristics of the lending institutions including product designs and suitability of their products to borrowers. Regarding the characteristics of borrowers, repayment of loans depends on the willingness and ability of the borrowers to repay. Therefore, individual borrowers can either repay their loans or choose to default. It is also true that the factors influencing loan repayment capacity among borrowers are not only likely to differ by programs but also differ from country to country depending on the domestic business and economic environment (Tundui and Tundui, 2013). Therefore, a thorough investigation of the various aspects of loan defaults, source of credit and conditions of loan provision are of great importance both for policy makers and the lending institutions. Hence, this study was undertaken to analyses the extent to which credit functions and how loan repayment performance rates are associated with different personal and socio-economic and institutional characteristics of borrowers in Dendi district, Oromia Peoples’ Regional State, Ethiopia. It is obvious that many rural credit schemes have sustained heavy losses because of poor loan collection. And yet a lot more have been dependent on government subsidy to financially cover the losses they faced through loan default. But such dependence will not prove helpful for sustainability. MFIs should rather depend on loan recovery to have a sustainable financial position in this regard, so that they can meet their objective of alleviating poverty (Alemayew, 2008).

Knowledge on determinants of loan repayment is undoubtedly important for it provides information to the lender on the incentives available for the borrower to comply with repayment schedules. Empirical studies in this connection are however limited in Ethiopia, though recently researchers are showing interest and hence carrying out relevant studies. As regards the determinants of loan repayment, Mengistu (1997) conducted a study on the Market Town Development Program (MTDP) credit scheme for Bahir Dar and Awassa towns using a binomial probit model. For Bahir Dar, the author found out that expectation of repeat loan and numbers of workers employed by the credit beneficiary were positively related to full loan repayment; while loan diversion and access to additional credit sources are negatively related to repayments.

The sustainability of microfinance institutions depends largely on their ability to collect their loans as efficiently and effectively as possible. In other words to be financially viable or sustainable, microfinance institutions must ensure high portfolio quality based on 100% repayment ,or at worst low delinquency/default, cost recovery and efficient lending. However of late, there have been complains by the microfinance institutions regarding high rate of default/delinquency by their clients; which presupposes that most microfinance institutions are not achieving the internationally accepted standard portfolio at risk of 3%, which is a cause for concern because of its consequences on businesses, individuals, and the economy of Ethiopia at large. Delinquency and hence default have started creeping deeply into the operations of microfinance institutions in Oromia regional state West showa Zone Dendi district hence the study into the challenges and problems of loan repayment performance and control of loan delinquency/default in Dendi microfinance institutions. Access to financing is an important aspect in the business operation of micro enterprises. However, repayment problem is an obstacle to the financial institutions including Microfinance Institutions (MFIs) that offer microfinance based on group lending approach to provide credit to micro entrepreneurs. Therefore, this research was tries to explore the loan repayment problems and challenges in microfinance programs that use group lending approach.

This study applied quantitative and qualitative analysis through in-depth interviews with Microfinance Institutions staffs and Microfinance Institution clients in Dendi District west showa Zone, Oromia Regional state, Ethiopia.

MATERIALS AND METHODS

The study was conducted in Oromia Regional State. Oromia Regional State, West Shoa zone Dendi District was purposively selected because mainly due to the presence of maximum number of borrowers. Multistage sampling techniques been used for this study. At the first stage, from the total of kebele Association of the Zone, only four kebele Associations with the highest number of customers were selected purposively to study the factors affecting loan repayment of the institutions. Accordingly, four kebele associations: Faji, Gelia, Burka Dimtu and Celeleka were selected. There were 900 households present in the sampled Kebele Associations. Secondly, how many strata? sampling was employed to select respondents from among defaulter and non-defaulters with equal sample size of 65 households from each stratum. Finally, systematic random sampling technique was employed to respondents. Ratio sampling was used to fix the number of sample borrowers selected from each Kebele Associations. Quantitative and qualitative data were collected through different methods.

Research Design

The study employed explanatory research design with quantitative and qualitative methods. The quantitative aspect of the data focused on description of socioeconomic variables, loan and related variables, and business related variables and analysis of relationship among the dependent and explanatory variables of SMFI for the study.

Quantitative and qualitative methods

Participatory tools like Focused Group Discussion, key informant interview, Direct Observation and case studies were used for collecting qualitative data.

Key informant interview: It used to obtain basic information on community and organizational profile. The informants were selected in consultation with kebele and Woreda's administration and microfinance officials. Qualitative data was drawn mainly through household survey apart from secondary sources.

RESULTS AND DISCUSSION

The results of analysis have been conducted to address main and specific objectives of the research. This part is divided in to five major sections. The first section of this part presents socio-economic characteristics of respondents. Loan and related characteristics of respondents in the study area are presented in the second section. In the third section, business and related characteristics of respondents are analyzed. Challenges and problems of institution are presented in forth section. In generally, this part presents the results from the descriptive and qualitative analysis.

The descriptive analysis made use of tools such as mean, standard deviation, percentage, and frequency distribution. In addition the t-test and chi-square statistics were employed to compare defaulters and non defaulters group with respect to some explanatory variables.

Socio-Economic Characteristics of Respondents

Sex of Respondents

The study showed that 14.2Percent of the creditworthy borrowers were male, and the rest 85.8 percent were female. Moreover only 85percent of the female are defaulters while the corresponding figure for the male 15% is Non-defaulters. The study implies that there were no significance difference challenges and problems in loan repayment performance between male and female. This result is in agreement with the findings of Retta (2000) and Fikirte (2011).

Loan diversion

The survey result clearly showed that about 69.16percent of the sample respondents' divert loan for another reason whereas for 30.8 percent did not diverted their loan. This variable was found to influence negatively and significantly the borrowers' loan repayment performance at 1% significance level. An application of entire loan for intended and productive business lessens the probability of defaulting by 0.084. This result is in agreement with the findings of Nawai (2013) and Shariff, M. N. M. (2013 (2013). However; it was inconsistent with the findings of Assefa (2008).

Educational level

The education level was not significantly influencing loan repayment. An increase in one year schooling increases the probability of the loan repayment rate by 4.939, ceteris paribus. This figure revealed that the borrowers whose educational level high have the probability of increasing the loan repayment performance four times more than the borrowers who have lesser education level/ illiterates. This suggests that more educated borrower may have access to business information. This result is in agreement with the findings of Besley T. (1995) and. Coate, S. (1995).

Business experience

The average business experience of the respondents was 3.04 years with the standard deviation of 2.414. The mean business experience of defaulters was 2.80 with the standard deviation of 2.375, while that of non-defaulters was 3.28 with the standard deviation of 2.414. From the t-test, 2-tailed is less than 0.05. This means that there was no a significant difference between defaulters and non-defaulters groups in terms of business experience. This implies that having the more business experiences enhances the probability to repay loan more than having less business experience.

Age of respondents

The mean age of defaulters and non-defaulters was 38.72 and 40.45 respectively. The result of t-test indicated that there was no significant difference between the mean age of defaulter and non-defaulters. This result is in agreement with the study of Abafita (2003).

Family size

The basic sampling unit for this analysis is the family household. In the study area, the average family size was 4.4, wich is less than the national average of 4.7 persons (CSA, 2008). The mean average for size of defaulter and non-defaulter was found to be 4.35 and 3.969 respectively. Statistically there was a significant mean difference (t=3.772) at less than 10% probability level. This result does agreement with the findings of Retta (2000). However, it is inconsistent with the finding of Berhanu (2005) and Sileshi (2010).

Number of dependants within and out household

This variable was found to influence negatively and significantly borrowers' loan repayment performance at 5% significance level. If other variables held constant, having non-dependants or lower number of dependants' decreases the probability of defaulting by the 16.2%.

Saving Purpose

The study showed that 40.5percent of the respondent saved their money for future use where us 43.Percent of the respondents saved their money for the emergency, 4.5 percent of the respondents saved their money for consumption, and 4.5percent saved their money for repayments of the loan and 7.2 percent saved their money for personal. Regarding its relationship with loan, correlation test using Pearson chi-square, statistically there was no a significant mean difference on their saving purpose of defaulters and non-defaulters. This result is in agreement with the findings of Retta (2000) and Abafita (2003). However, it was inconsistent with the finding of Belay (1998).

Training

In order to effectively implement the programme of Microfinance Institutions, training and follow up play a significant role. The informants, however, indicated that they were having two days training when they got the money, but after that nobody came to them to give any kind of support including training. The same thing was reported in the focus group discussion also in a focus group discussion that indicated they were given training once. It was stated that 'The officials of microfinance institutions" gave us training once at the beginning and after that nobody appeared to see what we have done'. In support of this, other participants said that, 'at the beginning we were promised to get continuous training and support, but nothing was done'. Studies also showed that paying less attention to training was taken as one of the drawbacks of microfinance institutions. Jaffari *et al.* (2011) indicated that low attention given to client's skill development as a weakness of microfinance institutions. Lack of follow up was also among the reasons that became obstacle to the performance of members of microfinance institutions.

The members in Focus Group Discussion shared the same idea that at the beginning of their project, they started following them but immediately stopped after that. The discussants argued that it was one of the limitations that led them not to be effective as expected. A woman who was member of MFI stated that, 'nobody made follow-up to see the improvements we made or the problems we faced'. In support of this the other discussant also said that, 'they did not ask us how we used the money'. A 35 year old woman who was a member explaining the situation as, giving loan does not have any meaning unless they follow, encourage and support us when we need. This situation makes us feel that the money is simply given as a gift. The lack of follow up of microfinance institutions were also manifested in a way that debts were not collected from members regularly and they did not have enforcing mechanisms of collecting the money lent. There were discussants who said that they were never requested to repay the debt so that they spent the money they prepared for other purposes. 'My life has been changed for better. However, I am not happy because I wanted to repay my debt and take more but nobody requested me to repay' as mentioned by a woman from a microfinance institution in the study area.

A participant in a Focus Group Discussion also indicated that she did not pay because she felt that as there was no interest so that it did not matter whether she paid it or not. Most informants mentioned that they were not requested to settle their debt, but nevertheless some members had already repaid their debts. This showed that the microfinance institutions in the study area did not have organized schedule to collect the debt from the clients. Moreover, from the information collected it could be concluded that as continuous training was not given to clients so that they were constrained to effectively run their business.

Time laps between loan application and disbursement

The study showed that 43.5 percent of the sample respondents are of the opinion that the loan application and disbursement was long. Of these borrowers 56.5% recommended a repayment period that is longer than a year while the rest recommended a repayment period that is less than a year, was suitable., which was a significant difference at less than 1% significance level(χ^2 = 39.231). Timely disbursement of loan increases the borrowers' loan repayment probability by 3.369.Therefore; these positive preconditions enable borrowers to enhance loan repayment performance better. This result was in agreement with the findings of Berhanu (1999) and Abafita (2000)

Supervision and advisory visit

With respect to supervision and advisory visits of borrowers, on average the sample respondents have got 4.19 times supervision and visit services. The mean supervision of defaulters was 3.24 times with the standard deviation of 2.351 and that of defaulters was supervised 4.67 times with the standard deviation of 2.002. The significance value is 000 (which is less than 0.05). Therefore there is a significant

statistical difference between defaulters and non-defaulters in these averages, at 5% significance level.
This indicates that the continuous follow up of borrowers reminds them to pay attention toward their business and enables to increase their perception of responsibility toward loan repayment.

Business Information

The study showed that 58.5 percent of borrowers had got information, whereas 41.5percent were not, which is not significant difference. Because information is not the most important parameters, which helps borrowers to become aware of a microfinance enterprise. It plays a vital role in the success of business. Through this, borrowers can understand the advantages and disadvantages of the information on microfinance. It can initiate borrowers to try the new practice on their own business place. Borrowers can get information through informal or formal. Informally, they can get from neighboring farmers, friends, relatives, elders, etc. This study was in agreement with the finding of Sileshi, (2010).

Business status

According to the survey results showed that about 63.3 percent of defaulters business was successful due to many reasons even though they were not willing to pay their loan on time. On contrast 37.7 percent of non- defaulters' business was not successful; however; they were paying their loan from other income sources. There was significant difference (χ^2 =12.958**) at 5% probability level on business status of borrowers. This result is in agreement with the findings of Retta (2000) and Amare (2001).

Challenges and Difficulties of Loan repayment performance

Qualitative data collection methods

Qualitative data were collected through Focus Group Discussions (FGDs) and informal discussions with households, loan officers and key informant during transect walk with in sample Kebele Associations. For the challenges and problems of loan repayment performance, the researchers did face-to-face interviews where a total of 25 respondents were selected equally from non-defaulters borrowers, delinquent borrowers and default borrowers (10 respondents from non-defaulters borrowers, 5 respondents from delinquent borrowers and 10 respondents from default borrowers). In addition, a total of three Microfinance Institutions State Managers in Dendi District were chosen to get in depth information about borrower's behavior towards their loan repayment performance. In qualitative research methods, sample size is generally much smaller than those used in quantitative research methods (Ritchie, Lewis, and Gillian, 2003). This is because qualitative is concerned with meaning and not making generalized hypothesis statement and analyzing a large sample can be time consuming and often it is simply impractical (Crouch and Mckenzie, 2006). In qualitative, the more data does not necessarily lead to more information (the diminishing return of qualitative data).

Internal and external challenges of the Institution

As the borrowers responded that, the first most typical challenges faced by any microfinance institution are credit risk. Moreover, the cost of debt collection per loan amount is, on average, higher than in formal intermediation, especially in developing countries lending (Vento 2004 cited as Fikirte, 2011). Similarly, high cost of service associated with low-value, high volume and cash intensive nature of the business and high fixed and variable cost (Basu, 2005). A second sources of risk for MFIs is represented by interest risk, it can be significant in the case of MFIs that collect deposits too. In most of developing countries, the average higher interest rate is volatile. Similar to interest rate risk, liquidity risk also appears more significant for deposit-taking MFIs; in fact, small savers tend to make frequent withdrawals and deposits, therefore, managing liquidity could became more difficult (Vento, 2005)

As the key informant responds that another source of challenges in MFIs is ownership and government risk. this risk concern the weakness in internal control systems, which play an important role specially in case of lack of external regulation(Vento,2004).In addition, limited management capacity in MFIs and institutional inefficiencies' also challenges(Campion,2002). Moreover, inadequacy of well-trained personnel in their rolls and staff incentives within any formal organization paradigm (private or public) that seeks to deliver these services in challenges for microfinance institutions (Basu, 2005).

DMFIs have the following external challenges

Internal and External places

- Competition-There is very strong competition faced with conventional banks in mobilization of savings and increasing withdrawal. People trust formal banks specially commercial bank of Ethiopia. Moreover, the other sources of competition are NGO's, women's fund and other institutions who give loan without interest.
- Improper interference of third party in the decision of loan approval. In this regard Norell (2001) also reported that if the loan given without proper evaluation of business, the default rate may increase.

In addition Dendi microfinance institutions were also facing the following internal and external challenges.

- There is no enough employee's in the institution specially loan officers,
- High turnover of employees to other organization, they are mainly attracted by better salaries scales and benefits provided by these organization. Compared to government organization salary scale of the institution is higher. But the problems are that Dendi Microfinance Institutions employees are attracted by the private commercial banks and NGOs.
- Shortage of loan able funds for further expansion

- All activities in the institutions done manually.

External challenges for loan repayment

The sample respondents identified many problems that hinder the loan repayment process. The summary of the most frequently mentioned challenges are the following:

- About more than half of respondents said that there is high interest rate and monthly penalty in the institution. As microfinance institution Dendi Microfinance Institutions interest rate is low but the clients still demand low interest rates taking into combined service charges, insurance premium and compulsory saving with the interest rate. This might be due to lack of proper orientation.
- No grace period
- Weak in following up to retrieve loans and on business
- Lag of loan disbursement
- Insufficient loan sizes specially for group lending, No training was given by the institution
- They do not provide the necessary information like interest rate, insurance, etc.
- Poor customer handling specially the manager of the services delivery center

Some of the above challenges are associated with the limited financial capacity of the institution and insufficient employees' loan officers'. Moreover, they could not consider the customer complaints and don't take corrective action. As the borrowers respond that Dendi Micro Financing Institution (DMFI) is one that is highly competing in the same area of institution. In addition, the other source of competition rises from local cooperatives and some traditional associations like Ikub, in relation to saving mobilization. Besides, borrower's attitude towards their debt was also the main reason in challenging loan repayment performance of the Dendi Microfinance Institutions. Borrowers who set their mind that every debt must be repaid have higher chances to repay on time. The result also shows that borrowers who have regular savings tend to become good borrowers. These borrowers usually manage their income well and are not lavish with the profit received.

"What motivates me to pay back the loans even during the difficult time is every debt must be paid no matter from whom we borrowed the money. I have missed my payment"

The borrowers also have a problem to pay back their loans that make them wrong because they have to pay other debts such as car installment, supplier debt, shop rental and family expenses. Usually when their sales drop or have personal problems such as sick or family sick, it will affect their loans repayment. Unpredictable crises such as illness or death of family members may affect borrower's repayment (Norell, 2001). Besides, the amount of loan received by the borrowers may also affect borrowers‟ repayment performance where the bigger total loan received by the borrowers, the higher probability of the borrowers to default. When the borrowers received more loans, there is a tendency that the excess loan may be diverted to other unproductive; none for business uses such as for personal use, children's school fees and pay other debt (Norell, 2001).

Based on the interviews with respondents, six of them admit that they use some of the loan for other things.

"Yes, I admit that I used some of the loans to renovate my kitchen because my kitchen is too old and need to be repaired"
"I had used a little of the loans to buy hand phone but I already asked my friend who also made a loan with TN and he said is allowed and it is up to us to use the loans"

One of the Microfinance Institutions State and middle Manager has mentioned that family factor may influence borrowers‟ repayment performance where borrowers need to protect the good name of the family, especially those whose posts are important in a community such as an *Imam* (a Christian who leads prayers) and Community Leader. These borrowers usually are good borrowers because they need to protect the good name of the family in the community. Usually the community will refer to an *Imam* or their leader if they have any problems or need advices and they respect these people.

Conclusion and Recommendation

Repayment problem is one of the critical issues of MFIs that concerns all stakeholders (Sharma and Zeller, 1997; Marr, 2002; Maata, 2004; Godquin, 2004) where the high loan default rate is the primary cause of the failure of MFIs (Yaron, 1994; Woolcock, 1999; Marr, 2002; Maata, 2004). The agency problem, adverse selection and moral hazard that appear as a result of information asymmetries are the main reason why these happened. This is because the lenders cannot observe the behaviors of their clients either they are honest and dishonest. The lenders can only observe the outcome of their loans either the clients repay or not. Therefore, to mitigate the repayments problems, a close relationship between lender and borrower can be applied through monitoring, business adviser and regular meeting. Besides that, the lender can introduced reward system to those that paid on time such as rebate or discount.

Microfinance was introduced in Ethiopia to provide financing facilities to the poor and micro-enterprises to start up business or to finance business activities such as; buy tools and machines, business equipment and, raw materials. Most of the Microfinance Institutions in Ethiopia were subsidized institution where they received funds in the form of grants from the government and local governments and majority of them are too dependent on the grants that make them not sustainable. Therefore, high repayment performance is important for them to continually providing microfinance to their clients. This research tries to explore the loan repayment problems among Microfinance Institutions borrowers in Ethiopia, Dendi through in-depth interviews with respondents and Microfinance Institutions officers. The result shows that the challenges and problems of the borrowers to repay their loans are business factors, borrower's attitude towards their loans, other debt burden, total loan received and no experience in business. The research found that business factors such as business loss and failed are the main reasons why borrowers cannot pay back their loans on time. Besides, the borrowers‟ attitude towards their loans also the reason for cannot pay back their loans on time.

Therefore, the researcher recommends the Microfinance institutions to enhance their loan monitoring through peer monitoring like in group lending approach such as through entrepreneur's club or mentor mentee program where this can reduce the borrower's attitude to not pay back their loans and help them to enhance their business. Besides, the new borrowers can learn from the successful borrowers in running their business. This can reduce the operational cost of MFIs in monitoring their clients. The study also suggests differentiating the terms and conditions between applying loan for start-up the business and for working capital purpose because normally who apply for start-up the business are new entrepreneurs and have less experience in business. They do only need credit but also need business training like how to promote their product, prepare financial statement and the presentable of the product. It is also suggested to provide related training skills to the new entrepreneurs to enhance their business skills.

REFERENCES

Abafita Jamal, 2003. Microfinance and Loan Repayment Performance: A Case Study of the Oromia Credit and Savings Share company (OCSSCO) in Kuyu', M.Sc thesis, Addis Ababa University, Addis Ababa.

Abraham Gebeyeh, 2002. Loan Repayment and it is Determinants in Small –Scale Enterprises financing in Ethiopia: Case of private borrowers Around Zeway Area', MSc, Thesis, AAU.

Alemayew Yirsaw, 2008.Research Paper Submitted To Addis Ababa University in Partial Fulfillment of the Requirement for the Degree in M.Sc. Program In Accounting And Finance

Amare Berhanu and Bekabil Fufa, 2008. Repayment rate of loans from semi-formal financial institutions among small-scale farmers in Ethiopia: Two-limit Tobit analysis. *The Journal of Socio-Economics, 37*, 2221-2230.

Amare Berhanu, 2005. Determinants of Formal source of credit loan repayment performance of small holder farmers: the case of north western Ethiopia, North Gonder', MSc. Thesis, Alemaya University, Ethiopia.

Asian Development Bank (ADB), 2002. 'Finance for the poor: Microfinance development Strategy', Rural Asia study: beyond the Green revolution. Manila.

Assefa, B.A. 2002. Factors influencing loan repayment of rural women in Eastern Ethiopia: the case of Dire Dawa Area', A Thesis presented to the school of graduate studies, Alemaya University, Ethiopia.

Balogun, E.D. and Alimi, A. 1990. Loan Delinquency Among Small Farmers in Developing Countries: A Case Study of the Small-Farmer Credit Programme in Lagos State of Nigeria, *CBN Economic and Financial Review,* 26(3).

Basu, A., Blavy, R. and Yulek, M.2004. 'The role of Donors and NGOs: Microfinance in Africa Experience and lessons from Selected African Countries', IMF working paper.

Basu, S. 2006. Securitization and Challenges faced in Microfinance', Centre for Microfinance Research Working Papers Series, Institute for Finance Management and Research (IFMR).

Bekele Hunde, 2001. Factors influencing the loan repayment performance of Smallholders in Ethiopia. M.Sc. Thesis, Haramaya University

Berhanu, A. and Fufa, B. 2008. Repayment rate of loans from semi-formal financial institutions among small-scale farmers in Ethiopia: Two-limit Tobit analysis. *The Journal of Socio-Economics, 37*, 2221-2230.

Besley, T. and Coate, S. 1995. 'Group Lending, Repayment Incentives, and Social Collateral,' *Journal of Development Economics*, 46, no.1:1-18.

Besley, T. and Coate, S. 1995. "Group Lending, Repayment Incentives, and Social Collateral." *Journal of Development Economics*, 46, no. 1: 1-18.

Bhatt, N. and Tang, S.Y. 2002. Determinants of repayment in microcredit: Evidence from programs

Bond, P and Rai, 2009. 'Borrowers runs', *Journal of Development Economics*, 88(2009) 185-191.

Cameron, A.C. and Windmeijer, F.A.G. 1997. 'An R-squared measure of goodness of fit or some common nonlinear regression models', *Journal of Econometrics,* 77 11997) 329-342.

Campion, A. 2002. 'Challenges to Microfinance commercialization', Volume 4 Number 2.

Case of Micro and Small Women Business Entrepreneurs in Tanzania." *American Journal of Business and Management,* Vol. 2, No. 1 pp. 20-30.

Degefe Duressa, 2009. Microfinance in Ethiopia: PhD. Thesis, The Hague, the Netherlands.

Dejene Aredo, 2003. Informal Financial Institution: The Economic Importance of Iddir, Iqqup, and Loans', Proceedings of the National Workshops on Technological Progress in Ethiopia, Agriculture, Nov.20-30, 2001, AAU, Addis Ababa.

Fantahun Melles, 2000. Informal Financial Institutions: Impact Analysis of ACORD's Credit Intervention through Iddirs in Dire Dawa. M.Sc. Thesis, Addis Ababa University, Ethiopia.

Fikirte Kassa, 2011. Determinant of loan repayment Performance' A case Study in Addis Ababa Credit and Saving Institution. Wegeningen University: Netherlands.

Gujarati, D. N. 1995. *Basic econometrics* (3rd ed.): McGraw-Hill.

ICC, 2001. Llanto *et al*. (1996) The Commercialization of Microfinance: Balancing Business and Development', Bloom field, CT: Kumarian Press.

in the United States. *International Journal of Urban and Regional Research, 26*(2), 360-376.

Jomo, K. S. 2004. *The new economic policy and interethnic relations in Malaysia*. New York: United Nations Research Institute for Social Development.

Karlan, D. and Zinman, 2006. Observing Unobservable: Identifying Information Asymmetries with a Consumer's Credit Field Experiment; Yale University and Dartmouth College.

Kashulaliza, A . 1993. Loan Repayment and it is determinants in Smallholder agriculture: A Case study in the Southern highlands of Tanzania', East Africa Economic Review, Vol.9 No.1.2002.

Maddala, G. S. 1983. *Limited-dependent and qualitative variables in econometrics*: Cambridge University Press.

Maddala, G. S. 2001. *Introduction to econometrics* (3rd ed.): John Wiley

Mead and Liedholm, 1998. A perspective on Mortgage Default Research. *Journal of the American Real Estate and Urban Economics,* Vol 23 (4).

MIX and CGAP, 2010. Sub-Saharan Africa 2009 microfinance analysis and Bench marking report'.

Mohuddin, Y. 1993. Credit Worthiness of Poor Women's Comparisons of Some Minimalist Credit Programmers in Asia: a Preliminary Analysis' The Pakistan Development Review, 34 (4):1199-1209.Tennessee, USA.

National Bank of Ethiopia (NBE). 2010. Directive No.MFI/01/96 (Minimum Paid-up capital) and directive No.MFI/16/2002 (Minimum Capital Ratio Requirement), Draft background paper, Addis Ababa, Ethiopia.

National Bank of Ethiopia .2008. Monitory Development in Ethiopia', National Bank of Ethiopia Quarterly Bulletin, First Quarter 2008/09.

Nawai, N. and Shariff, M. N. M. 2013. "Loan Repayment Problems in Microfinance Programs that use Individual Lending Approach: A Qualitative Analysis." *Journal of Transformative,* Entrepreneurship Vol. 1, Issue 2, pp.93-99

Olangunju, F.I. and Adeyemo, R. 2007. Determinant of Repayment Decision among Small Holder Farmers in South Western Nigeria', *Medwell Journals, Pakistan Journal of Social Sciences*, 4(5):677-686.

Pindyck, R.S. and Rubinfeld, D.L. 1998. Econometric models and Economic forecasts', fourth edition, the McGraw-Hill companies, United States of America.

Ramesh, R. 2013. *Financial Access for Everyone: A Review.* Paper presented at the national conference on Loan and Savings: The Role in Ethiopian Socioeconomic Development' organized by Haramaya University, 15-16 February 2013.

Ramesh, R. and Gurusamy, S. 1990. *Repayment Ethics: A Sociological Approach*, *Tamil Nadu Journal of Cooperation,* India.

Ray, D. 1998. 'Development Economics', Princeton University press, New Jersey.

Retta Guddisa, 2000. 'Women and Microfinance: The Case of Women Fuel Wood Carries in Addis Ababa'. M.Sc. Thesis, AAU.

Ritchie, Lewis, and Gillian, 2003. *Case Study of Kenyan Micro Finance Programme*. Africa Region. Nairobi

Sandgrove, K. 2005. The complete guide to business risk management', Gower publishing, Ltd.England.

Sengupta, R. and Aubuchon, C.P. 2008. The Microfinance Revolution: An Overview', Federal Reserve Bank of S. Louis Review, January/February 2008, 90 (1), pp.9-30.

Stiglitz, J.E. and Weiss A. 1999. Credit rationing in Markets with Imperfect Information', *The American Economic Review,* Volume 71, Issue 3,pp 393-410.

Tesfaye G. Berhan, 2009. Econometric Analysis of Microfinance Credit group formation, contractual risks and welfare in Northern Ethiopia', PhD theses Wageningen University, wageningen, the Netherland.

Tundui, C. and Tundui, H. 2013. "Microcredit, Micro Enterprising and Repayment Myth: The

Vento, G.A. 2004. New challenges in Microfinance: The Importance of Regulation', University "La Spaienza", Rome (Italy).

Wolday Amaha, 2000. Review of Microfinance industry in Ethiopia: Regulatory Framework and performance,' Association of Ethiopian Microfinance Institution (AEMI), Addis Ababa, Ethiopia.

****