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DETERMINANTS OF LOAN REPAYMENT PERFORMANCE THE CASE OF ZEMEN BANK S.C

A Thesis Submitted to the Department of Accounting and Finance, College of Business and Economics, Addis Ababa University for The Partial Fulfillment of Requirements for the Degree of Master of Science in Accounting and Finance.

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I, Desta Belete declare that this research report is my own work, developed from my efforts and it has never been presented for the purpose of academic awards in any learning institutions. I have undertaken it independently with the advice of my advisor Degefa Duressa(PhD). In performing the thesis, i have used different sources and material, which have been acknowledged.

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CERTIFICATION

We, the undersigned certify that, I have read and here by recommend for acceptance by Addis Ababa University, a research report entitled “*DETERMINANTS OF LOAN REPAYMENT PERFORMANCE THE CASE OF ZEMEN BANK S.C*” in Partial Fulfillment of Requirements for the Degree of Master of Science in Accounting and Finance Addis Ababa University.

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Abstract

This study was conducted on the topic of determinants of loan repayment performance in case of Zemen Bank S.C. with the objective of assessing the determinants of loan Repayment Performance .To conduct this study, the researcher used descriptive and explanatory research design and primary and secondary data were used. Primary data were collected using questionnaires and the secondary data were collected through verifying documents. The total population of the study was 2041 and the total sample size was 250. Convenience sampling techniques were employed to select a sample from borrowers of the bank. In this study the data obtained from borrowers was analyzed using descriptive statistics analysis and Binary Logit Model was used to measure the variables those determining loan repayment performance. In the logistic regression model, a total of nine explanatory variables representing two dimensional factors namely borrowers' specific factors and lender-specific factor were considered to analyze loan repayment performance. Based on the findings of this study, the researcher concludes that gender, family/household size, proper utilization of loans and loan follow-up/supervision have found to be significant effect on loan repayment performance. On the other hand, age, educational status, other source of credit, repayment period and experience have found to be insignificant effect on loan repayment performance. Finally, possible recommendations were suggested that, the bank might consider the significant variables such as gender, family/household size, proper utilization of loans and loan follow-up/supervision as the basis for loan approval and to minimize loan default rate.

Key words: *loan repayment ,Defaulter, non- defaulter, binary logistic*

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Chapter one

Introduction

1.1 Background of the study

Loan means any financial facts of a Bank arising from a direct or indirect advance or Commitment to advance funds by a Bank to a person that are conditional on the obligation of the person to repay the funds either on a specified date or on demands usually with interest (Adrian & Cornelis 1990).

The provision of loans has increasingly been regarded as an important tool for raising the incomes of urban as well as the rural populations, mainly by mobilizing resources to more productive uses. As development takes place, one question that arises is the extent to which loan can be offered to the private sector to facilitate their taking advantage of the developing entrepreneurial activities.

One of the financial institutions that play an intermediation function by mobilizing money from those who have an excess and lend it to others who need it for their investment are Banks. As a result, providing credit to borrowers is one means of which Banks contribute to the growth of economy, thereby ensuring that the money available in economy is used for productive and fertile project purpose which can stimulate the economy as well. Hence, proper management of credit not only has positive effect on the Banks performance but also the borrower firms and a country as a whole. For that reason, Bank lending is guided by credit policies which are guidelines and procedures that put in place to ensure smooth operations. Bank lending, if not properly assessed, involves the risk that the borrowers will not be able to pay or willing to honor their obligation Omara (2007)

Commercial banks generally serve as financial intermediaries that are established for lending, borrowing, issuing, exchanging, taking deposits, safeguarding or handling money of a respective country. Among their activities, credit provision is the main product which banks provide to potential business entrepreneurs as a main source of generating income through mobilization of resources from surplus economic units to deficit economic units within the economy. Banks mostly generate income from interest earned on loans as they mobilize funds from savers to investors and entrepreneurs. Their success and performance chiefly depends on their effectiveness of their credit management systems.

Halelwa (2020) defined successful loan repayment as the ability to repay the loan as per the loan agreement and loan defaulting as the inability to repay the loan by either failing to complete the

loan as per the loan agreement or neglect to service the loan. Inability to repay a loan tends to lead to Non-Performing Loans (NPL) which results due to problems faced during repayment of loans. NPL deny the bank of interest income that would have been earned which leads to missed chance of investing in some return-earning investment, thereby affecting future stream of profits. They also affect the liquidity of banks as they impose constraints of cash at hand to the banks. Most importantly banks reputation is also at risk which can have a negative impact on credit rating and hence limiting opportunities of banks co-financing and syndication with other banks.

There are instances in the past when it was easier to get a loan from a financial institution as long as the borrower had security to be charged rather than the ability to service the loan. Cash flow projections, viability of the project, character of the borrower, previous loans completion and ability to repay were not considered as important. This way a number of lending institutions ended up with many loan defaults due to incomplete, poor and unprofessional credit risk assessment and valuation particularly using all the 5C's of credit appraisal model that is: capacity, credibility, capital, collateral and character.

The main problem of poor performance of Banks is high rate of non-repayment of loans (. For instance, improving repayment performance might help banks to reduce dependency on subsidies by operating on sustainable basis Furthermore, high repayment rate enables the borrowers to obtain higher amount of next loan and also enables banks to cut the interest rate it charges thereby allowing more borrowers to have access to credit In contrast, the numbers of defaulters have been challenging banks objectives by retaining large amount of loan Consequently, the problem leads to system failure to implement appropriate lending strategies and policies Million (2012)

Therefore, this study undertaken to analyses how the loan repayment performance of defaulters, delinquents and clients with loan paid on time were associated with different institutional as well as demographic and socio-economic characteristics.

1.2 Statement of the problem

The determinants of successful loan repayment performance have to be properly investigated because the survival and the sustainable operation of Banks are directly influenced by these factors. Therefore, investigation of the major determinant for successful loan repayment of borrowers is especially essential for Banks. Any loan granted by a financial institution is generally provided at

a cost, referred to as interest on the debt, which is the primary incentive for the lender to engage in this loaning activity Kefeni (2018). And in such loan, each of these obligations and restrictions is enforced by a contractual agreement or loan covenants between these stakeholders that clearly states the rule of the game agreed upon by both parties on the different aspects including the purpose, disbursement schedule, repayment period and the charges associated with the loan. Non-performing loans is a serious crisis in the banking industry as people face several problems that make them unable to repay their loans on time. Loan repayment problems often lead to poor allocation of credit which results in poor investment projects, raises costs to the successful borrowers, erodes the fund that would be available for future investment, reduce banks flexibility in redirecting financial resource towards alternative activities, reduce the lending capacity of the financial institution Kibrom (2010). Hence, it is important to study and identify the factors that determine successful loan repayment performance and those that lead to unsuccessful loan repayment.

some of the reasons for poor loan repayment performance are Ineffective monitoring of loans, poor credit appraisal, long duration granted for repayment of loans, cheating in declaration of collateral, poor management, lack of business skills, poor practicing of credit policies, procedure, unavailability of accurate information, bad economic condition and high competition Halelwa (2020).

In the area of loan repayment performance researches have been done by Kibrom (2010), under the Development Bank of Ethiopia. Kibrom (2010) research had been conducted on Mekele branch specific to private borrowers. The result showed that ,other source of income, repayment period of the loan, sector, purpose of the loan and type of labor determine successful loan repayment performance of the borrowers positively and significantly. Other variable such as, household size have positive sign, but is not statistically significant. Moreover, variables such as , loan diversion, other source of income show negative sign but not statistically significant.

Tariku (2014) on his research he conducted specific to floriculture growers" borrowers. The result showed that among nine explanatory variables, which were hypothesized to influence loan repayment performance among floriculture credit borrowers, four explanatory variables namely, number of follow ups/supervisory project visit by credit officers, sustainable floriculture certification status and farming experience were statistically significant while the remaining five

were less powerful in explaining the variation in the dependent variable. There were few other studies that have been conducted on the determinant of loan repayment performance under micro finance institutions in Ethiopia by, Abraham (2002), Jemal (2003), Firafis (2015) and Million (2012).

Through various researches have been conducted on loan repayment performance at different places and time period but the results of the findings by various researchers are different and therefore inconclusive. As per researcher knowledge, no study is conducted to examine the determinant of loan repayment performance at the same time. Thus, by taking in to account these and some other knowledge gaps and keeping the results or findings of the former studies, the researcher attempts to investigate the determinants of loan repayment performance by adding up different variables with a particular emphasis of Zemen bank.

1.3 General Objective

- To determine the factors that affect loan repayment performance

1.4 Specific Objectives

- To examine the effect of borrowers specific factors such as:

(Borrower's age, educational level, gender, household size, loan utilization, repayment period of the loan, availability of other sources of credit and experience) **on loan repayment performance**

- To examine the effect of lender specific factor such as:

(supervision/followup) **on loan repayment performance**

1.5 Research Hypothesis

Hypotheses 1: Age of the borrowers has a significant effect on the successful repayment of the loan borrowed.

Hypotheses 2: Educational level of the clients has a significant effect on the successful repayment of the loan borrowed.

Hypotheses 3: The size of the household has a significant effect on the successful repayment of the loan borrowed.

Hypotheses 4: Proper utilization of the loan by the borrower has a significant effect on the successful repayment of the loan borrowed

Hypotheses 5: The Repayment period of the loan has a significant effect on the successful repayment of the loan borrowed.

Hypothesis 6: The availability of another source of credit has a significant effect on the successful repayment of the loan borrowed.

Hypotheses 7: Past credit experience of the borrowers has a significant effect the on successful repayment of the loan borrowed.

Hypotheses 8: Gender of the borrowers has a significant effect the on successful repayment of the loan borrowed.

Hypotheses 9: Supervision/follow-up of the loan repayment by the bank supervisor has a significant effect on the successful repayment of the loan borrowed.

1.6. Significance of the study

The outcome of this study assist the banking industry to identify and develop methods and measures to reduce the effect of bad loans and increase the recovery rate as well. Also, the management of these financial institutions could also use the outcome of this research in their operations so as to gain an edge over their competitors within the industry in this new political arena that has more challenges in business activity and eventually in loan repayment. Lastly, the study adds up to the existing stock of knowledge on loans repayment problems in Ethiopia.

1.7. Limitations

The bank has strict confidentiality which demands that information is shared only with authority. To enable the researcher collect valid and reliable information, the researcher got an authorization letter from the university requesting the Bank to provide the required information.

1.8. Organization of the Study

The study structured into chapters. Chapter One introduced the study by looking at the background of the study, statement of the problem, purpose of the study, research objectives, research hypothesis, significance and limitation and assumptions made by the researcher in this study. Chapter Two tackled the literature review by looking at relevant literature that is related to the subject in the study. The literature review covered the theoretical framework, empirical review and conceptual framework. Chapter Three covered research methodologies used in the collection and analysis of data. The exact sections covered in chapter three are research design, target population, sample and sampling method, data collection and data analysis. Chapter Four covered data analysis, presentation and interpretations while Chapter Five covered summary of findings, conclusion and recommendations.

CHAPTER TWO

Literature Review

2.1 Introduction

The bank loans have been playing a significant role on business across different nations. The literature shows that even though loan plays important roles in growth of business but successfully repayment of loan by borrowers is a critical across different nations. There are different literatures that have been documented by different authors related with influential factors that contribute to performance of borrowers on successful loan repayment. Therefore this chapter discussed theoretical review and empirical review of the study problem. It further described the conceptual framework that was adopted in this study.

2.2 Theoretical Review

2.2.1 Banks

Banks are financial institutions that accept deposits from the general public and obtain money from such other sources as may be available to them (the "haves") in order to extended loans to those in need of the money (the "have-nots"). As Goosen et al.(1999) put it, banks provide channel (financial intermediation) for linking those who have excess funds with those who are in need of funds, thus ensuring the money available in economy is always put to good use. In so doing banks earn income when they lend money out at a higher interest rate than they pay depositors for use of their money. A Bank's main source of income is interest. A bank pays out at a lower interest rate on deposits and receives a higher interest rate on loans.

2.2.2 Bank Loans

Bank loan is defined as the loan capital for a business that business operators are able to access from different bank (Anyanwu, 2014). It is either a short term, medium or long-term finance from the bank that customers are able to access. The bank sets the fixed period over which the loan is provided to the customers in which the customers require to pay in terms of principal plus rate of interest attached on it.

2.2.3 Loan Borrower

According to (Acharya et al., 2006) a loan borrower is a person or company that has received money from another party with the agreement that the money will be repaid. Most borrowers borrow at interest, meaning they pay a certain percentage of the principal amount to the lender as compensation for borrowing .

2.2.4 Successfully loan repayment

According to Green et al (2014) successfully loan repayment is a commitment taken by loan borrowers to pay their loan dues as it was schedules in order to ensure ability of loan providers to increase their ability to offer more loans. The situation to which loan borrowers are able to pay their loan as it is scheduled on repayment installment. The ability of borrowers use the loan as it was intended and successfully commits to pay loan installment until the whole amount is paid.

Adverse Selection Theory: information sharing reduces adverse selection by improving banks information on credit applicants. The theory of asymmetric information tells us that it may be difficult to distinguish well from bad borrowers, (Pagano & Jappelli, 1993). Adverse selection is problematic in loan markets because borrowers with high credit risk are the ones who usually line up for loans and those who will provide bad customers are likely to be selected/picked from this group Matanda (2010).

Moral Hazard Theory: The moral hazard problem implies that a borrower has the incentive to default unless there are consequences for his future applications for credit. This result from the difficulty lenders have in assessing the level of wealth borrowers will have accumulated by the date on which the debt must be repaid, and not at the moment of application. Moral hazard is a problem in loan market because borrowers may have incentives of engaging in activities that are undesirable from the lenders point of view in such situations; it is more likely that the lender will be exposed to the hazard of default. Adverse selection and moral hazards have led to significant accumulation of nonperforming loans in banks (Bofondi & Gobbi, 2003). An attempt by commercial banks to solve these problems helps in managing credit risk through screening, monitoring, collateral, compensating balance requirements, credit rationing among others.

2.3 Credit Management Policies

2.3.1. Character or Credit Reputation:

Character refers to the borrower's reputation and the borrower's willingness to settle debt obligations. In evaluating character, the borrower's honesty, integrity and trustworthiness are assessed. The borrower's credit history and the commitment of the owners are also evaluated Halelwa (2020). A company's reputation, referring specifically to credit, is based on past performance. A borrower has built up a good reputation or credit record if past commitments were promptly met (observed behavior) and repaid timely (Halelwa, 2020) Koch & McDonald, 2003). Character is considered the most important and yet the most difficult to assess (Koch & MacDonald, 2003). Bankers recognize the essential role management plays in a company's success. Critically analyzing quality of management has been one of the ways of assessing character. The history of the business and experience of its management are critical factors in assessing a company's ability to satisfy its financial obligations. The quality of management in the specific business is evaluated by taking reputation, integrity, qualifications, experience and management ability of various business disciplines such as finance, marketing and labor relations into consideration (Sinkey, 2002; Nathenson, 2004). These factors can be regarded as a risk mitigates if a banker views these positively. Much of its success can in fact be attributed to competent leadership. Companies with strong and competent management teams tend to survive in an economic downturn.

2.3.2 Capacity

Capacity refers to the business's ability to generate sufficient cash to repay the debt. An analysis of the applicant's businesses plan, management accounts and cash flow forecasts (demonstrating the need and ability to repay the commitments) will give a good indication of the capacity to repay (Sinkey, 2002; Koch & MacDonald, 2003). To get a good understanding of a company's capacity evaluating the type of business and the industry in which it operates is also vital .It plays a significant role since each industry is influenced by various internal and external factors. The factors that form the basis of this analysis includes: Type of industry, Market share, Quality of products and life cycle, whether the business is labor or capital intensive, the current economic conditions, seasonal trends, the bargaining power of buyers and sellers, competition and 14 legislative changes (Koch & MacDonald, 2003; Nathenson, 2004). These factors lead the banker

to form a view of the specific company and industry. The banker would regard this as a potential risk mitigate if he/she is confident about the company and industry and prospects for both appear to be positive.

2.3.3. Capital

Capital refers to the owner's level of investment in the business Sinkey (1992). Banks prefer owners to take a proportionate share of the risk. Although there are no hard and fast rules, a debt/equity ratio of 50:50 would be sufficient to mitigate the bank's risk where funding (unsecured) is based on the business's cash flow to service the funding Harris (2003). Lenders prefer significant equity (own contribution), as it demonstrates an owner's commitment and confidence in the business venture.

2.3.4. Collateral

Collateral (also called security) is the assets that the borrower pledges to the bank to mitigate the bank's risk in event of default Sinkey (1992). It is something valuable which is pledged to the bank by the borrower to support the borrower's intention to repay the money advanced. Security is taken to mitigate the bank's risk in the event of default and is considered a secondary source of repayment (Koch & MacDonald, 2003). The purpose of security is to reduce the risk of giving credit by increasing the chances of the lender recovering the amounts that become due to the borrower. Security increases the availability of credit and improves the terms on which credit is available. The offer of security influences the lender's decision whether or not to lend, and it also changes the terms on which he is prepared to lend, typically by increasing the amount of the loan, by extending the period for which the loan is granted and by lowering the interest rate (Andenas & Norton, 1998).

2.3.5. Conditions

Conditions are external circumstances that could affect the borrower's ability to repay the amount financed. Lenders consider the overall economic and industry trends, regulatory, legal and liability issues before a decision is made Sinkey (1992). Once finance is approved, it is normally subject to terms and covenants and conditions, which are specifically related to the compliance of the approved facility (Leply, 2003). Banks normally include covenants along with conditions when credit facilities are granted to protect the bank's interest. The primary role of 15 covenants is to

serve as an early warning system Nathenson (2004). Covenants can either be negative or positive Sinkey (1992).

2.3.4 Process of credit management adopted by banks

- Screening: Commercial banks should maintain a checklist to ensure that all the required information in line with credit applications is comprehensively collected. They should set out pre-qualification criteria for screening. E.g. the criteria could include rejected applications in blacklisted customers all together so as to avoid duplication of effort Matanda (2010).
- Credit appraisal: banks should be able to assess the customer's ability to repay the loan, the nature and value of the collateral or guarantee in support of the credit so as to mitigate risk, the working capital financing should not be pegged to the existence of collateral or guarantee (MacDonald et al, 2006).
- Credit approval: Commercial banks must put in place written guidelines with respect to this process, the approval authorities of individuals or committees and the basis of such decisions. All credits approved should be at arms lengths (MacDonald et al, 2006).
- Credit evaluation is the process a business or an individual must go through to become eligible for a loan. Granting a loan depends on; the willingness of the bank to lend in the current economy based on its assessment of the ability of the borrower to repay (MacDonald et al, 2006)

2.3.5 Credit Methodology

Credit methodology encompasses every activity involved in lending including sales, customer selection and screening, the application and approval process, repayment monitoring, and delinquency and portfolio management. It is also linked with the institutional structure pertaining to the credit process. Quality of credit methodology is one of the most determinant factors for the efficiency, impact and profitability of the institutions. According to William (2007), the Criteria for Successful Loan Repayment are generally categorized as: Good Credit, Equity, Experience, Good Business Plan, and Collateral. Thus getting the credit methodology and product mix right is therefore one of the most demanding as well as rewarding challenges of every financial institutions (banks). The sections that follow discuss major issues in credit methodology that include credit information, credit analysis process, credit approval and credit monitoring processes.

2.3.6 Credit Information

Engagement in financing begins with customer recruitment. An issue of knowing the customer, customarily known as KYC (Know Your Customer) is so vital before proceeding to details. Banks use various means to obtain such information about the existing or potential customer. Use of financial statement, credit report from credit bureau, customers' history if not new is the potential sources of information (Ross et al., 1998). Credit providers use credit information to conduct credit risk analysis of prospective borrowers in order to mitigate credit risk. Kallberg and Udell (2003) highlight that information sharing is useful both at the origination stage and after credit has been extended. Especially at the origination phase, information sharing reduces the problems of adverse selection. In fact the exchange of credit information improves nonperforming loan ratios, leads to fewer losses through write offs and decreases interest rates for good credit risks (Jentsch, 2008: 538). Jentsch (2008) further supports that sharing credit information between lenders intensifies competition and increases access to finance. Jappelli and Paggano (2005) indicate that credit information sharing results in improved bank's knowledge of applicant's character, easing adverse selection and reduce the informational rents that banks could otherwise extract from their customers. Credit information also acts as a borrower disciplining device, by cutting insolvent debtors off from credit and eliminates or reduces the borrower's incentive to become over-indebted by drawing credit simultaneously from many banks without any of them realizing it. Further, Gehrig and Stenbacka, (2007) highlight that information sharing reduces adverse selection problems and thereby promotes financial stability; it serves as a borrower disciplining device and it reduces the informational rents that banks can extract within the framework of their established customer relationships.

2.3.7 Credit Assessment

Credit analysis is the first step in the process to tailor-make a solution to fit the customer's needs. The assessment starts with an understanding of the customer's needs and capacities to ensure there is a good fit in terms of the financing solution. Credit assessment is the most important safeguard to ensure the underlying quality of the credit being granted and is considered an essential element of credit risk management (Cade, 1999). The credit quality of an exposure generally refers to the borrower's ability and willingness to meet the commitments of the facility granted. It also includes default probability and anticipated recovery rate (Saunders & Cornett, 2003). Credit assessment

thus involves assessing the risks involved in financing and thereby anticipating the probability of default and recovery rate. A credit analysis is used by the credit official to evaluate a borrower's character, capital, capacity, collateral and the cyclical aspect of the economy, or generally referred to as the five capital, character, capacity, collaterals and conditions of the borrower.

2.3.8 Credit Approval

Extending credit is the careful balance of limiting risk and maximizing profitability while maintaining a competitive edge in a complex, global marketplace. Banks go through a thorough process in approving credit to hit the balance. Credit approval is the process of deciding whether or not to extend credit to a particular customer. It involves two steps: gathering relevant information and determining credit worthiness (Jordan, 1999). The quality of credit approval processes depends on two factors, i.e. a transparent and comprehensive presentation of the risks when granting the loan on the one hand, and an adequate assessment of these risks on the other. Furthermore, the level of efficiency of the credit approval processes is an important rating element. Due to the considerable differences in the nature of various borrowers and the assets to be financed as well the large number of products and their complexity, there cannot be a uniform process to assess credit risks. The quality of the credit approval process from a risk perspective is determined by the best possible identification and evaluation of the credit risk resulting from a possible exposure.

2.3.9 Credit follow-up/ supervisory visits

Repayment of Bank loans

After the credit assessment and disbursement is done, the credit customer is expected to payback the installment as per agreed schedule. Each Bank has a different repayment mechanism. Based on the specifics of the Bank, customers can pay weekly, bi-weekly, monthly, quarterly, semiannually or annually installments (Martin, 2007). In order to ensure good repayment, Banks have to ensure proper monitoring and follow-up actions. It is an act of prudent Banking practice for Bankers from the point of disbursement of a loan to regularly monitor the client's utilization of the Bank's funds and the performance of the financed project from time to time and the ensuing life style of the client. These activities help to assertion that the borrower has utilize the fund for the approved business purpose is what the Bank's funds are being committed to, that the clients

business is making the expected progress as a result of commitment of the credit facility and that the client has not abandoned the project, to commit the Bank's resources to fund a extravagant life style that could endanger the Bank's resources. In the unusual extreme cases, effective supervision activities could lead to timely discovery of a fast deteriorating credit account that a quick action and decision could reveal. If the situation has challenged corrective action and redemption, the constant action could bring to an end and minimize losses by profession in the account and proceeding with the necessary steps for the Bank to recover whatever it maximally can (Osayameh, 1986). while regular re-assessments, monitoring and evaluation represent a very crucial part of the Banks own part of the strategic conditions subsequent to draw-down of a facility that forms the scheme of work for effective management of the credit facility from the point of approval to the point of liquidation.(Adewale. A,2008)

2.4. Loan classifications in Ethiopia

The classification of loans into performing and nonperforming loan is not appropriate in reality. Loans may take different other status than these two extreme classifications. As per directive number SBB/69/2018 loans are classified into five classes.

Pass loans: these are the loans that have not become any problem, present no special risk than the normal risk inherent to any loan.loans past due for less than 30 (thirty) days.

Special mention loans: these are the loans that have shown some early signs of trouble, such as missing one payment, missing a few financial statements, deterioration of the collateral, etc. Some other events not under the borrowers control may also trigger some alarm, such as deterioration of the labor or political or security situation in the area where the business is located.loans past due for 30 (thirty) days or more, but less than 90 (ninety) days.

Substandard loans: - these are the loans that have become real problems, missing payments for two consecutive payments. They also present real weaknesses that jeopardize the orderly substandard. loans past due 90 days or more, but less than 180 (one-hundredeighty) days.

Doubtful loans: There are very serious questions about the borrowers capacity to repay, leaving the bank with a strong possibility of loss, at least partial loss. The following nonperforming loans at a minimum shall be classified doubtful.loans past due 180 (one hundred-eighty) days or more, but less than 360 days.

Loss Loans: these are loans that are beyond hope after all means of recovery have been exhausted, or loans that have not been performing for over 1 year. The only course of possible action is to take legal actions to foreclose and write the loans off the book as a loss. Based on the above classification the loan of the banks considered as performing and nonperforming. If the loan fall under pass and special mention category they are classified as performing loan otherwise it is considered as non-performing loan (NBE, 2018)

2.5 Empirical Literature Review

So far, we have focused on the theoretical underpinnings of loan repayment, which provide a sensible foundation for the factors that lead to difficulties in loan repayment. In addition to its theoretical strength, there is quite a substantial amount of empirical research by mainstream researchers that have studied these factors and analyses the impact they have on loan repayment and bank performance at large.

Imran (1997) has conducted on the impact of loan repayment performance in Bangladesh and the output of the research shows that borrowers having relatively small loan size have a very strong demonstration compared to loans which large in size. The education statuses of the households were strong positive effect on non-defaulter status irrespective of the household's income position. Other variable which is land-holding of the households were negatively affected with the loan repayment. In addition to that Reza and Mansoori (2008) had studied the factors that influencing the loan repayment performance, the researchers used a logit model and the output were the farmer's experience, income, received loan size and collateral value, have a negative effect, whereas the loan interest rate, total application costs and number of installment have a negative effect on repayment performance of borrower.

Moreover, Jemal (2003) demonstrates that education, level of income, loan supervision, suitability of repayment period, are important and significant factors that enhance the loan repayment performance. Whereas, loan diversion and loan size are found to significantly increase loan default. In addition, female borrowers were found better in terms of loan repayment.

Several studies (Munene & Guyo, 2013; Roslan & Karim, 2009) (Bhatt & Tang, 2002; Eze & Ibekwe, 2007) have also implicated the causes of credit repayment problems to be categorized into these three dominant factors: (a) borrower related characteristics (b) business operation related

characteristics (c) loan 18 related characteristics. They slightly differ in the variables picked but the results are generally similar

There are few studies have been conducted on credit repayment in Africa. The probability of agriculture credit repayment indicated that crop sales, income transfers, degree of diversification and quality of information are positively related with credit repayment. While the size of club is negatively related the probability of repayment. Factors like amount of loan, sex, household size and experience were found to be insignificant (Chirwa, 1997). According to Tegene (2021) study on credit rating and loan repayment performance indicated that years of experience in running the project, age , credit rationing, loan diversion, business management skills, alternative source of income , unfavorable weather conditions, amount of loan obtained by farmers, years of farming experience with credit use and level of education were the major factors that positively and significantly influenced loan repayment are among factors which 23 influence loan repayment performance.

2.6 Research Gap

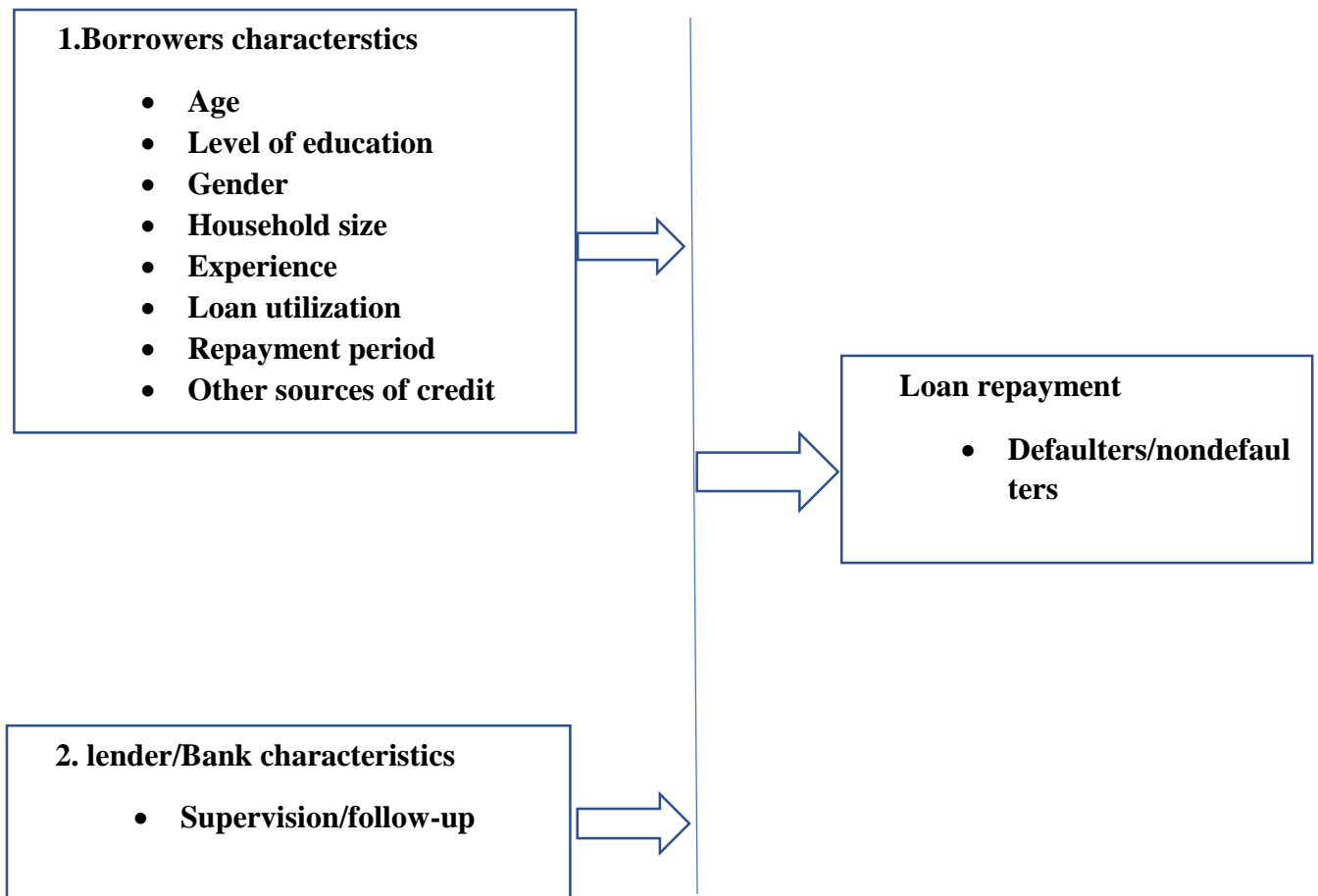
In the area of the determinant of loan repayment performance many research have conducted in the world. However, the economic performance, political, social and cultural factors are various from country to country. As a result the identified determinant factors might not use for Ethiopia in general and in particular in commercial banks in Ethiopia.

This research work is differing from the conducted research work are: the researcher has used few of important variables such as education, age, experience, other source of credit, supervisory visits/followup , and repayment period to identify the determinant of successful loan repayment performance in Commercial banks. And also the study focuses on examining the determinants or the cause of the poor loan repayment performance of borrowers in Zemen Bank.

2.7 Conceptual framework

The main issue in this study is that there are problems, which may cause a loan to be delayed in payment or end up being defaulted. This research to explore both the banks and the customers so that the problem is minimized It is conceptualized that loan repayment problems are a result of some borrower's characteristics (age, level of education, gender, household size, experience ,loan utilization,repayment period and other sources of credit),supervision/follow up(lender factor).

Figure 2.1: Conceptual Framework for Loan Repayment Analysis



Source: Researcher Construct (2023)

2.8 Variables of the study

The variables of the study which will affect the loan repayment of private borrowers are identified in the literature review of this paper. Among which the major variables are chosen. The selected variables for this paper are Loan repayment, age, education level, household/family size, gender, repayment period, other source of income, experience of the borrower, loan utilization, supervision/followup.

2.6.1. Dependent variable

Loan repayment performance was the dependent variables of the study.

2.6.2 Independent (Explanatory variables)

Age: - Age of borrowers (measured in years). At younger age, people are likely to be at career stages where higher future incomes are expected. It may also be argued that the growth rate of income increases in the early stage of the earning life cycle but then declines, as one gets older. On the other side, at older age a borrower may acquire stability, may gain a lot of experience in running a business or may feel a sense of more responsibility hence could be positively related to loan recovery. Hence age might have a positive or negative effect on loan repayment rates.

Gender: It is measured as a dummy, 1 if the borrower is female and 0 male.

Education (EDU): - Level of education (measured in years of schooling). It is defined as the education status of either the owner/individual borrower or the manager who runs the business. Based on the education status interval the effect of education on the loan repayment of the borrower will be evaluated. It is assumed that as the borrower gets educated, he could acquire more knowledge so that his efficiency in allocation of resources increases and so does the proper utilization of the loan. His ability to adopt himself to changing situation would be better than the illiterate ones; hence it will have positive relation with loan repayment.

Household Size (HHS):- Household size (measured in number of members of family). If the borrower has large household size; a considerable amount of income from the business could be diverted away from loan repayment to household consumption. Therefore, the sign is expected to be negative (borrowers with large family sizes may have lower repayment rates.).

Proper utilization of the Loan (LOU): - It is defined as the utilization of the disbursed loan for the planned action for which the bank is disbursed for the intended purpose. The proper utilization of the loan enables the borrowers to implement the loan timely, to run the business smoothly by having sufficient working capital. Hence the borrowers could be profitable; it will have a capacity to repay their loan. Thus the effect of loan diversion on the loan repayment performance of the bank borrower would be analyzed.

Repayment Period (REPPER) :- (measured in number of payment within the production period). If it is relaxed, the amount of each installment required to pay will decrease, the debt burden on the borrower will be smaller hence will not face difficulty in properly meeting his debt obligation. Hence, positive sign is expected.

Availability of Other Source of credit (OSC): - It is defined as credit derived from other business activities outside the zemen loan. It is measured as a dummy, 1 if the borrower has other source of income and 0 otherwise. Hence the effect of other income of the borrower on the loan repayment performance of the borrower will be investigated. Borrowers with other sources of income may make loan repayment from the proceeds of those jobs. Thus, the borrowers with other sources of income may have higher repayment rates hence, a positive sign is expected.

Experience (EXP): - the effect of past credit experience of the borrower /manager on the loan repayment performance of the borrower is investigated. Borrowers who acquired an experience in loan getting before could have better repayment record. Thus, a positive sign is expected.

Bank Supervisory (SUP): Visits by the banks to borrowers will motivate the borrowers to work harder and make sure the loans given to them are not diverted to unintended purposes. Therefore, borrowers who are visited frequently may have higher repayment.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter presents methodologies used for successfully conducting this study. The issues related with research design, targeted study population, sample and sampling procedures, data and data collection methods, model specification, data analysis approaches and procedures was taken care in this chapter.

3.2 Research Design

The research design is a blueprint for conducting the research that specifies the procedures necessary to obtain the information needed to structure and solve the research problems (Cooper et al., 2003). The research adopted explanatory and descriptive research design in order to analyze the topic thoroughly. The descriptive method of research is preferred because a researcher is able to collect data, describe the state of affairs and answer questions concerning the subject of study. And the researcher used an explanatory research design because it could identify the relationship between two or more variables. And its great advantage is that it was flexible and adaptable to change. The relationship between inter-dependents and the relationship between dependent and independent variables are clearly discussed to address the objective of the research.

3.3. Target Population

Zemen bank avails loans for two thousand fourty one borrowers as at September 2022. Since the population of the study is two thousand fourty one.

3.4. Sampling Design

The sample selection was based on Convenience sampling where borrowers are selected in such a way that accessible to the researcher. As of September, 2022 the total number of borrowers excluding staff loans listed on the banks chart under Branches in addis ababa is 2041. The researcher not used statistical formula to determine the sample size. This is because the sample size obtained by using statistical formula was very large. In this regard, taking the available resource, time and budget into account, the researcher set a sample size of 250 borrowers.

3.5. Type and Sources of Data

There exist two major types of data; primary data which is information gathered directly from the source for purposes of the study and secondary data which is information gathered from the published work of other authors. This research used both primary and secondary data as sources of information, primary data was obtained from the respondents (borrowers of the bank), while secondary data as stipulated is sourced from published works like records at the Bank.

3.6. Data collection instruments

For conducting this study, the researcher used different methods of data collection. The primary data for this study collected through questionnaire. The researcher use this method of data collection since it is cost effective and it gives enough time to respondents. The questionnaire was contain close ended questions. The secondary data was collected through verifying the available documents and manuals of the bank.

3.7. 3.7. Methods of Data Analysis

The collected data was analyzed by using descriptive statistics, and Econometric analysis methods using software called SPSS.

3.7.1. Descriptive Statistics

Data collected was edited and then coded through SPSS. After data coding what follows was conducting data analysis. The data were analysed using descriptive statistics which presented data in terms of frequency and percentages. The study also conducted cross tabulation analysis in order to see the relationship between two variables.

3.7.2. Econometric Data Analysis

The successful loan repayment performance of borrower is measured on payment effected fully in their debt based on the contractual agreement. The financed project borrowers are either fully paid its debt according to the contractual agreement or not. To measure the effect of determinant on loan repayment performance of the borrower, logistics regression analysis model was adopt. The model is selected because successful loan repayment, which is the dependent variable, is binary, taking the value 0 and 1 for defaulter and successful loan repayment respectively. The use of logit regressions considers the simultaneous relationships amongst the multiple numbers of independent and dependent variables found across the regression model. The logit model is chosen from other

similar models such as linear probability by its ability to resolve the problem of heteroscedasticity. Again it is chosen from others because it estimates the probability of owning something (study) as a function of some socioeconomic variables. In the Tobit model, for example, the interest is in finding out the amount he/she spends on the study in relation to socioeconomic variables (Gujarati, 2004, p. 640). Linear Probability Model (LPM) is plagued by several problems such as non-normality and heteroscedasticity of the error term, possibility of the dependent variable laying outside 0-1 range most importantly it assumes that the mean value of the dependent variable is linearly related with the explanatory variable (C.R. Kothari, 2004). That is the marginal effect of the explanatory variable is remaining constant throughout, which seems patently unrealistic (Gujarati, 1995).

3.6.2.1 Specification of the Logit Model

This study was intend to analyze which and how much the hypothesize regressors would be relate to the loan repayment performance of the borrowers. As already noted, the dependent variable is a dummy variable, which took a value zero or one depending on whether or not a borrower defaulted. However, the independent variables were of both types, that is, continuous or categorical. Probit and logit models are similar and yield essentially identical results. The probit probability model is associated with the cumulative normal probability function, whereas, the logit model assumes cumulative logistic probability distribution. The advantage of these models over the Linear Probability Model is that the probabilities are bound between 0 and 1. Moreover, they fit best the non-linear relationship between the probabilities of the dependent variable and the explanatory variables, that is one which approaches zero at slower and slower rates as an explanatory variable (X_i) gets smaller and smaller and approaches one at slower and slower rates as X_i gets larger and larger (Chris, 2008).

3.6.2.2 The Purpose of Logistic Regression

The crucial limitation of linear regression is that it cannot deal with dependent variable's that are dichotomous and categorical. Many interesting variables are dichotomous: for example, consumers make a decision to buy or not buy, a product may pass or fail quality control, there are good or poor credit risks, an employee may be promoted or not. A range of regression techniques have been developed for analyzing data with categorical dependent variables, including logistic

regression and discriminant analysis. Logistical regression is regularly used rather than discriminant analysis when there are only two categories of the dependent variable. Logistic regression is also easier to use with SPSS than discriminant analysis when there is a mixture of numerical and categorical independent variable's, because it includes procedures for generating the necessary dummy variables automatically, requires fewer assumptions, and is more statistically robust. Discriminant analysis strictly requires the continuous independent variables (though dummy variables can be used as in multiple regressions). Thus, in instances where the independent variables are categorical, or a mix of continuous and categorical, and the dependent variable are categorical, logistic regression is necessary. Since the dependent variable is dichotomous we cannot predict a numerical value for it using logistic regression, so the usual regression least squares deviations criteria for best fit approach of minimizing error around the line of best fit is inappropriate. Instead, logistic regression employs binomial probability theory in which there are only two values to predict: that probability (p) is 1 rather than 0, i.e. the event/person belongs to one group rather than the other. Logistic regression forms a best fitting equation or function using the maximum likelihood method, which maximizes the probability of classifying the observed data into the appropriate category given the regression coefficients. Like ordinary regression, logistic regression provides a coefficient "B", which measures each independent variable's partial contribution to variations in the dependent variable. The goal is to correctly predict the category of outcome for individual cases using the most parsimonious model. To accomplish this goal, a model (i.e. an equation) is created that includes all predictor variables that are useful in predicting the response variable. Variables can, if necessary, be entered into the model in the order specified by the researcher in a stepwise fashion like regression.

3.6.2.3 Assumptions of Logistic Regression

1. Logistic regression does not assume a linear relationship between the dependent and independent variables.
2. The dependent variable must be a dichotomy (2 categories).
3. The independent variables need not be interval, nor normally distributed, nor linearly related, nor of equal variance within each group.
4. The categories (groups) must be mutually exclusive and exhaustive; a case can only be in one group and every case must be a member of one of the groups.

5. Larger samples are needed than for linear regression because maximum likelihood coefficients are large sample estimates. A minimum of 50 cases per predictor is recommended.

Description of the Dependent variables together with their expected models is given below:

Dependent variable (LR): Was defined as the loan repayment performance of borrowers, which is a dummy variable taking a value of zero if the borrower is non-defaulter and one otherwise.

The models for loan repayment is

$$LR = \beta + \beta_1F (AGE) + \beta_2F (EDU) + \beta_3F (HHS) + \beta_4F (Gen) + \beta_5F (REPPER) + \beta_6F (OSC) + \beta_7F (EXP) + \beta_8F (lutil) + \beta_9F (sup) + U_i$$

Age=age

Edu=educational level of borrower

Hhs=house hold size

Gen =gender

Repper=repayment period

Osinc=other sources of credit

Exp=experience of borrower

Lutil=loan utilization

Sup=supervision/followup

CHAPTER FOUR

DATA ANALYSIS PRESENTATION AND INTERPRETATION

4.1 Introduction

In this chapter, the study presents and discusses the findings based on data extracted from questionnaires. A total of 250 questionnaires were distributed and 177 were collected from the respondents. Therefore the findings presented in this study are based on facts obtained from questionnaire and they are properly and effectively discussed according to literature review.

4.2. Response rate

The study targeted a sample size of 250 respondents from which 177 filled in and returned the questionnaires making a response rate of 70.8%. This response rate was excellent and representative and conforms to Mugenda and Mugenda (1999) stipulation that a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent.

4.3 Demographic status of respondents

The study was interested to know the demographic profile of respondents. The demographic profiles of respondents are important when it comes to payment of loan to the bank. The variables such as gender, level of education, Age. These variables are properly and effectively discussed below.

4.3.1 Gender of Respondents

The sex of respondents indicates the status of being male or female. The business activities are done by both male and female respondents and are likely to face different challenges in payment of loan installment from the financial institutions (Halkias, 2008). The finding based on gender of respondents is shown in table 4.1 below.

Table 4.1: Gender status of Respondents

Gender of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Female	85	48.0	48.0	48.0
	Male	92	52.0	52.0	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023.

Table 4.1 shows that out of 177 respondents who were surveyed during the study, 52% were male and 48% were female. This indicates that both male and female are participating effectively in business activities at the study area. According to Evans and Winston (2008) the number of male and female engaging in entrepreneurship and solicit loan from the financial institutions has been increasing year after year. This is because both male and female understand success in business depends on effective use of credit. The finding has implication that business dealers in the study area are both male and female and they have been involved in accessing credit from banking industry.

4.3.2. Age of respondents

The Age of respondents indicates their categorization based whether they are under age of 25-35,36-45,46-55 and above 55. In running business or personal life and paying loan from the financial institutions age is considered important variable. The age can affect loan to be paid timely or completely not paid (Kibrom, 2010). Thus in this study age of respondents has an impacts on loan repayment problems within the banking industry.

Table 4.2: Age of Respondents

Age of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	25-35	97	54.8	54.8	54.8
	36-45	31	17.5	17.5	72.3
	46-55	40	22.6	22.6	94.9
	>55	9	5.1	5.1	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

Table 4.2 shows that out of 177 respondents who were surveyed during the study, 54.8% were under 25-35 age category, 17.5% were under 36-45 age category ,22.6% were under 46-55 age category and 5.1% were under above 55 age category.From the table above we can say that more of the borrowers responded in this research were under category of 25-35 and the least borrowers responded in this research were under category of age above 55.

4.3.3 Marital status of respondents

The marital status of respondents indicates their categorization based whether they are married, single or divorced.

Table 4.3: Marital status of Respondents

Marital status of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	96	54.2	54.2	54.2
	Married	73	41.2	41.2	95.5
	Divorced	8	4.5	4.5	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

Table 4.3 shows that, 54.2% of respondents were single, 41.2% of respondents were married, and 4.5% of respondents were divorced.

4.3.4. Education level of respondents

The education level of respondents in this study indicates the highest level of education background of respondents till the time when this study was conducted. The education measures skills, knowledge and ability of respondents to understand business activities and roles of loan in running the business. According to Bofondi & Gobbi (2003), reasons for literate people to default the loan varies with illiterate people. Thus this study saw it is important to assess the level of education of respondents because education plays significant roles in explaining the motive for loan defaulting. Table 4.4 below shows the level of education background of respondents.

Table 4.4: Education level of Respondents

Educational level of respondents					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Illiterate	2	1.1	1.1	1.1
	Primary	22	12.4	12.4	13.6
	Secondary	45	25.4	25.4	39.0
	First Degree	86	48.6	48.6	87.6
	Above First Degree	22	12.4	12.4	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

Table 4.4 shows that 1.1% of respondents were having no education ,12.4% of respondents were having primary education level, 25.4% of respondents were having secondary education level, 48.6% of respondents were having first degree education level and 12.4% of respondents were having education level above first degree. The result indicates that respondents in this study had different level of education background. Respondents with different education background plays significant roles in explaining what are considered to them as factors leading to loan repayment problems within the banking industry.

4.4 Factors leading to loan Repayment Problems

The study main objective was assessing the factors leading to loan repayment problems within the banking industry. Thus the first objective was interested on examining if borrowers characteristics, are leading factors for unsuccessfully loan repayment or not.

4.4.1 The borrower’s characteristics

The borrower’s characteristics are considered among important variables not only in processing the loan but also ability of borrowers to successfully pay the loan (Viswanadham &Nahid, 2015). In this study the borrower’s characteristics were Age of respondents, Gender of respondents ,level of education, household size,loan utilization, repayment period, other source of income , and experience in loan borrowing/business activities. The analysis of each variable was done and presented separately below.

4.4.1.1 Age and Late Repayment of Loan.

The study was interested to know whether age of borrowers is associated with unsuccessfully loan repayment among business men in the study area. Table 4.5 shows the results that obtained during study.

Table 4.5: Cross tabulation of age and late repayment of loan

Age of respondents * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Age of respondents	25-35	76	21	97
	36-45	16	15	31
	46-55	29	11	40
	>55	9	0	9
Total		130	47	177

Source: Own data, 2023

Table 4.5 shows that out of total of 97 respondents categorized age from 25-35 , 21 consider they face late repayment of loan and 76 do not face late repayment of loan . Out of total of 31 respondents categorized age from 36-45 , 15 consider they face late repayment of loan and 16 do not face late repayment of loan. Out of 40 respondents categorized age from 46-55 , 11 consider they face late repayment of loan and 29 do not face late repayment of loan .out of 9 respondents categorized age greater than 55 all respondents do not face late repayment of loan. Therefore from the observation when borrowers age increased it is less to default loan repayment and vice versa.

4.4.1.2 Level of education and Late Repayment of Loan.

The second variable on borrower's characteristics was level of education. The level of education was considered one of important variable that affect timely payment of loan among the borrowers. The study carried cross tabulation analysis between late repayment of loan among business operators in the study area and level of their education. The cross tabulation shows relationship or between variable. Table 4.6 below shows the cross tabulation analysis between late repayment of loan among business operators in the study area and level of their education.

Table 4.6: Cross tabulation between Education and late repayment of loan

Educational level of respondents * What is your current loan repayment status				
Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Educational level of respondents	Illiterate	2	0	2
	Primary	15	7	22
	Secondary	30	15	45
	First Degree	67	19	86
	Above First Degree	16	6	22
Total		130	47	177

Source: Own data, 2023

Table 4.6 shows that out of 2 respondents with no education, all 2 do not face late repayment of loan to the bank. Out of 22 respondents with primary school, 7 do face late repayment of loan to the bank while 15 do not face late repayment of loan to the bank. Out of 45 respondents with secondary education level, 15 do face late repayment of loan to the bank and 30 do not face late repayment of loan to the bank. Out of 36 respondents with first level education level, 19 do face late repayment of loan to the bank and 67 do not face late repayment of loan to the bank. And out of 22 respondents with above first degree education level 6 do face late repayments to the bank and 16 do not face late repayment of loan to the bank. Therefore in this study it has been observed that level of education affects credibility of loan repayment among borrowers. Borrowers with all level of education do face late repayment of their loan to the bank since they are more aware of the rules and regulation than the less educated ones.

4.4.1.3 Gender and Late Repayment of Loan.

The study was interested to know whether gender of borrowers is associated with unsuccessfully loan repayment among business men in the study area. Table 4.7 shows the results that obtained during study.

Table 4.7: Cross tabulation of gender and late repayment of loan

Gender of respondents * What is your current loan repayment status				
Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Sex of respondents	Female	73	12	85
	Male	57	35	92
Total		130	47	177

Source: Own data, 2023

Table 4.7 shows that out of total of 92 male respondents, 35 consider they face late repayment of loan in their business activities and 57 do not face late repayment of loan in their business activities. Out of total of 85 female respondents, 12 do face late repayment of loan and 73 do not face late repayment of loan. Therefore from the observation male borrowers face late loan repayment than female borrowers.

4.4.1.4 Household size and Late Repayment of Loan

The study carried cross tabulation analysis between late repayment of loan among business operators in the study area and size of household. The cross tabulation shows relationship or association between variables. Table 4.8 below shows the cross tabulation analysis between late repayment of loan among business operators in the study area and size of household.

Table 4.8: Cross tabulation between size of household and late repayment of loan

Family size * What is your current loan repayment status				
Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Family size	Two	36	13	49
	Three	25	22	47
	Four	34	12	46
	Above five	35	0	35
Total		130	47	177

Source: Own data, 2023

Table 4.8 shows that out of 49 respondents with two members of household , 13 do face late repayment of loan to the bank and 36 do not face late repayment of loan to the bank. Out of 47 respondents with three sizes of household members 22 do face late repayment of loan to the bank and 25 do not face late repayment of loan to the bank. Out of 46 respondents with four members of household, 12 do face late repayment of loan to the bank and 34 do not face late repayment of loan to the bank. All 35 respondents with above five size of household do not face late repayment of loan to the bank .therefore from the above observation we can conclude that borrowers with more family size are capable of paying loan on time to the bank.

4.4.1.4 loan utilization and Late Repayment of Loan

The study also carried cross tabulation analysis between late repayment of loan in the study area and loan utilization.

Table 4.9: Cross tabulation between loan utilization and late repayment of loan

Did you use the entire loan for the intended purpose? * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Did you use the entire loan for the intended purpose?	No	46	24	70
	Yes	84	23	107
Total		130	47	177

Source: Own data, 2023

Table 4.9 shows that out of total of 70 respondents who did not use their loan for the intended purpose 24 do face loan repayment problem and 46 do not face repayment problem. Out of 107 respondents who did use the entire loan for the intended purpose 23 face repayment problems and 84 do not face repayment problem. therefore from the above observation borrowers who use the entire loan are more capable for loan repayments than the borrowers that divert loan.

4.4.1.5 loan repayment period and Late Repayment of Loan

The study also carried cross tabulation analysis between late repayment of loan among borrowers in the study area and loan repayment period. Table 4.10 below shows the cross tabulation analysis between late repayment of loan in the study area and loan repayment period.

Table 4.10: Cross tabulation b/n loan repayment period and late repayment of loan

Does the loan repayment schedule/period of suitable? * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Does the loan repayment schedule/period of suitable?	No	51	14	65
	Yes	79	33	112
Total		130	47	177

Source: Own data, 2023

Table 4.10 shows that out of total of 65 respondents who said their loan repayment period is not suitable 14 do face loan repayment problem and 51 do not face loan repayment problem.out of 112 respondents who said their loan repayment period is suitable 33 face loan repayment problems and 79 do not face loan repayment problem .

4.4.1.6 other source of credit and Late Repayment of Loan

The study also carried cross tabulation analysis between late repayment of loan among borrowers in the study area and other source of credit. Table 4.11 below shows the cross tabulation analysis between late repayment of loan in the study area and other source of credit.

Table 4.11. Cross tabulation between other source of credit and late repayment of loan

Do you have credit from other sources? * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Do you have credit from other sources?	No	52	18	70
	Yes	78	29	107
Total		130	47	177

Source: Own data, 2023

Table 4.11 shows that out of total of 70 respondents who do not have other source of credit 18 face loan repayment problem and 52 do not face loan repayment problems.out of 107 respondents who do have other source of credit 29 do face loan repayment problems and 78 do not face loan repayment repayment .from the above table more of the borrowers have other source of credit .

Table 4.12. Cross tabulation between late repayment of loan and credit source

From what your credit source is? * What is your current loan repayment status				
Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
From what your credit source is?	Equib	6	3	9
	Friends/Family	27	9	36
	Moneylenders	24	13	37
	Microfinances	21	4	25
Total		78	29	107

Source: Own data, 2023

Table 4.12 shows that out of total of 107 respondents who do have other source of credit 9 respondents got credit from equib 3 face loan repayment problem and 6 do not face loan repayment problem.out of 36 respondents got credit from friends/family 6 face loan repayment problem and 27 do not face loan repayment problem.out of 37 respondents who got other credit from money lenders 13 face loan repayment problem and 24 do not face loan repayment problems.out of 25 respondents who got other credit from microfinances 4 face loan repayment problem and 21 do not face loan repayment problem.from the observation borrowers who got other credit from microfinances and friends/families are more capable in loan repayment.

4.4.1.7 borrower experience and Late Repayment of Loan

The study also carried cross tabulation analysis between late repayment of loan in the study area and experiences of borrower in borrowing. Table 4.13 below shows the cross tabulation analysis between late repayment of loan in the study area and experiences of borrower in borrowing.

Table 4.13. Cross tabulation between experience and late repayment of loan

How many times did you take a loan from the bank? * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
How many times did you take a loan from the bank?	Once	42	19	61
	Twice	54	16	70
	Three times	27	12	39
	Four times	7	0	7
Total		130	47	177

Source: Own data, 2023

Table 4.13 shows that out of 61 respondents who took loan from the bank once 19 respondents do face loan repayment problem and 42 do not face loan repayment problems. out of 70 respondents who took loan from the bank two times 16 do face loan repayment problems and 54 do not face loan repayment problems. out of 39 respondents who took loan from the bank three times 12 do face loan repayment problem and 27 do not face loan repayment problems. out of 7 respondents who took loan from the bank four times all do not face loan repayment problem. from the above observation borrowers who have more experience in borrowing are more capable of for loan repayment.

4.4.2 The lender characteristics

The study main objective was assessing the factors leading to loan repayment problems within the banking industry. Thus the second objective was interested on examining if lender character (loan follow-up), are leading factors for unsuccessfully loan repayment or not.

4.4.2.1. Loan followup/supervision and Late Repayment of Loan

The study also carried cross tabulation analysis between late repayment of loan in the study area and the only lender character loan followup/supervision by the bank in borrowing. Table 4.14 below shows the cross tabulation analysis between late repayment of loan in the study area and loan followup/supervision

Table 4.14. Cross tabulation between supervision and late loan repayment

Have you ever been supervised by loan officers for loan repayment? * What is your current loan repayment status Crosstabulation				
Count				
		What is your current loan repayment status		Total
		Non Defaulter	Defaulter	
Have you ever been supervised by loan officers for loan repayment?	No	59	23	82
	Yes	71	24	95
Total		130	47	177

Source: Own data, 2023

Table 4.14. shows that out of 82 respondents who said no for loan followup 23 face loan repayment problems and 59 do not face loan repayment problems.out of 95 respondents who said yes for loan followup 24 face loan repayment problems and 71 do not face loan repayment problems.from the above observation we can say that borrowers supervised by the bank officers are more pay their loan repayment than borrowers who do not supervise.

4.4.3.1 Borrowers perception on the effect of loan supervision on loan repayment

Table 4.15. borrowers perception on loan supervision

Loan supervision					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	7	4.0	4.0	4.0
	Disagree	54	30.5	30.5	34.5
	Neutral	39	22.0	22.0	56.5
	Agree	56	31.6	31.6	88.1
	Strongly agree	21	11.9	11.9	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

As depicted in the above table 4.15, 11.9% of respondents reply were strongly agree that loan supervision affect Loan repayment performance, 31.6% of respondents were reply agree, 22% of respondents were reply neutral, 30.5% of respondents were reply disagree and 4% of respondents were reply strongly disagree that loan supervision affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that loan supervision affect Loan repayment performance.

4.4.3.2 Borrowers perception on the effect of age on loan repayment

Table 4.16. borrowers perception on age

		Age			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	1.1	1.1	1.1
	Disagree	18	10.2	10.2	11.3
	Neutral	40	22.6	22.6	33.9
	Agree	67	37.9	37.9	71.8
	Strongly agree	50	28.2	28.2	100.0
	Total	177	100.0	100.0	

Source:Own data, 2023

As depicted in the above table 4.16, 28.2% of respondents reply were strongly agree that age affect Loan repayment performance, 37.9% of respondents were reply agree, 22.6% of respondents were reply neutral, 10.2% of respondents were reply disagree and 1.1% of respondents were reply strongly disagree that age affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that age affect Loan repayment performance.

4.4.3.3 Borrowers perception on the effect of gender on loan repayment

Table 4.17. borrowers perception on gender

		Sex			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	5.6	5.6	5.6
	Disagree	10	5.6	5.6	11.3
	Neutral	46	26.0	26.0	37.3
	Agree	63	35.6	35.6	72.9
	Strongly agree	48	27.1	27.1	100.0
	Total	177	100.0	100.0	

Source:Own data, 2023

As depicted in the above table 4.17, 27.1% of respondents reply were strongly agree that gender affect Loan repayment performance, 35.6% of respondents were reply agree, 26% of respondents were reply neutral, 5.6% of respondents were reply disagree and 5.6% of respondents were reply strongly disagree that gender affect Loan repayment performance. from the above responses we can conclude that most of the borrowers agree with that gender affect Loan repayment performance.

4.4.3.4 Borrowers perception on the effect of educational level on loan repayment

Table 4.18. borrowers perception on educational level

		Educational level			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	12	6.8	6.8	6.8
	Disagree	13	7.3	7.3	14.1
	Neutral	52	29.4	29.4	43.5
	Agree	60	33.9	33.9	77.4
	Strongly agree	40	22.6	22.6	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

As depicted in the above table 4.18, 22.6% of respondents reply were strongly agree that educational level affect Loan repayment performance, 33.9% of respondents were reply agree, 29.4% of respondents were reply neutral, 7.3% of respondents were reply disagree and 6.8% of respondents were reply strongly disagree that educational level affect Loan repayment performance. from the above responses we can conclude that most of the borrowers agree with that educational level affect Loan repayment performance.

4.4.3.5 Borrowers perception on the effect of proper utilization of loan on loan repayment

Table 4.19. borrowers perception on proper utilization of loan

Proper utilization of loan					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	23	13.0	13.0	13.0
	Disagree	2	1.1	1.1	14.1
	Neutral	52	29.4	29.4	43.5
	Agree	71	40.1	40.1	83.6
	Strongly agree	29	16.4	16.4	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

As depicted in the above table 4.19,16.4% of respondents reply were strongly agree that proper utilization of loan affect Loan repayment performance, 40.1% of respondents were reply agree, 29.4% of respondents were reply neutral, 1.1% of respondents were reply disagree and 13% of respondents were reply strongly disagree that proper utilization of loan affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that proper utilization of loan affect Loan repayment performance.

4.4.3.6 Borrowers perception on the effect of repayment period on loan repayment**Table 4.20. borrowers perception on repayment period**

Repayment period					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	5.6	5.6	5.6
	Disagree	20	11.3	11.3	16.9
	Neutral	43	24.3	24.3	41.2
	Agree	61	34.5	34.5	75.7
	Strongly agree	43	24.3	24.3	100.0
	Total	177	100.0	100.0	

Source:Own data, 2023

As depicted in the above table 4.20,24.3% of respondents reply were strongly agree that repayment period affect Loan repayment performance, 34.5% of respondents were reply agree, 24.3% of respondents were reply neutral, 11.3% of respondents were reply disagree and 5.6% of respondents were reply strongly disagree that repayment period affect Loan repayment performance.from the

above responses we can conclude that most of the borrowers agree with that repayment period affect Loan repayment performance.

4.4.3.7. Borrowers perception on the effect of other source of credit on loan repayment performance

Table 4.21. borrowers perception on other source of credit

Other source of credit					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	10	5.6	5.6	5.6
	Disagree	22	12.4	12.4	18.1
	Neutral	36	20.3	20.3	38.4
	Agree	58	32.8	32.8	71.2
	Strongly agree	51	28.8	28.8	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

As depicted in the above table 4.21,28.8% of respondents reply were strongly agree that other source of credit affect Loan repayment performance, 32.8% of respondents were reply agree, 20.3% of respondents were reply neutral, 12.4% of respondents were reply disagree and 5.6% of respondents were reply strongly disagree that other source of credit affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that other source of credit affect Loan repayment performance.

4.4.3.8. Borrowers perception on the effect of past credit experience on loan repayment performance

Table 4.22. borrowers perception on experience

Past Credit Experience					
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	21	11.9	11.9	11.9
	Neutral	22	12.4	12.4	24.3
	Agree	81	45.8	45.8	70.1
	Strongly agree	53	29.9	29.9	100.0
	Total	177	100.0	100.0	

Source: Own data, 2023

As depicted in the above table 4.22,29.9% of respondents reply were strongly agree that experience affect Loan repayment performance, 45.8% of respondents were reply agree, 12.4% of respondents were reply neutral, and 11.9% of respondents were reply disagree that past credit experience affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that experience affect Loan repayment performance.

4.4.3.9 Borrowers perception on the effect of household/family size on loan repayment performance

Table 4.23. borrowers perception on household/family size

		Household/family size			
		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Disagree	29	16.4	16.4	16.4
	Neutral	24	13.6	13.6	29.9
	Agree	57	32.2	32.2	62.1
	Strongly agree	67	37.9	37.9	100.0
	Total	177	100.0	100.0	

Source:Own data, 2023

As depicted in the above table 4.23,37.9% of respondents reply were strongly agree that household/family size affect Loan repayment performance, 32.2% of respondents were reply agree, 13.6% of respondents were reply neutral, and 16.4% of respondents were reply disagree that household/familysize affect Loan repayment performance.from the above responses we can conclude that most of the borrowers agree with that family.household size affect Loan repayment performance.

4.4 .Presenting the results from Logistic Regression

Binary logistic regression analysis is used to estimate the probability that one of the two events occurs i.e. default or non-default by the borrowers. To construct the model, best subset of metrics namely Sex, Age, Educational status, Family size, Proper utilization of loan, Other source of credit, Loan supervision, Repayment period, Experience (9) are taken as the independent variables to be regressed against Loan repayment status. A summary of the binary logistic regression output is explained in the following tables.

4.4.1 Model Summary

Table 4.24. Model Summary

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	169.651 ^a	.180	.263

Source: Own data, 2023

The above table of Model summary gives us another piece of information about the usefulness of the model. The Cox & Snell R square and the Nagelkerke R square values provide an indication of the amount of variation in the dependent variable explained by the model (from a minimum value of 0 to a maximum of approximately 1). These are described as pseudo R square statistics, rather than the true R square values. In this case the two values are .180 and .263, suggesting that between 18 percent and 26.3 percent of the variability is explained by this set of variables.

4.4.2 Hosmer and Lemeshow Test

Table 4.25 Hosmer and Lemeshow Test

Hosmer and Lemeshow Test			
Step	Chi-square	Df	Sig.
1	10.307	8	.244

Source: Own data, 2023

Goodness of fit statistics is provided in table 4.25. The output of the test is used to determine whether the model adequately describes the data. Hosmer-Lemeshow statistic demonstrates that the significance value is greater than 0.05.

The results shown in the table headed Hosmer and Lemeshow Test also supports our model as being worthwhile. This test, which SPSS states is the most reliable test of model fit available in SPSS. For the Goodness of Fit test, poor test is indicated by a significance value less than .05, so to support the model the researcher want a value greater than .05. In the result the chi-square value for the Hosmer-Lemeshow test is 10.307 with a significant level of .244. This value is larger than .05, therefore indicating support for the model.

4.4.3 Multi-collinearity

We say that there is multi-collinearity problem in an equation when there is correlation between variables employed in the regression model (when the assumption that $cov(x_1, x_2) = 0$ is violated). That is the existence of a ``perfect`` or exact linear relationship among some or all explanatory variables of a regression model (Gujarati, 1995).

Table 4.26 Multi-collinearity-Tolerance and VIF

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	Sex of respondents	.914	1.095
	Age of respondents	.842	1.188
	Educational level of respondents	.873	1.146
	Past Credit Experience	.970	1.031
	Family size	.852	1.174
	Did you use the entire loan for the intended purpose?	.965	1.036
	Repayment period	.852	1.173
	Do you have credit from other sources?	.885	1.131
	Loan supervision	.877	1.141
a. Dependent Variable: What is your current loan repayment status			

Source: Own data, 2023

As we observe from the table of spss result the Tolerance value greater than 0.1 and the VIF value is less than 10. This tells us how there is no multicollinearity problem in the model. Multi-collinearity problem arises when at least one of the independent variables is a linear combination of the others. The existence of multi-collinearity might cause the estimated regression coefficients to have the wrong signs and smaller t-ratios that might lead to wrong conclusions. Two measures are often suggested to test the presence of multi-collinearity. These are Variance Inflation Factor (VIF) for association among the continuous explanatory variables and contingency coefficients for dummy variables (Gujarati, 2003). The VIF values displayed in the table above shows that all the continuous explanatory variables have no serious multi-collinearity problem. Similarly, contingency coefficients were computed for dummy variables

4.4.4. Discussion on Significant Explanatory Variables

Table 4.27 Variables in the Equation

Variables in the Equation									
		B	S.E.	Wald	df	Sig.	Exp(B)	95% C.I.for EXP(B)	
								Lower	Upper
Step 1 ^a	Sexv	1.453	.423	11.808	1	.001	4.277	1.867	9.799
	Agev	.018	.212	.007	1	.931	1.019	.672	1.545
	Educnv	-.120	.226	.284	1	.594	.887	.570	1.380
	Famsizev	-.555	.213	6.752	1	.009	.574	.378	.873
	Properuv	-.936	.394	5.653	1	.017	.392	.181	.848
	Otherscv	.693	.431	2.590	1	.108	2.000	.860	4.653
	Loansupv	.521	.193	7.303	1	.007	.594	.407	.867
	Reppv	.170	.186	.834	1	.361	1.185	.823	1.705
	Experiencev	-.364	.208	3.069	1	.080	.695	.462	1.044
	Constant	2.231	1.558	2.050	1	.152	9.311		
a. Variable(s) entered on step 1: Sexv, Agev, Educnv, Famsizev, Properuv, Othersic, Loansupv, Reppv, Experiencev.									

Source: Own data, 2023

Out of nine variables hypothesized to influence the loan repayment performance of the borrowers, four were found to be statistically significant. The maximum likelihood estimates of the logit regression model shows that sex of borrowers, family/household size of borrowers, proper utilization of loans, loan supervision, were important factors in determining the loan repayment performance of the borrowers. On the other hand, the other five explanatory variables, namely age, education status, other source of credit, repayment period and experience of the borrower were less powerful in explaining the loan repayment performance of borrowers.

4.4.4.1. Gender

The variable gender (sex) has a positive sign as expected and is statistically highly significant at 5% as shown on table 4.18 . This indicates that there is significant relationship between gender status of respondents and late repayment of their loan in their business. In this fact, it is observed that gender status of respondents is important borrowers characteristics associated with late repayment of loan. The finding related with Halelwa, M. (2020) who observed that loan defaulting

has been an issue related with gender. The gender is important variable which affect credibility of timely loan repayment to financial institutions. This current study observed that there is significant relationship between gender status of respondents and late repayment of their loan in their business.

4.4.4.2 family size

The variable Family size (famsize) has a Negative sign as expected and is statistically highly significant at 5% as shown on table 4.18 . This indicates that there is a significant relationship between size of household and late repayment of loan in the study area. Based on this result, size of the household of respondent does affects late repayment of loan in the study area. Halelwa, M. (2020) reported that size of household was found significantly determine non performing loan in commercial banks. In this study it has been observed that size of household has been a cause for delay of loan payment to the bank among business operators in the study area.

4.4.4.3. Proper utilization of loan

Another variable that adversely and significantly influence loan recovery rate is loan diversion. Borrowers who diverted the loan other than the intended purpose are found to be defaulters. The proper utilization of the disbursed loan for the intended purpose is an important factor, which is positively related to the borrower's ability to repay their loans. On the other hand loan diversion negatively affects the loan repayment performance of borrower significant at 5% probability level. This implies that the activities to which the loan was diverted are either non-productive ones or generate income less than what if it was properly utilized. This result complies with the result obtained by Okorie (1986), Aberham (2012), Viswanadham & Nahid (2015).

4.4.4.4. Loan supervision/followup

The other variable follow-up/supervisory visit is an important variable, which is positively related to the borrower's ability to repay their loans and is significant at 5% probability level. This means that the more the bank followup /visits the borrowers, the better borrowers' repayment abilities and vice versa.

Table 4.28. Summary of the Result vs the Hypothesis

Variables	Hypothesis No	Hypothesis(Ho)	Actual result	Hypothesis status
Age	H1	Significant	Not Significant	Reject
Gender	H2	Significant	Significant	Accepted
Education Level	H3	Significant	Not Significant	Reject
Household Size	H4	Significant	Significant	Accepted
Proper Utilization Of Loan	H5	Significant	Significant	Accepted
Repayment Period	H6	Significant	Not Significant	Reject
Other Source Of Credit	H7	Significant	Not Significant	Reject
Experience Of Borrower	H8	Significant	Not Significant	Reject
Supervision/Follow-up	H9	Significant	Significant	Accepted

Source: Own data, 2023

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

The chapter indicates the summary of the study, concluding remarks and the recommendations on the observed issues in the entire study which requires to be provided with suggestions to bring about positive changes.

5.2 Summary of findings

The main objective of this study was to investigate determinants of loan repayment performance in case of Zemen Bank S.C. Specifically, the paper is intended to evaluate the effect of borrowers specific factors(age, educational level, gender, household size, loan utilization, repayment period,availability of other source of credit and experience of the borrower) on loan repayment performance, and to evaluate the effect of lender specific factor (loan supervision) on loan repayment performance. In this study primary data sources were mostly used to analyze the determinants of loan repayment performance. To this end, a binary logit model was adopted to determine as to whether the several explanatory variables, as hypothesized in the paper, have much to do with repayment performance.

Data and information for the study were collected from 177 respondents (borrowers).in the study from the total of 177 respondents (borrowers), 130 (73.4%) of the respondents' were successful payers(non-defaulter) and 47(26.6%) of respondents (borrowers) were unsuccessful payers(defaulters).

From the respondents result on descriptive statistics using cross tabulation as the borrower's age increase the loan repayment rate increase and as the age decrease the level of loan repayment rate decrease.female borrowers are successful loan payers compared to mens.related to family size borrowers with more family size are more successful loan payers. borrowers who used the borrowed loan for the intended purpose are more successful loan payers than borrowers who divert the borrowed loan.experienced borrowers in borrowing are more successful payers of their loans.borrowers supervised by the bank personnels are more successful payers than borrowers with less supervision.

According to Regression test and p-value, the analysis of the study shown that the independent/explanatory variables, which were hypothesized to determine the repayment performance, four were statistically significant in explaining the loan performance and the other five were not significant. These variables include gender, family size/household size, proper utilization of loan, and loan supervision/followup has significant impact on repayment performance. In contrast, the remaining age, educational status, other source of credit, repayment period and experience of the borrower were less powerful and had no significant impact on loan repayment performance.

The variable gender (sex) has a positive sign as expected and is statistically highly significant at 5% . This indicates that there is significant relationship between gender status of respondents and late repayment of their loan in their business. In this fact, it is observed that gender status of respondents is important borrowers characteristics associated with late repayment of loan.

The variable Family size (famsize) has a Negative sign as expected and is statistically highly significant at 5%. This indicates that there is a significant relationship between size of household and late repayment of loan in the study area. Based on this result, size of the household of respondent does affects late repayment of loan in the study area.

Another variable that adversely and significantly influence loan recovery rate is loan diversion. Borrowers who diverted the loan other than the intended purpose are found to be defaulters. The proper utilization of the disbursed loan for the intended purpose is an important factor, which is positively related to the borrower's ability to repay their loans. On the other hand loan diversion negatively affects the loan repayment performance of borrower significant at 5% probability level.

The other variable follow-up/supervisory visit is an important variable, which is positively related to the borrower's ability to repay their loans and is significant at 5% probability level. This means that the more the bank followup /visits the borrowers, the better borrowers' repayment abilities and vice versa.

5.3 Conclusion

Based on the findings it can be concluded that gender, family size/household size, proper utilization of loan, and loan supervision/followup has significant impact on repayment performance. which means any increase or decrease on the value of these variables leads to an increase or decrease on loan repayment performance. Gender and loan supervision/followup had positive relationship with loan repayment performance. While family/household size had negative relationship with loan repayment performance. Many of the variables are interrelated and interdependent. That means the existence of one variable affect the other variables both positively or negatively. As a result, the interdependence of most of the variables leads the bank in to success or failure. If they are positively interrelated, the variables may lead the bank into success and if they are negatively interrelated, they will affect the bank success adversely.

5.4 Recommendations

After analyzing result obtained from responses on questionnaires gathered from the and comparing with the theoretical framework in various literatures, the following recommendations are made by researcher to improving the loan repayment performance.

- Gender of borrowers was significant to influence loan repayment performance additionally males' are more defaulters than females' in loan repayment. Therefore, the study recommends the bank may exert its effort on identifying the problem of why males' are more defaulters than females' rather than excluding them from the service.
- The study recommends that commercial banks should assesses borrowers personal/family detail with due care before advancing loan to their borrower.
- The study recommends that the bank should give focus on evaluating the relevant loan utilization of the borrower during supervision due to the fact that the more proper utilization of the loans also the bank needs to make sure that borrowed funds are being used for the intended purpose through enhanced timely credit monitoring after the loan is being disbursed.
- The study recommends that Conducting frequent follow-up/supervision visits has also a direct bearing on successful loan repayment performance. In other words, implementing effective and efficient follow-up/ supervision system and practices should be considered

as a major part of credit activity because a borrower who gets robust and continuous information and technical advices from the Bank is more likely to be successful. Thus, the credit manager/policy maker should give more emphasis on supervision or follow-up of borrowers in order to being successful loan payer.

- Lastly The study recommends that more efforts in making the significant variables should capitalized in credit policy of the bank so that provision of loan base on critical analysis of them in order to reduce late repayment of loan to the bank.

5.5 Areas for future study

The study recommends that future study has to be conducted assessing factors leading to loan repayment problems within the banking industry taking account more variables and including more banks.

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Appendix I

ADDIS ABABA UNIVERSITY
COLLEGE OF BUSINESS AND ECONOMICS
DEPARTMENT OF ACCOUNTING AND FINANCE

Dear Respondents,

I am carrying out a study on the Determinants of loan repayment performance at zemen bank sc.
I would be grateful if you could help me answer the following questions.

Desta Belete

Notice:

- No need of writing your name.
- Make a circle for questions that have an alternative.

Thank you in advance!

1. Your gender?
 - a) female
 - b) male
2. What is your Age?
 - a) 25-35
 - b) 36-45
 - c) 46-55
 - d) above 55
3. Marital status:
 - a) Single
 - b) Married
 - c) Divorced
 - d) Widowed

4. your Level of education
 - a) illiterate
 - b) primary
 - c) secondary
 - d) first degree
 - e) above first degree
5. What is your Household Size?
 - a) Two
 - b) Three
 - c) Four
 - d) above five
6. How many times did you take a loan from the bank?
 - a) Once
 - b) Twice
 - c) three times
 - d) four times
 - e) more than four times
7. What is your current loan repayment status?
 - a) non-defaulter
 - b) defaulter
8. Did you use the entire loan for the intended purpose?
 - a) No
 - b) yes
9. Do you have credit from other sources?
 - a) No
 - b) Yes
10. from what your credit source is?
 - a) Equib
 - b) friends/family
 - c) money lenders
 - d) microfinances

11. Does the loan repayment schedule/period is suitable?
- a) No
 - b) yes
12. Have you ever been supervised by loan officers for loan repayment?
- a) No
 - b) yes
13. Do you think that loan supervision/follow-ups have an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
14. Do you think that age has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
15. Do you think that gender has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
16. Do you think that educational level has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree

17. Do you think that proper utilization of loans has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
18. Do you think that repayment period has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
19. Do you think that another source of credit has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
20. Do you think that experience has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree
21. Do you think that household/family size has an effect on loan repayment?
- a) Strongly Disagree
 - b) Disagree
 - c) Neutral
 - d) Agree
 - e) Strongly Agree

Thank you!!!