Borrower Related Factors Influencing Loan Repayment Performance in Omo Microfinance Institutions in Wolaita Sodo Town

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Abstract

The objective of this study was to analyze borrower related factors that influence loan repayment performance of microfinance institutions in Wolaita Sodo Town Southern Ethiopia. A total of 330 respondents, selected through systematic random sampling method were involved in this study. Primarily data were collected from respondents through structured questionnaire and secondary data were collected from records from microfinance institution. Descriptive statistics and Binary Logit model were employed to achieve the objectives. The results demonstrated that age, educational level, additional income from other activity and loan diversion were factors they showed significant association with loan repayment performance. Compared to male borrowers, females' barrowers were found to be better in terms of loan repayment performance. However, number of dependents has no effect on loan repayment. Hence the institution is recommended to give attention for low educated borrowers and income of borrowers with great care and should take a corrective action accordingly.

Keywords: Borrowers; Loan repayment; Microfinance institutions; Logit model.

1. Introduction

Microfinance institutions are the main players in the economy of developing countries especially for low income women and men [19]. They provide credit services to micro and small enterprise operators or potential operators and, low income people who are capable to work in income generating activities to promote micro and small enterprise to alleviate poverty and unemployment, and improve the livelihood of the low income people.

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These financial services generally include savings and credit but can also include other financial services such as insurance and money transfers services. According to [13], microfinance is a provision of a broad range of financial services such as savings, credit, insurance and payment services to the poor low-income group who are excluded from the normal banking sectors. Reference [8] also stated that microfinance is the provision of a broad range of financial services such as deposits, loans, payment services, money transfers, and insurance to poor and low-income households. Besides these, they also strive for the sustainability.

Sustainability of microfinance institution refers to the long-term ability to cover all its operational and financial costs from internally generated revenues without external subsidy. It is influenced by a number of factors which include loan repayment performance and interest rates charged on their loan products. Loan repayment performance of Micro Finance Institutions is a measure of whether the loans are repaid in full according to the loan contract. The higher the loan repayment performance, the higher the probability of the MFI collecting interest revenues and lower the loan losses, both of which enhance sustainability. The delivery of efficient and effective microfinance services to the poor require conducive macroeconomic policies and the establishment and enforcement of legal and regulatory frameworks of a country [18].

In Ethiopia microfinance service were introduced after the demise of the Derg regime following the economic liberalization. Proclamation No. 84/94 was issued to liberalize the financial sector. The proclamation allows private domestic investors to participate in banking and insurance activates, which were previously monopolized by the government. Accordingly proclamation No. 40/1996 was enacted to provide the licensing and supervision of the business of micro financing by empowering the NBE to license and supervise them [17].

Each MFI made attempts to achieve high repayment performances, whether it is profit oriented or not. One indicator of effective Microfinance Institutions is the loan repayment performance of its borrowers [15]. High repayment rates are associated with benefits both for the MFI and the borrowers [10]. High repayment rate helps to obtain the next higher amount of loan and other financial services. In contrast, if there is low repayment rate, both the borrowers and the MFI will be affected. In this case, the borrowers will not be able to obtain the next higher loan and the lenders will also lose their clients [6]. Improving repayment rates helps to reduce the dependence of the Microfinance Institutions on subsidies, which would improve sustainability. It is also argued that high repayment rates reflect the adequacy of Microfinance Institutions services to clients need [9]. According to [11], most microfinance institutions in Ethiopia are experiencing high default rate problems. Similar problems are common in microfinance institution in Wolaita Sodo Town administration of Southern Ethiopia.

Research Methodology

2.1 Background of the Study Area

Omo Microfinance Institution is operating in South Nation Nationalities and Peoples Region. It is established on August 14/1997 as share company as per the requirements of proclamation No. 40/1996 for the provision of licensing and supervision of businesses of micro finance institutions in the country. It has been incorporated

with five shareholders namely the Southern Nations Nationalities and People's Regional State (SNNPRS), South Ethiopian People's Development Association (SEPDA), Wondo Trading Company and two natural persons shares [17]. The mission of Omo micro finance institution is to take part and play an important role in the combating of poverty and bring about a sustainable economic development in the region by providing financial services that stimulate individual initiatives for self-reliance and food security.

2.2 Research Design and Sampling Technique

The cross-sectional survey method was used in this study because it is efficient to collecting large amount of information within a short time. It can enable to assess factors that influence loan repayment performance of borrowers of Microfinance Institutions. Data is collected through questionnaires and the questionnaires consisted of open ended and closed ended.

The study population consisted of all borrowers (both individual and group) members of Omo microfinance institution in the study area. Respondents (i.e. borrowers) were drawn systematically using the proportional random sampling procedure. However, the Microfinance Institutions employees were purposely selected based on their experience and trust that provide important information to the study.

The [7,12] formula was adopted to select 314 sample borrowers from total of 1725 total borrowers in year 2020 in Wolaita Sodo town where N= total borrowers from selected Microfinance Institutions, Z= corresponding confidence 95% or generally given as 1.96, e=error which is 5% or p = population proportion which is 50%.

$$n = \frac{Z^2 \times p \times q \times N}{e^2 \times (N-1) + Z^2 \times p \times q} = \frac{(1.96)^2 \times 0.5 \times 0.5 \times 1725}{(0.05)^2 \times (1725-1) + (1.96)^2 \times 0.5 \times 0.5} = 314$$

To make the data complete 16 staff members were selected randomly from total of 38. Therefore, there were 330 respondents in this study.

2.3   Data Types and Collection Instruments

This study used both quantitative and qualitative data. Regarding to data sources both primary and secondary sources were used to collect appropriate data for the study. Primary sources were the target population who are borrowers, and staff of Microfinance Institutions whereas secondary sources were published and unpublished materials and reports about the microfinance institution.

The main data collection instrument in this study was questionnaires. The questionnaires include closed and open ended questions. Attempts were made to make the questions clear and simple to avoid any ambiguity and technical details.

2.4 Data Analysis methods

The collected data was compiled, sorted, edited, and classified and then entered using the Statistical Package for Social Science (SPSS) version 26. The descriptive statistical tools such as percentage and frequency were used to explore the different variables associated with loan repayment performance whereas chi-square test was used to test the relationship between determinants factors and loan repayment performance. Finally, Binary logistic regression was employed to identify the significant borrower related factors that affect loan repayment performance of Omo Microfinance Institution.

3. Result and Discussions

This chapter presents findings in reference to the research questions and objectives. These findings are summarized from the primary sources of data. For the purpose of demonstrating the relationship among the various variables, the data were presented in the form of tables, frequencies and percentage were applicable. Three hundred fourteen respondents (314 borrowers and 16 employees) were selected for the study and all respondents filled and returned back questionnaire to the researcher.

3.1   The Respondents Profile

Table 1: The respondent's profile

Item	Question	Alternatives	Response of manager and employee		Borrowers response	
			Frequency	Percent	Frequency	Percent
1	Sex	Female	5	31.3	133	42.3
		Male	11	68.7	181	57.7
		Total	16	100	314	100
2	Age	Below 30	6	37.5	116	36.9
		30 – 45	10	62.5	135	43.4
		46 – 55	-	-	54	17.1
		Above 55	-	-	9	2.6
		Total	16	100	314	100
3	Marital status	Single	-	-	92	29.4
		Married	-	-	213	67.7
		Divorce	-	-	3	0.9
		Widowed	-	-	6	2.0
		Total	-	-	314	100
4	Education	No schooling at all	-	-	53	16.8
		Primary school	-	-	189	56.6
		Secondary school	-	-	70	22.8
		Certificate	-	-	3	1.1
		Diploma	12	75	9	2.6
		Degree and above	4	25	-	-
		Total	16	100	314	100
5	Work experience	Less than two	-	-	-	-
		2 – 5	9	56.3	-	-
		5 – 10 Year	7	43.7	-	-
		Above 10 year	-	-	-	-
		Total	16	100	-	-

Source: Survey Data 2020

Table 1 presents information about Microfinance Institutions employees (managers and credit officers) and borrowers of sex, age, education, marital status and work experience. From the total 314 borrowers 181(57.7%) were males while the rest 133(42.9%) were females. This shows that majority of the respondents and clients of the institution were male. Microfinance Institutions employees 10(62.5%) were in the age ranges of 30-45 and 6(37.5%) of them were below 30 years. Regarding to the age of clients, the dominating age was also from 30 to 45, which consisted of 135 (43.4%); followed by below 30, 116(36.9%), 60(17.1%) and 9(2.6%) in the age category of 46-55 and above 55 years, respectively. As can be seen from the same table married borrowers were dominant 213(67.7%), while 92(29.4%) were single and 3(0.9%), 7(2%) were divorced and widowed respectively. This indicate that majority of borrowers served by Microfinance Institutions are married and have family responsibility.

In terms of educational background, most of the borrowers are on the study, i.e. 189(56.6%) were at the level of primary school. Those who have attended secondary school were 80(22.8%) and those who have certificate and diploma were 3(1.1%) and 9(2.6%) respectively, while 53(16.8%) of them were uneducated. The result shows that people with lower levels of education use MFIs loan facilities more than those who have higher levels of education.

Regarding to the educational level of the Microfinance Institutions employees 12(75%) were diploma holders and 4(25%) were first degree holders. This implies that the majority of credit officers of the sub branch are diploma holders. Concerning with the experience of sample employee in the Microfinance Institutions, 9(56.3%) were 2 years experienced and 7(43.7%) has 5-10 years of experience. These imply that the employees have a lot of information and accumulated knowledge in Microfinance Institutions lending activities and challenges faced in repayment processes.

Table 2: Number of dependent supported by borrowers

Number of dependent	Frequency	Percent
None	27	8.6
1-2	77	24.6
3-5	112	35.4
Above 5	98	31.4
Total	314	100
Source of family income		
From one business	165	52.6
From additional (more) business	113	35.7
From husband/ wife's monthly salary, pension etc	36	11.7
Total	314	100

Source: Survey Data 2020

It is important for the study to establish the number of dependent supported by the borrowers. As the findings summarized in the table above, 112(35.4%) respondents have 3-5 dependents, 98(31.4%) have more than 5 dependents, 77(24.6%) have 1-2 dependents, and 27(8.6%) respondents reported as they do not have dependent (Table 2). This indicates majority of the borrowers were engaging in different economic activities to support their family and relatives.

The source of family income is also indicated in Table 2, the source of income for 165(52.6%) borrowers is from one business. Besides, 113(35.7%) respondents reported as they receive income from additional business and 36(11.7%) have got their income from husband or wife's monthly salary. This implies that source of family income from one business has an impact on loan repayment performance.

3.2   Borrowers Related Factors and Loan Repayment Performance
3.2.1   Performance Borrowers: Fully Settled Loans

There are borrowers' related factors that the thought to influence the loan repayment performance. This study is attempted to investigate how those factors or variables influences the loan repayment performance of borrowers. The method used to investigating the effect of those variables on loan repayment is simply by observing the relationship between borrowers in arrears and their socio-economic characteristics.

Table 3: Sex and age category of Borrowers Fully Repaid Loans

	Loan repayment status	
Sex	Frequency	Percent
Female	48	54.5
Males	40	45.5
Total	88	100
Age category		
Below 30	20	22.7
30-45	18	20
46-55	24	27.3
Above 55	26	30
Total	88	100

Source: Survey Data 2020

Table 3 shows that borrowers in Loan repayment status by sex and age category. As can be seen in the table, out of the total 88 borrowers in Loan repayment 54.5% were females, while the rest 45.5% were male borrows. The finding in this study indicates that women found to be more performing well in settling their loans in contrast with men borrowers.

The relationship between age and repayment performance is shown in Table 3. It is found that 30% borrowers in Loan repayment were above the age of 55 years, followed by 27.3% of respondents were found within the age

range of 46-55 years. Besides, among those who fully settled their loans, 22.7% respondents were below 30 years of age. The remaining 20% of respondents were found with the age range of 30-45 years. Whereas sample borrowers above the age 55 has been paid their loan timely. The result in the above table shows different repayment status within different age category. Loan repayment performance in the age group 30-45 is lower than those of age below 30 and it became better above 45 years of age. This implies that as the age of a borrower increase the possibility of fully settling his/her loan repayment increases.

Table 4: Marital Status of Borrowers Fully Repaid Loans

Response	Frequency	Percent
Single	45	51.1
Married	38	43.2
Divorce	2	2.3
Widowed	3	3.4
Total	88	100

Source: Survey Data 2020

As can be seen form Table 4 (51.1%) respondents were single, while 43.2% of them were married, 3.4% respondents were widowed and 2.3% were divorced. In addition to this, when we see proportion of single borrowers in loan repayment performance from total single borrowers 51.1 % (45 out of 88) is greater than that of the proportion of married borrows in loan repayment performance 43.2% (38 out of 88). This could serve as indicator that those who are not married were good in fulfilling their obligations in fully repaying their loans. This might be associated with the need to take more loans in the future that enables them to generate more income.

Table 5: Education Level of Borrowers Fully Repaid Loans

Response	Frequency	Percent
No schooling at all	18	20.5
Primary school	27	30.6
Secondary school	35	39.8
Certificate	2	2.3
Diploma	6	6.8
Total	88	100

Source: Survey Data 2020

The finding in Table 5 shows that 39.8% of borrowers who fully repaid their loans have attended secondary school, 20.5% were illiterate, and 30.6% have attended primary school, 2.3% have attended certificate and 6.8% of them were diploma holders. The result indicates that numbers of borrowers in loan repayment performance are higher at secondary school than illiterate and it became higher at secondary school. The findings indicated

that borrowers repayment performance vary at different level of education which means the improvement in education level on necessarily help to perform better in loan repayment. Prior expectation was as education level increases borrowers use their loan and repayments performance improved.

Table 6: Loan repayment and number of dependents

Number of dependents	Frequency	Percent
None	37	42
1-2	30	34
3-5	21	24
Above 5	-	-
Total	88	100

Source: Survey Data 2020

Result in Table 6 shows, 42% of borrows have no dependents followed by 34% of them were have 1-2 dependents and 24 % of them have 3-5 dependents. According to this study loan repayment performance is not related with number of dependents. The expectation was as numbers of dependents increases borrowers will need more money to full fill their need (for consumption) in turn loan repayment rate will decrease.

Table 7: Sources of income and loan repayment

Source of income	Frequency	Percent
From one business	25	28.5
From additional (more) businesses	44	50
From husband/wife's monthly salary, pension etc	19	21.5
Total	88	100

Source: Survey Data 2020

Table 7 shows source of income and loan repayment. For the majority of borrowers in areas the source of income is from one business (28.5%), while 50 % of borrowers who have gain income from more than one business.. From the finding we can understand that additional income helps borrowers to pay their loan timely and reduce default rate. According to the evidence it can be implied from this study that additional income has positive impact on loan repayment performance.

3.2.2 *Performance Borrowers: Defaulted in Settling Loans*

Table 8: Borrowers in arrears by sex

	Borrowers in arrears	
Sex	Frequency	Percent
Female	17	41.5
Males	24	58.5
Total	41	100

Source: Survey Data 2020

Table 8 shows borrowers in default by sex. As can be seen in the table, out of the total 41 borrowers in default 58.5% are males, while the rest 41.5% are female borrows. The finding tells that majority who failed to fulfill their loan repayment obligation were men.

Table 9: Borrowers in arrears by age

Age category	Frequency	Percent
Below 30	18	43.9
30-45	20	48.8
46-55	3	7.3
Above 55	-	-
Total	41	100

Source: Survey Data 2020

The relationship between age and default performance is presented in Table 9. It is found that 48.8% sample borrowers in default were within the age range of 30-45 years followed by 43.9% below 30 years of age. All the sample borrowers above the age of 55 years have been able to pay their loan on time. The result in the above table shows different default status within different age category. Repayment performance in the age group 30-45 is lower than those of age below 30 and it became better above 45 years of age. This implies that age and default has inversely related.

Table 10: Martial status of borrowers defaulted

Response	Frequency	Percent
Single	11	26.8
Married	30	73.2
Divorce	-	-
Widowed	-	-
Total	41	100

Source: Survey Data 2020

As can be seen form table 10 (73.2%) of borrowers in arrears are married, while 26.8% of them are single. In addition to this when we see proportion of married borrowers in arrears from total married borrowers is greater than that of the proportion of single borrows in arrears. The finding indicated that default rate is to be greater among married borrows than single.

Table 11: Educational level of Borrowers in arrears

Response	Frequency	Percent
No schooling at all	9	22
Primary school	20	48.8
Secondary school	11	26.8
Certificate	-	-
Diploma	1	2.4
Total	41	100

Source: Survey Data 2020

The finding depicted in Table 11 shows that 48.8% of borrowers in arrears have attended primary school, 22% are illiterate, 26.8% have attended secondary school and 2.4% of them are diploma holders. The result indicates that numbers of borrowers in arrears are higher at primary school than illiterate and it became lower at secondary school. But, if we see the proportion of borrows in arrears in each level of education out of total sample borrows 2.4 %(1 out of 41) were diploma holders. The findings indicated that borrowers repayment performance vary at different level of education which means the improvement in education level on necessarily help to perform better in loan repayment. Prior expectation was as education level increases borrowers use their loan and repayments performance improved.

Table 12: Number of dependents of defaulted borrowers

Number of dependent	Frequency	Percent
None	2	4.9
1-2	9	21.9
3-5	13	31.7
Above 5	17	41.5
Total	41	100

Source: Survey Data 2020

Result in Table 12 shows, 41.5% of borrowers in arrears have above 5 dependents followed by 31.7% of them having 3-5 dependents and 21.9% borrowers in arrears have 1-2 dependents of them have 4.9 not dependents. According to this study loan repayment default performance is not related with number of dependents. The expectation was as numbers of dependents increases borrowers will need more money to fill full their need (for

consumption) in turn default rate will increase However, the finding is inconsistent with this opinion.

Table 13: Source of income and defaulting loan repayment

Source of income	Frequency	Percent
From one business	34	82.9
From additional (more) business	7	17.1
From husband/wife's monthly salary, pension etc	-	-
Total	41	100

Source: Survey Data 2020

Table 13 shows source of income and defaulting loan repayment. For the majority of borrowers in default category, the source of income is from one business (82.9%). Only 17.1% of borrowers who have gain income from more than one business have paid their loan timely. Besides, borrowers who have got income from spouse monthly salary have paid their loan on time. From the finding we can understand that additional income helps borrowers to pay their loan timely and reduce default rate. More over these borrowers who have fixed family income repaid their loan without any problem. Prior expectation on this variable was to have either negative or positive impact. According to the evidence from this study additional income has positive impact in reducing the default rate among borrowers.

Table 14: Loan diverters and loan repayment

Borrowers in arrears	Frequency	Percent
loan diverter	8	19.5
keep agreement	33	80.5
Total	41	100

Source: Survey Data 2020

The other variable expected to affect loan repayment performance of borrowers was loan diversion. As indicated in Table 31, 80.5% borrowers in arrears are from those who do not divert their loan and the rest 19.5% are from loan diverters. The result implies that borrowers who divert their rate of default are lower in comparison with those who do not divert their loan. Diverting the fund may enable the borrowers to generate profit that contributes in settling their loans.

3.2.3   Chi-square (X^2) Test

In addition to the above descriptive result, chi-square test was also used to establish whether there exist relationships between borrowers' related factors and loan repayment performance of borrowers of Microfinance Institutions.

Table 15: Chi-square tests

Item	Borrowers related	Chi-square test	
1	Sex	chi-square	9.655
		p-value	0.022
2	Age	chi-square	17.169
		p-value	0.046
3	Educational level	chi-square	24.611
		p-value	0.017
4	Number of dependent	chi-square	13.074
		p-value	0.159
5	Source of income	chi-square	25.024
		p-value	0.001
6	Loan diversion	chi-square	13.384
		p-value	0.001

Source: Survey Data 2020

Table 15 shows that the relationship between borrowers related factors and repayment status of borrowers at (p. value < 0.05 level of significant. The relationship between each variable is discussed as follows:

There is an association between age and repayment status of borrowers (p=0.046<0.05). The result of test confirmed the above discussion. Hence, this variable is significant. This result is also in line with the study made by [11].

There is an association between educational level and repayment performance of borrowers (p=0.017<0.05). However, this result is consistent to the descriptive result. As it indicated in the above descriptive analyses in Table 11, the default rate of borrowers is varying at different level of education. Besides, the chi-square test indicated that there is significant association between education and on time loan repayment performance of borrowers. The study conducted by [6] confirmed that education level is a significant determinant of loan repayment.

There is an association between sex and repayment performance (p=0.022<0.05). The result implies that between two sex (male and female) either of them performs better. The descriptive result set out that female borrowers perform better than males. Moreover, this result is also in line with the study made by [9]. This variable is also significant.

There is no an association between number of dependents and loan repayment performance. The result is in line with the above presented descriptive result in Table 12. This result is contradicting with the study result of [11]).

There is a strong association between loan repayment performance and source of income and loan diversion.

The descriptive results are also in line with the test value. This result is also consistent with the study conducted by [2, 5, 6, 11].

3.2.4   *Maximum likelihood estimation of Logistic regression*

Before running the model, the data were checked whether multicollinearity problems exist or not. In this case, Contingency coefficient was applied to test multicollinearity of all dummy variables. Multicollinearity refers to the case in which two or more explanatory variables in the regression model are highly correlated, making it difficult or impossible to isolate their individual effects on the dependent variable. With multicollinearity, the estimated ordinary least square (OLS) coefficients may be statistically insignificant even though R^2 is very high.

The contingency coefficient value ranges between 0 and 1, and as a rule of thumb variable with contingency coefficient below 0.75 shows weak association and value above it indicates strong association of variables.

Therefore, according to table 16 the contingency coefficient for the dummy variables included in the model was less than 0.75 that did not suggest Multicollinearity to be a serious concern. Therefore, all variables were included in the logistic regression model.

Table 16: Contingency coefficient value for dummy variables

	Sex	Age	Marital status	Educ. level	No of dependents	Income
Sex	1					
Age	-05(0.23)	1				
Marital status	-.05(0.27)	.044(0.44)	1			
Educ. level	-.02(0.71)	-.05(0.33)	.019(0.74)	1		
No of dependents	.027(0.63)	.133(0.19)	-.054(0.33)	.018(0.75)	1	
Income	.006(0.93)	.010(0.99)	-.005(0.92)	.084(0.13)	.003(0.96)	1

Source: Own Survey (2020)

Borrowers related factors of loan repayment performance of borrowers

In this section, empirical findings of econometric model results were presented and discussed. Accordingly, estimates of the parameters of the variables or borrower related factors expected to affect the loan repayment performance of borrowers of Microfinance Institutions were displayed in Table 17.

The goodness-of-fit was tested by the Log likelihood ratio (LR) test. The result shows the chi-square of - 20.12 with 7 degree of freedom (df) and p-value of zero. This means that Chi-square is statistically significant and the model displays a good fit. The Pseudo R^2 of the model is also 86.60%. This verifies that the model has a good fit to the data and explained significant non-zero variations in borrower related factors which influence loan repayment performance of borrowers of Microfinance institutions.

Among the total of 6 borrower related explanatory variables included in the model, 5 variables were found to be statistically significant in influencing the loan repayment performance while the remaining one explanatory variable was statistically insignificant. Among factors which had significantly influence loan repayment performance of borrowers are sex, age, educational level, and number of dependents, were statistically significant at 5% probability level while income sources is significant at 10% probability level.

The result of logit model indicates that educational level has a positive and significant effect on loan repayment performance of borrowers which is similar with the findings of [2, 11] in Oromia region. However, large number of depends in the borrower negatively affects the loan repayment performance.

The result also indicates that female borrowers are better in loan repayment performance than female borrowers, that is, the change in loan repayment performance increases by 1.15 % more than male counterparts. This finding is the same as the results of [14].

Table 17: Maximum likelihood estimates of Logit Model

Variable	B	S.E.	z	$P > \|z\|$	Odds ratio
Sex	.141	.057	6.149	.013**	1.151
Age	-1.431	1.190	1.448	.229[NS]	.239
Marital status	-.350	1.169	.090	.764[NS]	.704
Educational level	1.135	.380	8.936	.003***	3.111
Income	5.729	3.142	3.325	.068*	307.64
Number of dependents	-3.588	1.223	8.604	.003***	.028
Constant	-10.857	5.153	5.117	.024**	.000
LR chi2		143.12	Number of sample		314
Log likelihood		-20.26	$P > Chi - squre$		0.00***
Pseudo R^2		0.86.60			

***, ** and * indicates significant at 1, 5 and 10 percent probability level respectively and NS Not significant

Source: Own Survey (2020)

4. Conclusion and Recommendations

4.1 Conclusions

This study was intended to identify the factors that influence loan repayment performance of microfinance institution with reference to Wolaita Sodo town. Regarding education level, most of the borrowers have been attended at least primary school. A large proportion of borrowers are married. Most of borrowers have dependents that need their support. Not more than half of the sample borrowers had additional source of income. Regarding loan utilization, 36% of the respondents have violated loan agreements, their main reasons being market problem and the loan was not accede timely. However, majority of them have diverted loan on productive purpose. Chi-square test indicated that except number of dependents the rest of borrowers related factors showed an association with loan repayment performances. These are sex, age, educational level, source of family income and loan division. Binary logistic regression also supports that sex, age, educational level and income sources are borrower related factors that affect the loan repayment performance of borrowers of microfinance institutions.

The entire respondents reported that they receive training before receiving loan and majority of them confirm training helped them to increase their income, however, training focused on saving than other aspects. Similarly, a large proportion of borrowers reported that as they are supervised on loan utilization and loan repayment. In addition to this, almost all respondents considered the importance of supervision for loan repayment. However, numbers of respondents reported for loan utilization are more than respondents that reported for loan repayment. The finding also indicated that time of supervision is inadequate.

More than half of the respondents reported that they feel unhappy with repayment period; this belief is likely to have a negative impact on loan repayment. Regarding to loan processing period majority of the respondents reported it time was took moderate.

Male borrowers have performed worse on loan repayment performance than females. Even though women outperform in term of loan repayment than men, the number of female borrowers served by the institution are lower than that of male borrowers. This needs special attention on empowering women.

Age of the borrowers is one of the significant determinants of loan repayment performance. As the age increases repayment performance becomes improved. The elder borrowers assume more responsibility to repay their loan than the younger ones.

The borrowers who have additional income source have good repayment performance. Obviously, this is due to the availability of more income in order to cover expenditure of consumption.

4.2   Recommendations

The institution should give special attention on the current male borrowers and as well as other concerned organization has to do much in this direction.

The microfinance institutions should give special attention to those of young borrowers by continuous follow up and supervision and it should give more emphasis to low income borrowers to make them profitable on their business. It is not recommended to motivate to divert loan. The secret behind this is the diverted loan is used on productive purpose and the reason to divert is lack of market. Hence, market study should be conducted before starting the business.

It is known that continuous follow- up and supervision is important for loan repayment, because it makes borrowers to be committed on loan repayment. However, the result of this study concluded that supervision made by the institution is inadequate. microfinance institutions need to have mandatory supervision for borrowers on loan utilization and repayment, which should be done continuously. Even though the institution gives training in collaboration with other organization before the disbursement of the loans, the training is focused more on saving.

The institution also needs to make continuous of discussion with other concerned organizations to obtain their collaboration when necessary. Taking the recommendation in to consideration Omo Microfinance Institution should attempt to increase the loan repayment rate of the borrowers.

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