



**COLLEGE OF BUSINESS AND ECONOMICS**

**DEPARTMENT OF MANAGEMENT**

**DETERMINANTS OF SUCCESSFUL LOAN REPAYMENT PERFORMANCE IN  
PROJECT FINANCING IN THE CASE OF AWASH BANK**

**BY**

**DESTA TEFERA**

**A THESIS TO SUBMITTED THE DEPARTMENT OF MANAGEMENT OF ADDIS  
ABABA UNIVERSITY IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR  
THE DEGREE OF MASTER IN MANAGEMENT**

**ADVISOR: DEMEKE CEMDESSA (PhD)**

**JUNE, 2024**

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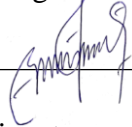
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## **DECLARATION**

I, the person signing below, certify that I am the author of this thesis, completed with the supervision of Demeke Chemdesa (PhD). I have properly attributed all sources of materials used in the thesis. I further attest that the thesis has not been submitted to any other academic institution in whole or in part in order to be awarded a degree.

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JUNE; 2024

**EDORSMEMENT**

As a university advisor, I have given my agreement for this thesis to be submitted to the Addis Ababa University School of Graduate Studies for assessment.

Advisor Dr. Demeke Chemdesa, PhD

Signature  June 10, 2024 \_\_\_\_\_

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## **LIST OF ACCRONYMS**

AB	Awash Bank
AM	Accessibility of market
AML	Amount of loan
ARM	Availability of raw material
DRS	Debit rating scale
EDR	Equity debt ratio
EL	Educational level
ELT	Experiential Learning Theory
LPT	Loan processing time
MEPM	Managerial experience of Project manager
NPF	Number of Project Follow-up
PIP	Project Implementation period
PMB	Project Management book
SLR	Successful loan repayment
TM	Type of management
TMFCF	Type of market for the commodity financed
WBS	Work breakdown structure

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## **ABSTRACT**

*This study assesses the elements that lead to effective loan repayment performance project financing in case of awashbank. The study used an explanatory design and a quantitative research approach. Secondary data from Awash Bank's customers file regarding their loan payment is secured for analysis. The information gathered comes from each borrower's file. Therefore, there were seventy-five (75) bank's customer's files. Of these, 40 (53%) had successfully funded projects with no defaulters, whereas the remaining 35 (47%) had unsuccessful projects (defaulter). The study's main variables include Amount of loan, loan processing time, educational level, loan repayment performance and managerial experience. The study indicated that the performance of loan repayment is statistically significantly correlated with loan processing time, amount of loan, project follow up, managerial experience, and educational level. The findings of the study suggests as Awash Bank ought to step up its monitoring and follow up tasks for the project to help it make well informed choices and offer technological support for its credit-supported initiatives; raise the debt-to-equity proportion of borrowers to help them become more morally responsible; be mindful to reduce the bureaucracy which slows down loan administration times; crucially evaluate the time frame for project execution when evaluating projects and improve its capacity for project execution ; identify and address the underlying reasons behind of project delays; and enhance the effectiveness of its system for attracting customers by taking into account the educational level of borrowers, project managers managerial backgrounds and styles of management.*

*Key words: Amount of loan, loan processing time, educational level, loan repayment performance.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1. The study's background**

The investigate historical context A loan is defined as any financial information pertaining to a bank that results from direct or indirect lending, or from a bank's promise to advance funds to an individual subject to that individual's duty to repay the funds by a certain date or upon demand, typically with curiosity(Adrian &Ciornelis 1990). Given that the loan portfolio is what main source of income and the largest asset. The stability and safety of banks depend critically on the efficient administration of the credit function. (1990, Adrian &Ciornelis).

A nation's financial sector is essential to its expansion and advancement. Banks are one type of monetary institution that performs the function of an intermediary by raising funds from individuals with surplus funds and lending it to others who require it for investments. Because of this, one-way banks support economic growth is by extending credit to borrowers, guaranteeing that the money in the economy is utilized for profitable ventures that further boost the economy. Thus, effective credit management benefits borrower companies, the nation as a whole, and banks' performance (Adrian &Ciornelis, 1990).

If a borrower's ability to repay is not properly evaluated, bank lending carries a risk (Martin, 2007). To lend, banks must first collect deposits from the public, which they then use as collateral for loans and other advances. The banks also incur fees for holding this deposit. The purpose of lending activities for banks is to make money. The primary revenue streams are commission, fees, interest, and margin (Martin, 2007).In addition to the urge, banks must retrieve the principal sum in order to maintain the security of depositor funds and prevent capital depletion, as well as to issue credit and make money. As a result, bank lending must take into account risk involved with loan proposals, depositor needs, cost of money, and legislative requirements. Because of these factors, banks have created credit rules and procedures over time that outlines the lending process. This procedure involves, among other things, the monitoring and recovery of loans, paperwork, distribution, and credit appraisal. Nonetheless, banks continue

to write off 20–40% of bad debt on average each year (Martin, 2007). Among the financial institutions that are essential to the developing nation is Awash Bank. It is an exclusive bank that was founded to advance the goals of national progress. Hence, a project financing organization like AB's long-term viability depends on its capacity to obtain the amount of loans given to the customer. Manufacturing, extractive industries, agro processing, and commercial agriculture were among the government's main economic sectors for which AB continued to offer substantial financial and technical support. For more than a century, AB has been committed to supporting national development initiatives by providing financial and technical support to feasible projects that align with governmental priorities (Adrian & Ciornelis, 1990). Borrowers find it difficult to obtain loans, nevertheless, as the Bank has a significant financial risk in the event that it is unable to retrieve the disbursed loan from the borrowers. The Bank presently has 700 branches and a head office that are ideally distributed across the nation to ensure efficient operations. From its founding to the present, the Bank has provided project financing in a variety of industries, including manufacturing, extractive industries, commercial agriculture, and agro processing. Wongnaa and Awunyo (2013): The typical loan recovery of the bank's performance for the 2013–14–15 E.C. period is 50%, in light of the corresponding years-over-year results examine of the Bank. Consequently, this enormous disparity that the bank is facing lowers the bank's profitability and may even impede the nation's economic growth at this rate. Consequently, this paper contributed to the loan collection of AB by examining the predictor of prosperous loan payback effectiveness in project financing through a variety of factors and offering sound advice to creators decisions on how to boost the Bank's loan reimbursement.

## **1.2 Statement of the problem**

Problem statement for the banking industry to grow sustainably and healthily, effective management over loan payback is essential, especially for companies that specialize in loan provisioning. Put differently, the elements that determine the effectiveness of loan repayment in project funding need to exist thoroughly examined due to they have a direct effects on the institutions' ability to survive and operate sustainably. Thus, research on the key factors that determine a bank's ability to successfully repay its loans is particularly important for banks that finance projects.

The main motivation for the lender to participate in this lending activity is interest on the debt, which is typically charged for any loan made by a financial institution. And in such a loan of these duties and limitations, the enforcement of these terms is carried out through contractual agreements or covenants between these parties, which expressly outline the rules of the game and the terms that have been agreed upon by both sides regarding various aspects such as the goal, the timetable for disbursement, the length of the repayment period, and the fees related to the loan. Research on loan repayment performance has been carried out by Kimbrom (2010), Mulugeta (2010), and Mulluken (2014). Mulugeta (2010) conducted research specific to private borrowers, while Mulluken (2014) conducted research specific to floriculture growers' borrowers. This research project varies from the previous researchers' in that it encompasses all facets of the funded project at the head office, so providing an overall view of the Bank. Since the Bank is represented by the head office, which holds an 85% share of the entire loan portfolio concentration. Second, while those researchers have only used the project's statistics during the period in which they have conducted their research to measure the success factors of their works, the collected data of successful financed projects were taken from the settled financed project to identify the success factors. Therefore, the research's findings were insufficient to close the performance gap on the bank's loan repayments.

From the Bank's central database for the last five years (2010/11, 2011/12, 2012/13, 2013/14, and 2014/15) reveals the loan recovery performance trend as follows: 41%, 70%, 51%, 51%, 41%, and 47% , correspondingly (Central Database of Annual Reports the bank). This indicates that the Bank's yearly loan reimbursement. Was unable to cover the entire amount of demand or due.

Furthermore, for the previous five years, 2010–11, 2011–12, 2012–13, 2013–14, and 2014–15, the Bank's medium and long-term loan NPL ratios are 9.73%, 8.36%, 8.62%, 8.2%, and 12.54%, respectively. Despite this enormous disparity, no representative investigation has been conducted to examine the elements that lead to the subpar achievements in the field of loan recovery by evaluating the profitable initiative funded by Awash Bank.

It is the aforementioned evidence that motivated the researcher to identify the major factors that determine successful loan repayment performance . 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), Mengistu (1997) and Bekel.

Muluken (2014)The research works largely focus on repayment performance of smallholder farmers in case of different microfinance andNGOs in different region of the countryterm creditors because there is less chance of substantial change in the financial soundness of the creditors within a few week's or months' time. Thus, this study has mainly focused on identifying the determinants of medium and long term project financing whereas the above stated research works have generally emphasized on short term loans. Hence, the study has focused on this important issue and hasinvestigated and believed to have a positive outcome for the managers of Awash Bank.

The purpose ofis to investigate the element that has an effects loan performance loan payback and assess the factors that influence loan repayment performance by using the project funded the borrowers' financial information from AwshBank.As a result of the research, the Bank may be able to identify the critical elements of project financing success and take appropriate action. Additionally, in the instance of Awash Bank, a probit model has been utilized to statistically investigate the factors associated with successful loan repayment.

### **1.3. The study's objectives**

#### **1.3.1. General objectives**

The major objective of the study is to examine determinants of loan repayment performance of Awash bank debtors.

#### **1.3.2. Specific objectives of the study**

- I. To examine the effects of loan amount on repayment performance
- II. To examine the effects of loan project follow-up on repayment performance
- III. To examine the effects of loan processing time on repayment performance
- IV. To examine the effects of managerial experience on repayment performance
- V. To examine the effects of debtors educational level on repayment performance

### **1.4. Research Questions**

The study has tried to answer the following research questions

- I. What is the effects of loan amount on repayment performance?
- II. What is the effect of loan project follow-up on repayment performance?
- III. What are the effects of loan processing time on repayment performance?
- IV. What is the effect of managerial experience on repayment performance?
- V. What is the effect of debtor's educational level on repayment performance?

## **1.5. Operational Definition Term**

### **1.5.1. Dependent (Explained) Variable**

As the Operational Definition Term **Successful Loan Repayment (SLR)** Variable evaluated as a fictitious variable, it has been applied to all funded projects where borrowers paid back their entire debts. Incompliance with the conditions of the agreement and for the borrowers who received project financing take one and zero who were unable to make loan payments as stipulated by their contract. According to the contractual agreement, 1 is for projects that have been completely financed and whose cash flow has allowed them to pay off their debt. For the projects that were funded but were unable to fulfill their contractual obligations to pay back their loan.

### **1.5.2. Independent (Explanatory Variables)**

**Number of Project Follow-up (NPF)** is a not a continuous variable that has been evaluated in the count of supervisory project visits made by the bank's credit supervisors each year. Its main purpose is to keep a close eye on the project's execution and/or operation and, if necessary, recommend any corrective measures.

When a loan officer pays a visit to a borrower, he or she encourages the borrower to put in more effort and ensure that the loan is used regarding the intended investment related activities. This is corroborated by the factual research conducted by Koopahi and Bankhshi (2002), Wongnaa and Awunyo (2013), Mulugeta (2010), and MdMuluken (2014).

**Equity to debt ratio, or EDR**, is a variable that is continuous that is determined by dividing the sum loan amount authorized by the bank by the borrower's equity/original capital contribution. Presumably, when the borrower's equity to loan ratio rises, they become more committed to

seeing the project through to completion. This helps to guarantee the sustainability of the undertaking in the long run. At least to hold a position thus, there is a favorable effects.

The undertaking longevity is positively effectsed. Consequently, it is anticipated having a favorable effect regarding loan repayment effectiveness. This is endorsed by Mulugeta (2010).

**Managerial Experience of Project Manager (MEPM):** It is a constant element that is expected to be present since projects are overseen by highly skilled managers who are able to overcome various obstacles and successfully pay off debt. Longer-term borrowers are anticipated to have higher levels of business success and higher sales and cash flows than recently established borrowers. As a result, more seasoned borrowers would've higher repayment percentages, which conversely would have favorable effects on repayment performance and the dependent element. The outcomes of Oladeebo (2008), W, Wongnaa and Awunyo (2013), and Muluken (2014) bolster the idea.

**Higher educational levels** enable borrowers to perform basic cash flow analysis, maintain business records, understand more sophisticated information ,and, in general make wise business decisions Education Level (EL: Level of education (evaluated in a academics situation of the borrower)elevated education position may therefore result in higher repayment rates for borrowers. This variable is dummy, with a value of 1 if the borrowers or managers hold a BA/BSC degree or above, and 0 otherwise. Additional research was encouraged by Matin (1997), Kalashulize (1993), Njioku and Odii (1991), Olaebo (2008), and Amare (2022).Empirical studies by Michael (2006), Mulluken (2014), Ojiak and Ogbukwa (2012), Mulugeta (2010), Eze and Ibekwe (2007), Balogun and Alimi (1988), and Ama (2006) noted that education improves repayment performance, accordingly to empirical research by raising the customer's awareness to utilize the loan efficiently. This study finds the same outcome.

**Loan processing time (LPT)** is the amount of time that elapses between the borrower's credit project application and the release of the credit disbursement. Should the debt be paid back in the shortest amount of time possible, there is little chance that it will be used for unintended purposes. A However, the extended review and approval process causes the loan to be disbursed later than intended, which effectss the project's implementation delay. As a result, it is anticipated that a extended loan issuance time period will possess a detrimental influence on payback achievement.

The findings of writers Bagogun and Alimi (1988), Kopahi and Bakshi (2002), Bekele (2003), Jama and Kulundu (1992), H, Hunte (1996), N, Njioku and Odii (1991), a, and Mulugeta (2010) all lend credence to this variable theory.

**Amount of loan (AML)** is specified as the total quantity of loan that the bank announced to each individual borrower. It is expected that a larger loan would result in higher interest rates and other costs associated with the production process, as well as a worse performance record in repayment. On the other hand, Bekele (2003) pointed out that the loan repayment performance increases if the project's production capacity can use the loan efficiently. Accordingly, the analysis has determined the variable's actual influence, which is further corroborated by Muluken (2014).

The term "**type of market for the commodity financed**" (TMCF) describes the kind of initiative in which AB fully finances the credit. It is a unknown variable that has a value of 1 if the initiative product is focused on the market for export and 0 alternatively, per Mulugeta (2010) and Muluken (2014). When a borrower participates in export markets, their repayment performance is predicted to be better than if the commodity was produced for the regional market. There should be a liner correlation among the borrower and the reliant variable.

The term "**delayed project implementation period**" (DPIP) refers to the time frame following the laying of the establishment to the start of the project's function. It is also known as the "financed project operation started period." This period is when the project's establishment and investment activities are implemented. It's a qualitative attribute with a value of 1 for the funded initiative operating duration up to six months, 2 for the initiative operation time more than six months but less than a year, and 3 for the initiative function period beyond a year. initiative where recent executed initiatives have a lower payback rate than executed based on the predicted term under the evaluated document are presumed to have this assumption.

**Type of management (TMGT)** is a unknown variable that accepts if the owner manager is in charge of the project, then 1; else, 0. It is described as the type manager of initiative (either employed or owned) who is in charge of the project's general function.

It is anticipated that if the is managed initiative by the owner, they would be able to assume accountability and promptness corrections when confronted with difficulties. As a result, the initiative is sustainable because the consequently has a favorable effect on the performance of the

loan repayment. A positive sign is anticipated for this kind of management, and it is backed by Muluken (20

## **1.6. Significance of the Study**

Based on information gathered from the main Database of AB, the Bank's loan pay back result report indicates 47% as of June 30, 2015 e.c. This has an effect on the Bank's ability to continue operating as a financial institution and to sustainably provide credit to potential investors.

Therefore, it is crucial that financial institutions establish a plan to improve the Bank's performance in loan gathering. This may be done by helping the Bank identify the factors that contribute to effective loan payback performance in project financing.

- It is the responsibility of policy makers to create credit laws and programs that work well and aid in the efficient use of financial resources.
- The effect of loan possession time, number of project follow-ups, project implementation period, loan amount, education level, management style, type of market for the financed commodity, managerial experience of the project manager, equity to debt ratio, availability of raw materials, distance from project location to input raw material, accessibility of the market, and distance from project location to output product market for the loan repayment performance are all clearly understood by managers.
- Assists other researchers in determining the elements that contribute to successful loan payback and in doing research on relevant issues.
- The administrator of the Bank can comprehend the aspects that determine successful loan repayment achievement. And analyze the loan repayment achievement.

## **1.7. Delimitation/Scope of the study**

Despite the fact that macroeconomics has a significant influence on loan repayment achievement. The investigate is restricted to bank unique factors. As a result, it has examined the factors specific to banks that influence successful loan repayment in initiative funding.

Therefore, the study examined the payback aspect of Awash Bank and concentrated on the explanatory variable and the dependent variable, such as loan amount, loan possession duration, number of project follow-ups, duration of initiative execution, and education level.

The following factors were linked to loan repayment: type of management, market type for the financed commodity, managerial experience of the project manager, equity to debt ratio, availability of raw material, distance from project location to raw material input, market accessibility, and distance from project location to output product market. Only the projects that the Bank financed between 2012–13 and 2014, the 2015–16 fiscal year, have borrower data been collected. This is because the financed projects' credit terms were either medium- or long-term, and as a result, it is required to go back to the loan rendered period of the project to review the current status and determine the success or failure factors of the projects.

### **1.8. Limitation of the Study**

The study's customers are confined only to Addis Ababa and hence not including the loan repayment performance of customers in other regions may limit the generalizability of the findings. Moreover the study solely based on the customers file which is secondary data not encompassing the perspectives of employees and others may affect the overall outcome of the study.

### **1.9. Organization of the study**

The remaining sections of the thesis are arranged as follows: the second chapter covers a theoretical and empirical literature review relevant to the issue, while the third chapter outlines the paper's materials and methodology section.

The empirical data and discussion are included in the fourth chapter. Lastly, the thesis's summary, conclusion, and recommendation are included in the last chapter.

## **CHAPTER TWO**

### **REVIEW OF RELATED LITERATURE**

The theoretical and empirical writing is divided into two categories in order to investigate and pinpoint the key factors that contribute to successful loan pay back.

#### **2.1. Theoretical review**

##### **2.1.1. Theory of project**

Turner (1993), cited in the PMB Guide (the Project Management book), states that management of scope is the purpose of project oversight and serves as a foundation for reconstructing the philosophy of projects.

According to him, scope management serves the following purposes: (1) enough or sufficient labor is completed (2) superfluous task is completed; and (3) the task that is completed fulfills the mentioned company goal Olaebo (2008).

The work breakdown structure (WBS) defines the scope. What does Turner mean, theoretically speaking? Firstly, he asserts (absolutely) that project oversight is about managing task; this is the conception.

Second, he asserts that task can be controlled by breaking down the whole task effort into smaller task units, which are referred to as activities and tasks in the PMB Guide by Odii and Jioku (1991).

Thirdly, he asserts that this ideation and the decomposition first principle serve three fundamental the goal behind of project management (Alawiye Adams, 1995). Although Turner does not specifically address it, decomposition is based on a significant but implicit premise that activities are connected, if at a, through sequential dependency.

In fact, evaluate of the PMB Guide reveals that tasks and activities constitute the unit of examine in the fundamental project management function, such as scope, time, and cost oversight, and that their oversight and centralized controls are used (Kashulize 1993). This is further corroborated by the description provided by Morris of the traditional yet still relevant project oversight methodology as per Morris (1994)

### **2.1.2. Project management theory**

A target theory of production/operations administration can be broadly defined as follows (Koskela 2000). A distinct form of production management is called project management, and a conceptual frame work is primarily based on ideas and the causal connection between these ideas Whetten 1989.

An authoritative project management theory should explain how each course of action advances the objectives that have been established. Project management and other forms of production actually have three types of goals. First, there's the objective of having the desired products manufactured overall. There are also main objectives, such cost reduction and utilization level. Thirdly, there are outside goals that pertain to the demands of the client, such as dependable, quality, and adaptability. Kolb and colleagues (2008).

### **2.1.3. Alfred Weber's Theory**

The industrial placement hypothesis, created by Alfred Weber (1868–1958), states that a company should locate where it can reduce expenses and, thus, maximize revenues. The location of a manufacturing plant was explained by Weber's least cost theory in terms of the owner's goal to minimize three categories of costs:

- Transport: the location selected should have the least feasible the price of  
A, Transporting initial substance to the production and  
B, final good for the market W.O. Weber states that this is the largest crucial element.
- Workforce: If inexpensive work is available, a plant may be able to operate better from raw materials and markets because greater labor costs lower earnings (Koskela 2000).
- Agglomeration: When a lot of businesses come together in one place, like a city, they can help one another by pooling resources like office furniture, services, and expertise. For example, manufacturing plants may require this.

#### **2.1.4. Experiential Learning Theory**

Lending institutions can use training as one strategy to reduce the rate at which borrowers default, according to Norel (2001). Trainers need to be able to consider the characteristics of their students as well as the behaviors they want them to take on.

Therefore, it is necessary to borrow from Kolb's experiential learning theory in order to inform the borrowers about the importance of encouraging consistent behavior related to loan repayment and commitment. According to Kolb and Kolb (2008), the experiential learning theory can be applied to all facets of life, all age groups, and various cultural and organizational contexts.

According to Kolb and Kolb (2008), research on experiential learning has utilized ELT (Experiential Learning Theory) to characterize the management process as a process of learning for individuals, teams, and organizations to solve problems and make decisions, identify entrepreneurship opportunities, and seek out a strategy formulation.

#### **2.2. Project financing (credit)**

Project financing: Credit is defined as the ability or power to get goods and services in exchange for a commitment to pay for them later (Beckman and Foster, 1969). Similarly, credit is the ability to obtain money through the crediting process

The promise to refund the obligation to obtain money through borrowing is what comes back in exchange for the promise to repay the obligation in the future. Project financing is required in a thriving economy due to the amount of time that passes between the manufacturing of goods and their final sale and consumption (Koskela 2000).

The central bank supervisory authority is in charge of licensing and credit policy execution, according to the financial institutions. The possibility that the project's lender won't make payments in the future is the risk involved in giving credit.

Usually, they rely on legal frameworks or procedures to uphold contracts. According to Koskela (2000), official acknowledgments are those issued by monetary organizations that are organized and lawfully used for the purpose of granting credit and mobilizing savings.

In contrast, unofficial loans are given by people, businesses, and organizations that function independently of the official financial system and the National Bank of Ethiopia (NBE). These organizations are governed and controlled by the NBE in the Ethiopian setting.

Bekelle (1995) classified informal credit sources as not for profit (lenders that typically include friends, relatives, and neighbors) and business (those that lend money on a short-term basis to

obtain profit). Mutual aid organizations, such as Idir, Iqub, contemporary cooperatives, NGOs, etc., are classified according to the possible sources of unofficial financial services (Hunte, 1996, 1996).

Successful borrowers, or no defaulters, are those who have paid or settled the amount owed on the contract's due date, demonstrating their dedication to the loan arrangement signed with lending organization. Defaulters, on the other hand, are those who have breached their loan agreement and have difficulty repaying the debt by the due date (Hunte, 1996, 1996).

### **2.3. Important of project financing [Lending]**

Initiative finance entails the utilization of deposit money from the industry of excess, whose members deposit additional conserving and allocating money using banks in order to provide acknowledgment and progress to the institution's approved borrower.

Who want such cash in the interim to carry out manufacturing, business ventures, real estate development, and other endeavors able to create profits for investors and provide extra income to repay the loan (Alawiye-Adams, 1995).

The aforementioned makes it evident that lending is where the intermediary role originated, and bankers are recognized across the world for aligning all other banking activities this role (Osayameh, 1986). As a result, regardless of the other business a bank engages in, lending activities make up the majority of that bank's operations and take up a larger portion of the funds that are available to a bank for business activities.

It's also a reality that a bank's income comes mostly from lending, with the credit number making up the majority of the assets listed on the bank's balance sheet.

Everyone knows that although project finance makes up the majority of bank revenue and wealth development, it can also quickly erode and drain the riches and fortune that a bank has amassed over a lengthy period of time.

The methods of well-organized and qualified management of the project financing function maintain the Bank's investment and the public's confidence in the banking system if the lending function of the Bank is not efficiently and professionally managed (Alawiye Adams, 2005).

### **2.4. The character and function of the Credit Market**

Finance is essential to the start and operation of productive activity. A sufficient amount of funding is needed for the proper organization of production, the acquisition of investment assets

and/or raw materials, the development of marketing outlets, etc. Credit is a tool that facilitates the transfer of purchasing power from one person or organization to another.

Credit, according to Oyatoya (1983), provides the framework for increased production efficiency through the specialization of tasks, uniting the skilled labor force with limited financial resources and those with significant resources but lacking in entrepreneurial ability to form a more productive union.

Since a long time ago, economists have been interested in the connection between credit and economic growth (Schumpeter, 19–1933). As a result of improved financial intermediation, the amount of savings that the financial system diverts into unproductive uses decreases and the rate of capital accumulation rise for a given saving rate (Mensah, 1999).

Explains in more detail how financial intermediation enhances the mobilization of savings, along with providing a range of safe financial instruments to savers and guaranteeing substantial returns on savings. The financial sector plays a significant role in the efficiency of the economy as a whole by disseminating information about expectations and the allocation of resources to investors.

Mensah (1999) articulated the significance of credit management in the following ways: the success or failure of financial institutions is significantly influenced by the credit management process, which calls for a specific priority.

A bank's credit risk management process can be understood to provide a leading indicator of the caliber of the bank's loan portfolio. Well-developed credit policies and procedures, robust portfolio management, efficient credit oversight, and—above all—a staff with the necessary training to execute the system are the main components of successful credit management.

For those institutions to continue operating effectively and providing credit to investors, they must maintain certain fundamental credit standards. These standards include the officer in charge having a thorough understanding of the borrower's project, a reasonable debt-to-equity ratio, marketability, the investment project's viability, and other technical capabilities.

Generally speaking, the officer uses credit appraisal to make decisions regarding the borrower's creditworthiness and the project for which the funding is being provided.

## **2.5. Handling Financial Resources**

After the preliminary review of the proposal is over, the credit officer or manager's primary responsibility in lending is to effectively manage the credit facilities

The credit facility will not exist until the credit appraisal proposal has been thoroughly examined in terms of qualitative and quantitative assessment methods, guaranteeing the final decision will be based on information gathered from the client, historical facts, and future projections.

The credit proposal for lending becomes a credit facility upon the conclusion of the assessment process and the decision to lend based on the consent of the approvers and the assessor on the basis of information comprising the lending standards. The terms "the C's of lending" relate to the following factors: capital, capability, character, condition, and connection, among others. The management team's competency includes oversight, monitoring, and control begins as soon as the project moves from application to an authorized credit facility, following the feasibility study. However, experience has shown that most lending officers downplay the significance of credit control and administration in their role.

They use their own discretion when approving project financing and disbursing these loans, with the expectation that most of them go well with the client. In the end, the project financing is approved, and the bank's funds are given to the client in the facility. Even though things are difficult most of the time, in an unpredictable economic climate, things can change quickly. For this reason, a bank is expected to take extreme vigilance in order to prevent problems from arising from inadequate administrative control over its loan portfolio.

A client who understands that the operations are not being closely watched and who seizes every chance to be persuaded to divert the original loan to riskier ventures that can compromise the usage of the money, ultimately harming the Bank.

## **2.6. Criteria for Successful Loan Repayment**

As stated by Wasim (2007), most project finance requirements include a set of requirements that the business owner must fulfill in order for the money to be released if the business needs them. These obstacles or prerequisites are typically divided into the following categories: Good Credit, Equity, Experience, Business Plan, and Collateral. The aforementioned credit requirement list is examined along with the five criteria of successful borrowers as follows;

- **Good Credit:** This pertains to the necessity of having a credit history that is not only good but also on the outstanding side of the scale. The rationale for this lender requirement, as stated by the writer, is that borrowers may visit banks at any time and apply for loans for a variety of reasons. Therefore, at the time of injection, loans should only be given to those who have the lowest chance of defaulting. This is because the credit officer and the lending institution's

management have an obligation to manage the project to the good profit of the owners and the Bank. Good credit, or a history of past repayments, is the first and most crucial prerequisite for a successful loan

- Equity is a concept that is related to down payments in borrowing. The lender wants the borrower to have a financial commitment to the venture for which the loan is being requested. According to the author, this means that the borrower needs to have some "skin" in the business "game" in order to guarantee that the loan will be successfully repaid on schedule. The capital investment is viewed as evidence of the shareholders' commitment to the company. This means that, even in cases where the other four requirements for a successful loan—credit, experience, a business plan, and collateral—are satisfied, the bank will typically not lend 100% of the requested funds
- Experience: As stated by Wasim (2007), no sane lender would want to or was willing to give money to a borrower to manage and invest in a business or venture in which the individual has little to no experience. This is a necessary condition for a successful loan, and it should be clear to both the lender and the borrower. It is necessary to cover positive results from the business and further certify that the lender was paid back with interest and in a timely manner. Lenders need to be more certain that the person or people borrowing the funds have the experience and expertise to manage the money and in the day-to-day the business is conducted in a careful manner.

It is needed to cover positive results from the business and further indemnify that the lender Was be repaid w d with interest and in a n a timely manner. From the perspective of the bank, the borrower's loan risk decreases with increasing experience and talent demonstrated in the past. The minimum numerical value typically required here is that the borrower have at least three years of experience managing the kind of business in whose name they are borrowing the funds. This experience may come from working as an employee in a comparable kind of business, as well as from being an owner or manager.

- Business Plan: The project's business plan must be thoroughly researched and built at the time of conducting the fourth demand of the bank or lender, which is an in-depth study that has been completed a, Assumed to be introducing the business in a clear and comprehensive manner; Describes the business, the potential market for the goods and services to be offered, the competition that already exists, names the employees, the managers and leaders, and the ways in

which the borrowed fun was spent.

- Documentation Finally, the author states that a borrower is considered creditworthy if they have demonstrated their experience in the industry, established a positive cash flow business plan, and invested equity in the form of cash or commodities. The lender would be willing to give the borrower money in accordance with the fulfillment of the appraisal condition. Additional safeguarding measures that the client can offer the lender. Giving lender collateral entails mortgaging a personal asset, like a property, to the lender with the understanding that it would serve as the source of repayment in the event that the loan is not repaid from the designated sources in accordance with the financing's terms and circumstances. Conversely, a guarantee is merely an agreement signed by a third party pledging to repay the loan in the event that the first lender is unable to do so; some lenders may require this kind of guarantee in addition to collateral, which they view as "the fallback option" in the event that the credit report is incorrect. (Dr.Mihaela, 2010 , 2010) Collateral according to Wasiam (2007) is any asset of value that can be pledged by the borrower(s) as security that the loan was be repaid in full and with interest. Collateral requirements in the process of borrowing for a business can range up to and above 100 percent of the loan principal. Again, this percentage is based on how much risk the lender believes his institution is exposed to from this specific loan as well as the total quantity of loans that are pending.

## **2.7. Credit follow-up/ supervisory visits**

Each bank has a different repayment mechanism, but after the credit assessment and disbursement are completed, the credit customer is expected to repay the installment according to the prearranged schedule. Depending on the bank's specifics, customers can pay weekly, biweekly, monthly, quarterly, semiannually, or annually installments (Martin, 2007).

To guarantee satisfactory repayment, banks must make sure that appropriate monitoring and follow-up measures are taken.

## **2.8. Determinant of loan repayment performance**

Ten factors determine how well borrowers repay their loans. These are the following:

### **2.8.1. Loan processing time**

Processing time for loans is the amount of time it takes to complete a credit application and make the first payment. The entire loan processing period includes the credit application to the initial payment. The Bank completed four stages of functions, including due diligence assessment,

credit appraisal study, loan approval, and credit documentation, to complete the procedure. Omara Martin (2007).

### **2.8.2. Due diligence Assessment**

This is the first step in the analysis of the borrower's characteristics before moving on to the next step. After conducting a thorough analysis of the creditor, the credit officer will decide whether to accept or reject the credit application based on the bank's set criteria. This is because there may be risk associated with a potential investment, and due diligence assessment is necessary to ensure the prefunding commitment.

The largest investment a lender or creditor can make in a firm is taking the time to identify the important elements of the business environment, ranging from the routine operations procedures to the human resource considerations to the procedures required to keep clients.

The answers to these queries are provided by a due diligence examination, which enables lenders and creditors to determine whether to proceed in light of the current circumstances. Because of this, it's a useful tool for making better-informed lending or investment decisions. Additionally, information from due diligence evaluations might be utilized to create investment or lending arrangements that will benefit lending or investing firms. Hunte (1996).

Every engagement has a different structure, but generally speaking, projects aim to address the following questions:

- Market positioning - encompassing competitors, capabilities, and market dynamics per segment.
- Execution competencies include strategy, management skills, cost structure, quality of customer service, and product innovation. Attainability of business plans and predictions are also included.
- Forecasted cash flow, quality of earnings, and debt servicing capacities are the main areas of focus for the management group, which evaluates a firm quickly to determine its main problems and motivators and makes decisions on whether it makes sense for lenders and investors to move forward with the transaction in question.

### **2.8.3. Credit appraisal study**

This is the foundational step in the loan process, which Annjichi (1994) refers to as the "heart" of a high-quality portfolio. It entails obtaining, processing, and evaluating high-quality information in order to distinguish the client's creditworthiness and lessen incentive conflicts between the lenders acting as principals and the borrowers acting as agents. The credit assessment process is

guided by the bank's credit policy, procedures, and directives. Banks should base their credit analysis on the fundamental lending principles of character, capacity, capital, collateral, and conditions (Matovu and Okumu, 1996). This approach is intended to ensure lenders take steps that facilitate repayment or lessen the likelihood that repayment will be difficult. When a financial institution performs poorly, its performance is greatly affected. This information about the borrower's riskiness prompts the institution to take corrective action, such as requesting collateral, a shorter payment period, higher interest rates, and alternative forms of payment (Stiglitz and Karla, 1990). The researcher's variables included the amount of time it took to process applications, credit experience, and the percentage of collateral security to the approved loan amount. Edminster (1980) emphasized the significance of credit analysis when he saw that several Banks used credit cards to process credit card applications. It was discovered that lengthy waiting periods reflected a lack of reliable credit information needed to make educated credit decisions, which in turn led to higher risk, more severe credit rationing, and low repayment rates. Hunte (1996) also noted that prior loan experience indicated a better ability to manage business loans, which translated into high-quality borrowers for the company. Less experienced borrowers are not credit worthy since they are less capable of managing a business loan (Devaney, 1984; Robinson, 1962; Hunte, 1996). This suggests that the financed project carries significant risks.

#### **2.8.4. Credit approval**

The first step in maintaining a high-quality porous portfolio is the loan approval process. When individual credits are underwritten using sound credit principles, the portfolio's credit quality is much more likely to be sound. The main way to control loan quality is to make the approval process stronger.

The procedure must work with the Bank's credit culture, risk profile, and lending partners' qualifications. In addition, the loan approval process must have an accountability structure in place. An efficient loan approval procedure sets the minimal requirements for the data and analysis that form the basis of the credit decision, offers direction on the paperwork required to approve new credit, renew credit, add credit to an existing loan, and modify terms is previously approved credit (Loan Portfolio M o Management.1998)

### **2.8.5. Credit Documentation**

Another part of the credit assessment process is credit documentation and disbursement, which includes conducting important exposure control measures to guarantee securities and documentation are obtained prior to funds being disbursed and approving changes to all credit facilities within credit policy. It also covers the upkeep of neatly updated credit files, the application of applicable fees, the updating of records and prompts notification of credit reviews and renewal dates (McNaughton et al., 1996). The process of loan documentation includes legal preparation, document inspection, collateral checks, and terms waivers. The loan documentation defines the necessary security and covenant before the loan is made. It provides risk protection by giving the Bank grounds to take legal action when borrowers fail to honor their obligations, even though the disbursement function involves verifying the validity of notes and making sure that the documentation for the credit facilities is properly executed (Dayetal, 1996). The terms of the credit, or the conditions linked to the loan once the borrower's loan application has been approved, are stated in the credit documentation in plain language.

### **2.8.6. Project Implementation period**

Project implementation can be divided into three main periods: the initial, main, and final (Participate GmbH, 2002) periods. Projects are considered delayed when their given completion durations have not been met.

#### **1. Inception Period**

The commencement of a project involves a period of several months known as the "inception period," during which the project organization, comprising administrative, financial, and technical responsibilities, is established, and the preliminary planning of the appraisal phase is updated and refined. The tools and mechanisms created for this purpose are subsequently employed throughout the subsequent implementation periods.

. Typically, the beginning phase includes the following components: Establishing the project office and conducting staff recruiting Implementing a research to update baseline data, if necessary Talks with key stakeholders, if at all possible, including target groups, are necessary to finish and update the logical framework, create the activity and resource schedules, and prepare the overall work plan Preparation and submission of the Overall Work Plan (incorporating the project's internal Monitoring and Evaluation Plan) and the first Annual Work Plan; ideally, this

would have taken place in a participatory workshop session that lasted three to five days, depending on the complexity of the project. The project's context changed quite a bit between the planning and execution phases. This meant that the logical framework needed to be adjusted to take these new conditions into account.

## **2. Main Implementation Period**

The first annual work plan is implemented to start the main implementation period. According to the contract/financing agreement, the implementing agency was specifically in charge of preparing work plans covering each year of the project, accounting for the time required for the approval process; and planning and monitoring the implementation. The preparation and submission of progress reports, which are typically completed every three months. Every twelve months from the beginning of the project, an annual report is prepared and submitted. If necessary, external consultants are consulted to assist with audits and evaluations. (Participation Gmbh, 2002).

## **3. Final Period**

During this phase, all the necessary actions to bring the project to a close are carried out. Typically, these actions include allocating human resources and transferring goods procured under the project budget to the parties specified in the applicable agreement. Furthermore, a final report must be prepared, paying particular attention to offer specific recommendations for any potential follow-up actions in the same field. The knowledge gained and conclusions reached from the project ought to enable decision-making regarding whether or not a project follow-up ought to occur. The report should also contain enough data to serve as a foundation for discussion during the planning stage of a new project and, to the greatest extent feasible, for additional programming (ParticipGpGmbh, 2002). Following the aforementioned procedures, projects are deemed delayed if their specified completion durations have not been met. Consequently, the projects have incurred additional costs without producing cash inflow.

### **2.8.7. Credit follow-up/ supervisory visits**

When a bank disburses a loan, it is sensible banking practice for bankers to periodically check on how the client is using the funds from the bank, as well as the project's performance over time and the client's subsequent lifestyle. These actions support the claim that the borrower must use the funds for the approved business purpose, that the bank's funds are being committed to, and

that the client's business is progressing as anticipated. Because to the credit facility's pledge and the fact that the client hasn't given up on the project, the bank committed to using its resources to finance an opulent lifestyle that might put the bank's resources in jeopardy. In the most extraordinary circumstances, prompt and efficient monitoring measures might result in the timely identification of a rapidly declining credit account, which prompt action and decision-making could expose. In the event that the circumstances have made redemption and corrective action difficult, ongoing action could limit losses by keeping a close eye on the account and taking the required actions to enable the Bank to recover as much as possible (Osayameh, 1986). While routine reassessments, monitoring, and evaluations constitute an extremely important component of the strategic conditions that follow the drawdown of a facility that forms the work schedule for efficient management of the credit facility from the point of approval to the point of liquidation (Dr. Adelajee A. Adamiye-Adams, 2008), In order to properly discuss the techniques of credit supervision, it is necessary to provide brief definitions of the key tasks associated with credit monitoring, which include, among other things:

- Periodically reevaluating the implementation of individual credit approvals in accordance with the Bank's credit policies, facility-specific terms, and regulatory bodies' requirements for each class of current loans.
- Controlling of the importance of the facility in strict conformity with the credit approval.

Dr. Adewale A. A. Alamie-Adams, 2008) According to Robinson (1962) and Annjichi (1994), supervision helps maintain a good loan. Many of the suffering and dissatisfactions of sluggish and distressed loans can be prevented by appropriate supervision. Investigating the general condition of affairs and the upkeep of plant and equipment, as inadequate maintenance is frequently a warning indication of impending financial difficulties, as well as the physical stock of raw materials and completed goods, may involve going to the borrowers' premises.

The general business policy and advice are taken into consideration. If a bank is cleaning up its business development, it can amend its credit and loan policies in addition to counseling its clients. Once more, monitoring deposits and balances provides insight into the borrowers' affairs. Therefore, the financial viability of any credit institution is heavily dependent on choosing applicants with a high likelihood of repayment and rejecting those with a high likelihood of default Sewagudde (2000). By doing this, loan officers in such financial institutions are put at risk as well as the organization as a whole. In order to reduce the loan amount, GontaezJega

(1996) introduced a risk premium to the loan amount in order to offset loan losses. This risk premium is a result of the lender's inability to accurately determine which borrower would default and which would repay at the time of the loan request because real default losses are not known until scheduled repayments are due

### **2.8.8. Output product market access**

Access to output markets is essential for small farmers to increase their revenue from the sale of their goods. These markets might range from modest village-level shops to sophisticated export processors. Poor farmers in remote areas seem to have limited access to output markets for their products; however, by evaluating transportation costs and concentrating on multiple high-value storable crops, opportunities arise to create output market links with a rate of return that is very appealing to poor or very poor families (International Development Enterprises, 2008, 2008).

### **2.8.9. Management skills**

According to Daft, Kendrick, and Vershinina (2008), management skills are the process of managing an organization's affairs. This entails collaborating with other members of the company to achieve its goals and objectives. Planning, organizing, regulating, and leading organizational resources are all important aspects of the process that go into achieving goals. Research on the majority of borrowers has shown that they typically start their operations with little to no managerial experience or understanding. A statistically significant correlation was found between the lack of managerial expertise and experience in enterprise management and low earnings (Belcourt et al., 2011). Low-level education gives borrowers little self-confidence and self-reliance, which makes it difficult for them to engage in commercial activities that need constant risk-taking and strategic decision-making (Tripp, 2009).

### **2.8.10. Distance from project location**

Their research focuses on thoughtfully analyzing the process of spatial industrial variation: identifying the spatial factors that have most implications for firms and the factors that influence the location decisions of new industrial units. The main cause of spatial income inequality in developing nations is industry location. The study is divided into two sections. Firstly, the writers looked at how economic geography affected the cost structures of businesses across eight different industry sectors. They found that the only element that significantly and significantly reduced costs was local industrial diversity. There are two sections to the study. Initially, the

authors examined the effects of economic geography on the cost structures of companies operating in eight distinct industry sectors. They discovered that local industrial diversity was the only factor that significantly and significantly decreased expenses

## **2.9. Empirical Studies**

### **2.9.1. Empirical Evidence in the World**

Numerous studies on credit repayment have been carried out worldwide, with studies conducted in Iran and Bangladesh. Kophahi and Bakhshi (2002) used discriminate analysis to separate defaulter farmers from non-defaulters among agricultural bank recipients in Iran. The researchers discovered that the agricultural credit payback performance was positively affected statistically and significantly by the On the other hand, other research on the borrower's loan repayment performance in Bangladesh found a statistically significant positive relationship between the household's asset/income position and its loan default status. In contrast, the frequency of natural disasters, the borrower's level of education, and the length of waiting time for loan processing all had negative effects on the dependent variable. Research on the effects of loan repayment performance was carried out by Matin (1997), and the results indicate that borrowers with relatively small loans exhibit a very strong demonstration when compared to loans with larger sizes. Additionally, the education status of the households had a strong positive effect on the no defaulter status, regardless of the household's income position. The households' other variable, their landholding, suffered as a result of the loan repayment. In addition, Reza and Mansoori (2008) investigated the variables influencing the borrower's loan repayment performance using a logic model. The results showed that the borrower's repayment performance was negatively affected by the borrower's experience, income, collateral value, and received loan size, while the borrower's repayment performance was negatively affected by the interest rate, total application costs, and number of installments.

### **2.9.2. Empirical Evidence in Africa**

The majority of the research that has been conducted on credit repayment in Africa have been conducted in Tanzania, Malawi, and Nigeria. Crop sales, revenue transfers, diversification level, and quality of information are all positively correlated with credit repayment; however, club size is negatively correlated with payback likelihood. It was found that non-significant variables included sex, home size, club experience, and loan amount (Chirwa, 1997).

According to Geraid & Deograties (2013) 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

A study conducted in 2013 by Geraid and Deograties on credit rating and loan repayment performance revealed that years of project management experience, age, credit rationing, loan diversion, business management skills, alternative revenue sources, unfavorable weather conditions, the amount of loans obtained by farmers, and years of farming experience with credit use all contributed to this.

The primary variables that both favorably and significantly influenced loan repayment performance were the borrower's educational attainment and level of schooling. The study used a panel regression model to examine how credit risk management affected Nigerian commercial banks' performance and came to the conclusion that the banks' poor credit risk management practices were the cause of the nonperforming loans in their loan portfolios.

(Idowu, 2014). Similar to this, Oladeebo et al. (2008) examined socioeconomic variables that affected small-scale farmers' ability to repay loans in the State of Nigeria's Ogbomoso agricultural zone. These criteria included the amount of the loan that was paid back, the amount that was collected and used for agricultural output, the annual net farm income, the age of the farmer, the size of the farm that was farmed, the degree of education, and the amount of farming experience with credit utilization.

The amount of loans taken out by farmers, years of credit utilization experience, and educational attainment were among the key variables that positively and significantly influenced loan repayment; on the other hand, the age of the farmer had negative but significant effects. In order to ascertain the loan repayment choices made by farmers in Southwest Nigeria in 2005, a multistage sampling technique was used to gather data from 180 respondents. The findings of the Tobit regression model have demonstrated that the following variables are significant in determining loan repayment: age of the beneficiaries, household size, occupation, level of education, experience in farming, location of the farm, and cost of obtaining the loan. Olagunju and Adeyemo (2007), Eze and Idibekwe (2007), Olaebo (2008). Depending on the borrowers' ages, household expenditure and size have negative effects on loan repayment performance, with household expenditure being negligible Olaebo (2008). In his analysis of the

primary factors influencing the payback of agricultural smallholder loans in Nigeria, Okovie (1996) found that four factors significantly affected the performance of loan repayment. These variables include loan distribution time, loan type (cash or kind), number of credit officers' supervisory visits following loan disbursement, and profitability of the businesses who received loan funds.

The main factors influencing small-scale loan holders' ability to repay their debts, the performance of their loan repayments in agriculture, and the factors influencing loan repayment defaults have all been the subject of various studies using the Tobit and linear regression modes. and indicated the loan disbursement time, educational attainment, attitude toward repayment, farm income and off-farm income, type of loan disbursement (cash or in kind), number of supervisor visits made by credit officers, beneficiary's family dependency level, total farm cost and income, and government policies are major factors that also influenced loan default.

Research on the relationship between market accessibility and agricultural productivity has been conducted by Kashuliza (1993). Evidence from Machakos District, Kenya, has been presented. The findings indicate that increased market accessibility boosts productivity in two ways: first, by enabling specialization and exchange transactions in rural areas; and second, by intensifying the use of inputs This paper presents the extent to which specialization and intensification contribute to productivity and how this increase is distributed among farmers of different farm sizes and resources. A three-stage least square regression model is developed and estimated using the output generated from a variance analysis. The model is utilized to evaluate the effects of market access on agricultural productivity, as well as the distribution of market-generated advantages among small and large farmers. Agrekon (2004)

The two-stage least squares approach was employed by Jama and Kulumu (1992) in their study on smallholder farmers' credit payback performance in Kenya to address the issue of loan diversion's indignity, where loan repayment was the dependent variable.

revenue from farming, the farmer's attitude toward debt payback, the appropriate amount of purchased farm input, and the source of revenue from farming as an additional activity all had a statistically significant effects on loan repayment performance. Additionally, they discovered that the percentage of loan funds diverted to non-intended purposes was directly correlated with the percentage of loan defaults. Inadequate monitoring and guidance provided to farmers, coupled with delayed loan issuance, were positively correlated with the percentage of loans that

were redirected. Hunte (1996) used the logistic regression model in the country of Guyana and found that a number of factors, including fishing activities, male borrowers in food crops and livestock credit experience, and sugar cane production, led to low default risk, minimum or low credit rationing (providing the borrower with nearly the amount requested or demanded), and high repayment performance. The main reasons for loan default, according to Balogun and Alimiri (1988), were shortages of loans, late loan delivery, small farms, high interest rates, farmer aging, inadequate supervision, unprofitability of farm businesses, and excessive government interference in the running of government-sponsored programs. Njoku and Odii(1991) investigated the factors influencing loan repayment under Nigeria's social emergency loan programs.

Their research revealed that low enterprise returns resulting from low adoption rates of improved agricultural technology, complicated loan processing procedures, late loan disbursement, and loan diversion to non-agricultural enterprises, as well as an emphasis on political consideration in loan approvals, all contributed to the poor loan repayment performance of small holders. Loan repayment was found to be positively and significantly affected by loan volume, years of formal education, household size, and interest paid on the loan; on the other hand, years of farming experience, loan period, farm size, and farming as a major occupation, farm output, and asset value were found to be negatively and significantly affected by loan repayment. In their 2013 study, Wongnaa and Awunyo investigated the factors influencing the performance of loan repayment among yam farmers in Ghana's Sene District. The findings of the probit model demonstrated that education, experience, profit, age, supervision, and income from sources other than the farm all positively affected the farmers' ability to make their loan payments. On the other hand, gender and marriage have been found to have an adverse effect on loan payback, but the effect of household size was found to be unclear. The findings of the logit model indicate that borrowers' education level has a significant and favorable influence on their loan repayment performance, as compared to other borrower characteristics. This was due to the fact that project-financed borrowers with higher education statuses could find a better market for their goods, they might be cost-conscious about using resources efficiently, and they might have future investment plans working with the bank. For these and other reasons, borrowers with higher education statuses perform well when it comes to repayment. The findings of this study are in full accordance with the research conducted by Kaschuliza (1993), N, Njoku, and Od Odii

(1991). All of the aforementioned studies concentrated on the factor that determines credit repayment; the research was conducted based on their own particular sectors, subsectors, projects, and nations; nonetheless, the laws governing banking practices vary from nation to nation. It is important to note that the role and mission of Awash Bank in Ethiopia differ significantly from those of other commercial banks in the country, so comparing their central bank policies regarding project financing may not be similar to that of Awash Bank. Consequently, conducting research on the factors that determine successful loan repayment performance in the case of Awash Bank will undoubtedly produce unique results.

### **2.9.3. Empirical studies in Ethiopia**

There aren't many researches on the factors that influence loan repayment performance in Ethiopia. The literature that is currently available focuses on smallholder farmers in various microfinance situations and NGOs in various regions of the nation. The factors of successful loan payback performance of private borrowers in the cases of Awash Bank, North Region, and Zeway research had thus been done, leading to the empirical studies that are available as follows. The studies primarily concentrated on the characteristics of a single branch borrower. A probit model is used to identify the factors that underlie the borrowers' successful loan repayment performance. These factors include education, work experience, project characteristics, borrower characteristics, and characteristics of the loan. The study's data came from a survey that was administered to 100 respondents in two different branches. The study's findings indicate that factors such as the borrowers' educational attainment, the loan's repayment period, the availability of alternative sources of income, the sector, the goal of the loan, and the kind of labor they do or do not perform for are all positively and significantly related to successful loan repayment.

While they have a positive sign, other variables such as gender and household size are not statistically significant. Furthermore, although not statistically significant, characteristics such as age, loan diversion, and other credit sources exhibit a negative sign. Although it has a negative sign, the variable experience is statistically significant. Kibrom (2010), Abrham (2002), and Mulluken (2014) used a probit regression model to investigate the variables affecting floriculture farmers' loan repayment performance in the context of Awash Bank.

The result shows that among nine explanatory variables, which were hypothesized to influence loan repayment performance among floriculture credit borrowers, four explanatory variables

namely education level, number of follow ups/supervisory project visit by credit officers, The outcome demonstrates that, of the nine explanatory variables that were expected to have an effects on the loan repayment performance of floral culture credit borrowers, four of them— education level, the frequency of credit officers' follow-up visits and supervisory project visits— explained performance.

The statistical significance of sustainable floral certification status and farming expertise was demonstrated; however the remaining five factors had less of an effect on the dependent variables

Bekele (2003) used a logistic regression model to examine the variables affecting Ethiopian smallholders' loan repayment performance. The study's findings showed that borrowers with larger loans performed better when it came to payback than borrowers with smaller loans. Further analysis of the data showed that livestock was found to be crucial in enhancing farmers' repayment performance, and that late disbursement of inputs paid for with loan funds was a significant bottleneck in loan repayment. A study employing the binomial mode was conducted on the subject of the repayment performance of the borrowers of micro enterprises in as a and Bahirdar towns. The study's findings indicate that employment levels have a good correlation with loan payback in full for both towns, however loan size and loan diversion have negative correlations. Age and weekly repayment periods have positive correlations with loan repayment in full in AB. when it comes to Bahirdar, loan expectations and the numbers of employed workers have a good correlation with full repayment, whereas loan diversion and the availability of other credit sources have a negative correlation. M. Mengistu (1997)

#### **2.9.4. Knowledge Gap**

Studies on the factors influencing loan repayment performance have been carried out in several African and western European nations. Nonetheless, there are national differences in terms of political, social, cultural, and economic performance. Consequently, the determined factors may not be applicable to Ethiopia in general or to AB specifically. Furthermore, the majority of the studies conducted were carried out at microfinance institutions, meaning that the type of loans that were made was short-term and working capital loans. In contrast, AB has historically financed medium- and long-term projects that carry a higher risk than short-term financing. The following are the ways in which this research differs from that conducted at AB: the researcher has used new variables, such as the availability of raw material, the accessibility of the output

product market, the project implementation period, the distance between the project location and the output product market, and the input of raw material, to determine the factors that contribute to successful loan repayment performance in project financing. The successful loan repayment performance of the project financing has a statistically significant variable from this variable implementation period. In contrast, the remaining variables in the study have a statistically insignificant variable for the success of the loan repayment performance of the project financing. As a result, the research output was unable to close the gap in the bank's loan payback performance. Consequently, this research was conducted to close the gap by analyzing the factors that determine the successful loan repayment performance of the financed project.

**2.3 Conceptual Framework of the study**

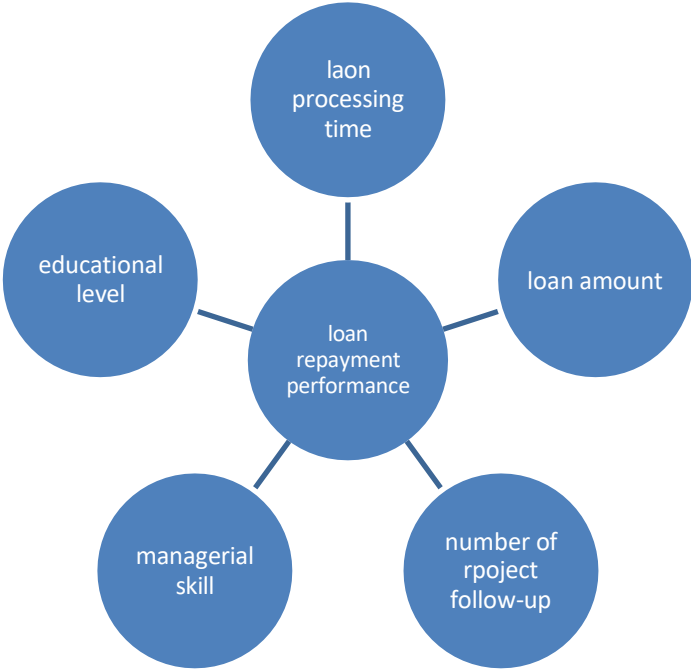


Figure 2.1 Conceptual Framework (Source: researcher own design 2024).

## **CHAPTER THREE**

### **RESEARCH DESIGN AND METHODOLOGY**

The technique and investigate design are included within this section. This chapter consists of five sections. The research methodology is explained in the first section. The study has addressed in econometric data analysis, after which techniques for populating and sampling, sources and tools/instrument of information gathering, procedures of information collecting discussion, and methodologies of data interpretation are offered.

#### **3.1. Research Design**

Due to the nature of the study an explanatory and descriptive research design is used. Moreover the study adopted a mixed research approach to capture both qualitative and quantitative data.

#### **3.2 Population and Sampling Technique**

Over 100 projects 75 borrowers files used that aim to pay off debt until June 2024 have been financed at the office during 2020–2021 and 2022–2023, according to the central database of Awash Bank. The populations for the study were drawn from the 75 sponsored project borrowers of AB that made up the investigate.

#### **3.3 Types of Data and Tools/Instruments of data collection**

All investigate activities require the collection of information from reliable sources. The researcher has limited her focus to secondary data that will be gathered from the AB database and each borrower's file, both of which are unaltered for future research, to fulfill the research

requirements. Therefore, the files of each individual borrower and the borrowers' accounts payable served as the source of data for the investigation of the determinant of effective loan payback of the financed project. The researcher's specific objectives to ascertain the element that participate to effective credit payback achievement only require knowledge of the funded projects' historical and present state. For the funded project, data were gathered and examined for the years 2020–2021–2022/23, which corresponded to the project's maturity period.

### **3.4. Procedures of data collection**

The only secondary data source from which the information were gathered. Pretesting was done on a few projects to determine how well the structure was understood by the data inputted and to check the applicability and precision of the planned format before delivering it to the chosen information inputted. Based on the data from the pretest, the format was changed. The data inputted has been advised that the data collected will only be utilized for educational objective and will be reported in aggregate form. The researcher and a trained data collector used a format created specifically for this purpose to gather data about units for office lending and the process of accounts management.

### **3.5. Methods of Data Analysis**

The researcher used the information obtained from individual borrower's files which is secondary data collection methods is applied. In order to prepare the data for analysis, the researcher coded, categorized, edited, tabulated, and dealt with any missing data. To determine the association between the dependent and independent variables, the study tests correlation and regression analysis between loan repayment performance and other variables specified in the conceptual framework and objectives. Moreover mean and standard deviation was computed.

### **3.6 Ethical considerations**

All the Professional and research ethical values were applied fully. The document analysis from the banks customers file is conducted with utmost care and maintains the confidentiality of information for both the bank and the customer.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

This chapter covers the study's findings, which include descriptive statistics such as the variable's mean, relationships among variables, the correlation coefficient result among between explanatory variables, the regression analysis's regression result, the diagnosis test for the regression model, and a discussion of the findings.

This part is divided into two parts: the first describes the explanatory variables' results based on the investigation findings in descriptive statistics, and the second uses the probit regression model to examine the elements in an econometrics regression model. In this chapter, the study's findings are covered, including the mean of the elements, relationships among elements, and correlation coefficient results among explanatory elements, regression analysis results, diagnostic examination test results, and a discussion of the findings.

#### 4.1 Mean of Demographic and Socio-Economic Characteristics of the Financed Project

##### 4.1.1. Educational Level of the Project Manager

**This variable is dummy, with a value of 1 if the borrowers or managers hold a BA/BSC degree or above, and 0 otherwise.**

**Table 1 Mean of Educational Level**

Over	Mean	Std.Err.	[95%Conf.	Interval]
<b>Educational level</b>				
Defaulter	0.371429	0.082866	0.206315	0.536542
Successful	0.725	0.0715	0.582534	0.867466

**Source: Based on secondary data 2024**

According to table 1's data on loan repayment performance of the borrowers relative to their

educational level, the successful financed project borrowers who run the project by BA/BSc or above have a mean value of 0.72, versus 0.37 for the defaulter borrowers whose educational level is diploma or below. This suggests that the majority of AB's funded Those with a BA/BSc degree or higher oversee projects. This elevated degree of education has an effect on the project's ability to successfully repay its debt. The experiential theories of Kolb & Kolb (2008) and Norel (2001) support it.

#### 4.1.2. Managerial Experience of Project Manger (in year)

**Table2 Mean of Managerial Experience of Project Manger**

Over	Mean	Std.Err.	[95%Conf.	Interval]
<b>Experience</b>				
Defaulter	4.714286	0.646349	3.426407	6.002164
Successful	8.8	0.661389	7.482153	10.11785

**Source: Based on secondary data 2024**

Table 2 makes clear that experience is a crucial component of a successful company effort. In a similar vein, AB took experience into account when evaluating the borrower's file to determine if the project management is funded or not could with success run the company. The study's findings indicate that the average number of years that AB has managed financed projects is 4.7 for defaulters and 8.8 for successful projects, respectively. In contrast to the successful project, which had eight and ten years of managerial experience, the defaulter project had three at the very least, and as many as six years. This suggests that the Bank's effective loan repayment performance is effected by the number of years of experience in management.

#### 4.2.1. Loan Processing Time( in day)

**Table 3 Mean of Loan Processing Time**

Over	Mean	Std.Err.	[95%Conf.	Interval]
<b>Processing time</b>				
Defaulter	151.2	11.97236	127.3445	175.0555
Successful	104.45	5.351605	93.78669	115.1133

---

**Source: Based on secondary data 2024**

The duration of loan issuance and processing has a significant effect on how well projects are carried out. As a result, it significantly affects the undertaking's manufacturing and income plan. This ultimately effects the undertaking's pay back performance and is the reason for many loan payback schedule adjustments. Similarly, the study's findings indicate that, for projects funded by ABs, the typical duration from applying and receiving the first payment was 105 days for successful projects and 151 days for defaulter projects.

#### **4.2.2. Loan Amount( in birr)**

**Table 4 Mean of Loan Amount**

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Over	Mean	Std.Err.	[95%Conf.	Interval]
<b>Loan amount</b>				
Defaulter	1.74E+07	3651651	1.02E+07	2.47E+07
Successful	2.29E+07	3632486	1.57E+07	3.02E+07

---

**Source: Based on secondary data 2024**

It is described as the total loan amount that the bank gives to the relevant initiative. The investigate findings indicate that the Bank typically disbursed between Birr 10,200,000 and Birr 15,700,000 for projects that defaulted, and between Birr 17,400,000 and Birr 24,700,000 for projects that succeeded. According to Table 11, the average loan amount disbursed by the Bank for the successful and defaulting projects was Birr 30,200,000 and Birr 22,900,000, respectively. This indicates that the majority of projects that default lack adequate ongoing working capital. It suggests that the loan quantity affects the bank's ability to repay loans successfully. According to Muluken (2014),

#### **4.2.3. Number of Project Follow-Up (in times)**

**Table 5 Mean of Number of Project Follow-Up/Supervisory Visit**

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Over	Mean	Std.Err.	[95%Conf.	Interval]
<b>Follow-up</b>				
Defaulter	1.056286	0.057934	0.94085	1.171721

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Successful	1.63275	0.054275	1.524605	1.740895
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**Source: Based on secondary data 2024**

Frequently produces one of the key determinants of the funded project's performance in loan repayment is initiative management and follow-up. The study's findings, as presented in Table 12, reveal that the Bank typically conducts two initiative follow-up/supervision visits year for successful projects and one per year for defaulter projects.

**4.2.4. Equity to Debt Ratio**

**Table 6 Mean of Equity-to-Debt Ratio**

Over	Mean	Std.Err.	[95% Conf.	Interval]
<b>Equity to debt</b>				
Defaulter	0.5	0.023093	0.453987	0.546013
Successful	0.56825	0.01633	0.535713	0.600787

---

**Source: Based on secondary data 2024**

The project's equity-to-debt proportion illustrates how much is covered by the ratio. Therefore, the study's findings showed that the successful financed initiative equity to debt ratio was .57, whereas the defaulter project's was 0.5. This suggests that the funded initiative equity to debt proportion were about equal in mean.

**4.2 Relationship between Dependent Variable with Explanatory Variable**

**4.3.1. Educational Qualification of the Project Manager**

An academics background of the undertaking owner or employed manager of the borrowers is summed up in Table 7 below. The findings showed that, of the population under observation, 56% had a BA/BSc degree or more, whereas 44% had less education or only a diploma.

**Table 7 Relationship with Educational Level**

<b>Status</b>			
<b>Educational</b>	<b>Defaulter</b>	<b>Successful</b>	<b>Total</b>
<b>Diploma or Below</b>	22	11	33
	2.8	2.5	5.3
	66.67	33.33	100
	62.86	27.5	44
<b>BA/BSc or Above</b>	13	29	42
	2.2	1.9	4.2
	30.95	69.05	100
	37.14	72.5	56
<b>Total</b>	35	40	75
	5.1	4.4	9.5
	46.67	53.33	100
	100	100	100

Pearsonchi<sup>2</sup>(1)=9.4707 Pr=0.002

**Source: Based on secondary data 2024**

The result's P Value is.002, which is below the minimal requirement for P value=0.05. Thus, there is a high correlation between the project managers' educational background and the condition of the project. Furthermore, 33% and 67% of successful and defaulting borrowers, respectively, attended or graduated with a diploma or less. However, 31% of defaulters and roughly 69% of successful enterprises have a bachelor's or higher degree. This helps us to realize that, in this observed community of people with a BA/BSc degree or above, the likelihood of defaulters and successful projects is 0.37 and 0.73, in that order. This suggests that project managers and owners who have received funding and have completed additional education stand a good advantage of repaying their loans.

**4.3.2. Managerial Experience of Project Management**

**Table 8 the association between project status and managerial experience**

The findings showed that, among the population under observation, 69% of project managers with less than or equal to five years of experience ran successful projects, while 31% of projects defaulted. On the other hand, the percentage of defaulters and successful projects for project managers with six to ten, eleven to fifteen, and more years of experience is 37% and 63%, 0% and 100%, and 33% and 67%, respectively.

**Table 8 Relationship with Project Management Experience**

Managerial experience	Status		Total35
	Default24	Successful11	
Less or equal to 5years			
	3.6	3.1	6.7
	68.57	31.43	100
	68.57	27.5	46.67
6-10years	10	17	27
	0.5	0.5	1
	37.04	62.96	100
	28.57	42.5	36
11-15years	0	10	10
	4.7	4.1	8.8
	0	100	100
	0	25	13.33
Greater than 15years	1	2	3
	0.1	0.1	0.2
	33.33	66.67	100
	2.86	5	4
Total	35	40	75
	8.9	7.8	16.7
	46.67	53.33	100
	100	100	100
Pearsonchi <sup>2</sup> (3)=16.7177		Pr=0.001	

**Source: Based on secondary data 2024**

The result's P Value is.001, which is less than the required P value of 0.05, indicating a strong correlation between the project's status and the degree of managerial experience attained through school. percentage of years with less than or equal to five years, six to ten, eleven to fifteen, and more for defaulters and successful people, respectively, is 69%, 28%, 0%, 3%, and 27%, 43%, 25%, 5%. This indicates that as the number of years of expertise declines, the likelihood of defaulters rises. On the other hand, a project's success increases in tandem with an increase in experience years. This suggests that the likelihood of a loan repayment achievement improve for the financed undertaking has increased with the number of years of experience.

**4.3.3. Loan Processing Time**

The association among the project's situation and loan processing time is seen in Table 21. It is discovered that about 69,58,33,0,0, and 0 percent of projects that were successful and 31, 42, 67,100,100, and 100 percent of projects that were defaulters required loan processing times of at least 100 days, ranging from 101 to 150 days, 151 to 2000 days, 201 to 250 days, and 251 up to 300 days and 301 to 350 days, in that order.

**Table 9 Relationship with Loan Processing Time**

Loan processing time	Status		
	Defaulter	Successful	Total
less or equal to 100day		22	32
	1.6	1.4	3.1
	31.25	68.75	100
	28.57	55	42.67
101-150days	10	14	24
	0.1	0.1	0.2
	41.67	58.33	100
	28.57	35	32
151-200days	8	4	12
	1	0.9	1.9

	66.67	33.33	100
	22.86	10	16
201-250days	3	0	3
	1.8	1.6	3.4
	100	0	100
	8.57	0	4
251-300days	3	0	3
	1.8	1.6	3.4
	100	0	100
	8.57	0	4
301-350days	1	0	1
	0.6	0.5	1.1
	100	0	100
	2.86	0	1.33
Total	35	40	75
	7.1	6.2	13.2
	46.67	53.33	100
	100	100	100

---

**Pearsonchi<sup>2</sup>(5)= 13.2254Pr=0.021**

**Source: Based on secondary data 2024**

There is a correlation between the project's status and the length of time it takes to process loans, as indicated by the P Value of the result, which is 0.021, less than the minimal P value of 0.05. According to the vertical analysis, for every successful project, 29, 29, 23, 8, 8, and 3 percent, and for every project with defaulters, 55, 35, 10, 0, 0, and 0 percent, the loan processing time was greater than 100 days; this range was between 101 and 150 days, 151 and 2000 days, 201 and 250 days, 251 and 300 days, and 301 and 350 days, correspondingly. This suggests that the duration of time between the applications for a loan and initial payment raises the likelihood of default rate as well as vice versa.

**4.3.4. Number of Project Follow-Up**

The association among the number of undertaking follow-ups and the undertaking state is

displayed in Table 22. It has been discovered that project follow-up has been carried out  $\leq 0.5$  times, 0.51 to 1 times, 1.1 to 1.5 times, and 1.51 to 2 times annually for successful projects, and around 0, 18, 39, and 91 percent for projects that have defaulted, and 100, 72, 61 and 9 percent for projects that have succeeded.

**Table 10 Relationship with Number of Project Follow-Up**

Follow-up	Status	Total
Defaulter	Successful	
less/equal to 0.5 times	3	0
1.8		3.4
100		0
8.57		0
0.51-1.0 times	18	4
5.8		5.1
81.82		18.18
51.43		10
1.1-1.5 times	11	7
0.8		0.7
61.11		38.89
31.43		17.5
1.51-2 times	3	29
9.5		8.3
9.38		90.63
8.57		72.5
Total	35	40
18		15.7
46.67		53.33
100		100

**Pearson  $\chi^2(3) = 33.7396$  Pr = 0.000**

Source: Based on secondary data 2024

There is a high correlation between the project's status and the length of time it takes to process loans, as indicated by the P Value of the outcome, which is 0.000, less than the minimal P value of 0.05. According to the results, project follow-up was carried out 0.5 times, .51 to 1 times, 1.1 to 1.5 times, and 1.51 to 2 times annually for successful projects and 9,51, 31 and 9 percent for defaulters' undertaking, respectively. This suggests that as the number of follow-ups rises, so is the likelihood that debt will be paid back in full.

#### 4.3.5 Equity-to-Debt Ratio

The connection among the project's situation and the equity to debt proportion is displayed in Table 11. The study's findings indicate that the equity to debt ratios for projects that were successful were approximately 0, 44, 65, and 0%, whereas for projects that were defaulted, the ratios were 100, 56, 35, and 100%, corresponding.

**Table 11 Relationship with Equity to debt ratio**

Equity to debt Status ratio	Total		
	Defaulter	Successful	
Less/equalto0.25	1	0	1
	0.6	0.5	1.1
	100	0	100
	2.86	0	1.33
0.26 -0.50	20	16	36
	0.6	0.5	1.1
	55.56	44.44	100
	57.14	40	48
0.51 -0.75	13	24	37
	1.1	0.9	2
	35.14	64.86	100
	37.14	60	49.33
Greaterthan.075	1	0	1
	0.6	0.5	1.1
	100	0	100
	2.86	0	1.33
Total	35	40	75
	2.9	2.5	5.4
	46.67	53.33	100
	100	100	100

Pearsonchi<sup>2</sup> (3) =5.4054 Pr= 0.144

#### **Source: Based on secondary data 2024**

There is no correlation between the project's status and the length of time it takes to process loans, as indicated by the outcome of the P Value, which is 0.144 and higher than the minimal P value of 0.05. According to the results, the equity to debt ratios for projects that were successful were 0, 40, 60, and 0%, while those that were defaulters had equity to debt ratios of 3, 57, 37, and 3%, respectively.

### **4.3 Correlation analysis between independent variables**

In this section the correlation between the loan repayment and explanatory variables is discussed. A correlation matrix used to ensure the correlation between the explanatory variables. Cooper and Schindler (2009) suggested that a correlation coefficient above 0.8 between explanatory variables should be correlated because it is a sign of multi collinearity problem. Malhotra, (2007) argued that the correlation coefficient can be 0.75.

After the credit assessment and disbursement is done, the credit customer is expected to payback the installment as per agreed schedule. A correlation coefficient is a statistical measure of the degree to which changes to the value of one variable predict change to the value of another.

#### **4.4.1 Educational level**

Appendix 2 shows that the educational levels of the project manager were strong positive relationship with Managerial experience of Project manager (MEPM), number of project follow- , amount of loan (AML), equity to debt ratio (EDR) . The degree of correlation between the educational levels of the project manager and the above list of independent variables had 22%, 17%, 13% and 4% positive relationship in the descending order. When reviewed the negative relationship of the result shows that loan processing time (LPT) 3% negative relationship. These entails that the educational level of the project manager had BA/BSs or above decrease.

#### **4.4.2 Managerial experience of Project manager**

Appendix 2 shows that the managerial experiences of project managers were strong positive liner relationship with project follow-up (NPF), equity debt ratio (EDR) and

amount of loan (AML). The relationship between the managerial experiences of project manager with the stated independent variable has 25%, 17% and 17% positive linear relationship.

#### **4.4.3 Loan processing time**

Appendix 2 indicates that the loan processing time of project had negative relationship of the result shows that number of project follow-up (NPF) had 26% negative relationship. This shows that increase loan processing time of the project decreased the number of project follow-up (NPF).

#### **4.4.4 Amount of loan**

Appendix 2 point towards that the amount of loan had strong positive linear relationship with number of project follow-up (NPF), the relationship between the amounts of loan with the (NPF) independent variable had 20 percent positive linear relationship.

#### **4.4.5 Number of Project Follow-up**

Appendix 2 specifies that the number of project follow-up (NPF) had strong positive linear relationship with amounts of loan (AML). The relationship between the numbers of project follow-up with the (AML) had 42 percent positive linear relationship.

### **4.4 Determinants of loan repayment in project financing**

As discussed in chapter 3, the probit regression was used for analyzing the determinant of successful loan repayment performance in project financing. Prior to Running the probit regression explanatory variables were checked for the existence of collinearity and the degree of association using correlation coefficient.

To determine the independent variables that are good predictors of the loan repayment performance among financed project, the probit regression was estimated using the Maximum Likelihood Estimation Method. The results of the analysis are presented in

#### **Table 12 Probit regression**

Log likelihood= -11.503721

LR chi2 (12) = 80.99  
 Prob > chi2 = 0.0000  
 Pseudo R2 = 0.7815

Status	Coef.	Std. Err.	Z	P>z	[95% Conf. Interval]
Experience	0.158459800	0.08031380	1.97	0.048***	0.0010476 0.315872
Processing time	-0.024750900	0.01106400	-2.24	0.025**	-0.046436 -0.003066
Loan amount	-0.000000022	0.00000004	-0.57	0.571	-0.0000001 0.0000001
Follow up	3.822283000	1.59881700	2.39	0.017**	0.6886596 6.955906
Education	1.467816000	0.82061590	1.79	0.074***	-0.140562 3.076193

\*\*, and \*\*\* are at 5% and 10% level of significance respectively

From the results in Table 12 above, a likelihood ratio (LR) statistic of 80.99 with a chi squared ( $\chi^2$ ) distribution at twelve degree of freedom is significant at 5 % predictive probability level. This means that at least one of the independent variables in the model has a significant effect on loan repayment performance in the observed population financed project in which the explanatory variables together influence the financed project borrowers have able to pay its debt based on their contract agreement. Moreover, the P=0.000 means that the model is significant and Pseudo R2 is 0.7815 means that the explanatory variables explain the dependent variable about 78%.

#### 4.5 Discussion of the Significant Explanatory Variables

Out of the five variables hypothesized the determinant of loan repayment performance of the project financing, four of them were found to be statistically significant. The maximum likelihood estimates of the probit regression shows that managerial experience of project manager , loan Processing time ,education level and number of project supervisions/ follow-ups by the Bank for the financed projects borrowers were significant factors determining the loan repayment performance of AB’s financed project. Specifically, the coefficients of loan processing time, number of project follow ups/supervisions by the Bank for the financed project were statistically significant at 5% predictive probability level. The variable managerial experiences of project manager

experience, education level, of the financed project were statistically significant at 10% predictive probability level. On the other hand, the coefficient of one independent variable, which is amount of loan, is less influential in explaining loan repayment performance of AB's financed projects.

The result estimate confirms that the loan processing time taking to process a loan has a significant and negative impact on loan repayment performance of project financed by AB. Other things being constant, the predictive probability of being successful/non defaulter increases by a factor of 0.025 as loan processing time decrease by one day. This might be due to the fact that, as the time of loan processing increases beyond the planned/scheduled time in the project, it could bring interruption of all activities planned in the project like production period, marketing and harvesting of the project product all these having negative impact on the smooth operation of the project. As a result, borrowers who have got the loan in longer delayed failed the repayment of loan according to the contractual agreement. This result is conformity with the empirical finding of Jama and Kulundu(1992), Hunte (1996), Njioku and Odii (1991), Mulugeta (2010) and Bekele(2003).

The result of the regression shows that education level of project manager has significant and positive effect on successfulness of the project. It might be because of the fact that project manager, who has higher education level, could find better market for their products, they could be cost conscious that is cost-effective usage of resources and they may have future investment plan working with the Bank. These and other reasons make the project manager who has a higher education status to have a good repayment performance. Having BA/BSs or above education level of the financed project manager, the predictive probability of the financed project has been able to repay the loan increases by 147%. This implies that a borrower will likely have greater loan repayment ability when the project manager has a higher educational level and vis-à-vis. This also confirms the results of Wongnaa and Awunyo (2013),Mulugeta(2010),Eze and Ibekwe (2007) and Abrham (2002).

The Number of project follow-up/supervisory visit is an important institutional factor, which is positively related to borrowers' ability to repay their loans and is significant at

5% predictive probability level. Increasing the number of supervisory visits on the financed projects, the predictive probability borrower been able to repay the loan increased by 382%. This means that the more credit officers visit the financed project borrowers to control how the project is used, the better borrowers' loan repayment abilities and vis-à-vis. In other words, this means that the financed project borrowers has more accesses to technical assistance and guidance on project activities during the visit has able to repay their loan as promised than those who had less or no visiting at all. This is due to borrowers who have regular contact with the Bank's professionals are superior informed about markets and production technologies as well as clearly know the rule of the Bank and regulation on loan repayment of the project. This in turn encourages the borrowers of the financed project undertake operation in good manner and there will be less predictive probability of diverting the loans to unintended purpose. This is similar results with Adewale Alawiye-Adams (1994), Koopahi and Bakhshi (2002), Mulugeta (2010), Wongnaa and Awunyo (2013), Jama and Kulundu(1992) and Okovie (1996) have also reported the significant effect of this variable on loan repayment. Moreover, project management experience has a positive coefficient and it is significant at 10% predictive probability level. Increasing managerial experience of project manager by one more year increases the predictive probability of the financed project borrower been able to repay the loan by 15.85%. This means that the likelihood of the financed project borrower able to pay the loan will increase when the number of years of managerial experience of project manager increase and vis-à-vis. The implication is that managerial experience of project manager could probably lead to proper utilization the financed project and inputs and this could have a positive effect on the magnitude of project profit. Similarly as project manager gets more experience, the quality of decision making has to be enhancing and also has a positive impact on the sustainability of the project. Therefore, loan repayment performance of the project would be improved. This also substantiate the results of O ladeebo (2008), Wongnaa and Awunyo (2013) and Mulugeta (2010), Muluken (2014).

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

The study's findings are outlined in this section, conclusions are obtained from the information, and suggestions are sent to regulatory bodies, banks, and policymakers.

#### 5.1 Summary

In summary, Awash Bank was founded with the exclusive intent of offering project financing, technical assistance, and support for projects established through All Provision of Credit alone, which was insufficient to sustain the county's economic development. Consequently, an efficient system of monitoring and evaluation was established to guarantee that the fund credit was being employed for its intended objective. Greater Opportunity: Banks guarantee beforehand that the loan will be returned on schedule and in compliance with the conditions and terms outlined in the contract.

The principal aim of the study is to look into what factors influence successful loan payments in project financing at Awash Bank. The article is specifically designed to assess the project manager influence institutional, statistical, and socioeconomic aspects. In this study, just secondary data sources were employed to assess the factors that influence effective loan payback performance in sponsored projects. To achieve this goal, a probit model was employed to evaluate if the numerous explanatory factors, as proposed by the research, have influence on the repayment of loans performance of all-financial supported projects.

The study's data and statistics were collected from 75 borrower data at the Bank's central office, which currently oversees the majority of the loans (covering 5563). The analysis reveals that 35 (47%) of the financial initiatives were unsuccessful ones (defaulters), while 40 (53%) were successful ones (non defaulters).

The study's research reveals that seven of the twelve independent distinct explanatory factors that were proposed to explain variation in debt service were statistically significant in predicting the loan repayment performance of projects supported by all. Project manager's managerial experience, time spent processing loans, educational attainment, bank equity to debt ratio in number follow-up supervisions, project implementation duration, and management style are some of these characteristics. On the other hand, lacked strength. The output of the probity

model indicates none of the advantage explanatory variables have the opposite sign from what was previously thought.

The study's key explanatory variables were compared and contrasted, and it was discovered that the managerial experiences of projects were the most important factor that positively predicted the accomplishment of All's project financing borrower's effective loan repayment performance

This is due to a manager with many years of project management experience is in charge. Was able to manage the project efficiently by coming up with a workable plan to handle day-to-day tasks, get around any operational issues or bottlenecks, and put a backup plan A—or plan B—in place in case something went wrong. In summary, a project's sustainability, profitability, and debt service performance are all improved by project management experience.

The performance of loan repayment is statistically significantly correlated with loan processing time delays. One plausible explanation is that the project may have issues related to harvesting period mismatch, seasonal product market issues, price escalation, and production schedule disruption if loan approval takes longer than anticipated. Consequently, this adversely affects the borrowers' as well as sustainability and profitable of the project ability to repay debt.

The other important factor that affects how well project financing applicants repay their loans is their educational background. At the 10% probability level, the variable was statistically noteworthy and advantage correlated with repayment efficiency as assessed. This finding indicates that borrowers with higher levels of education who receive project financing are able to succeed.

## 5.2. CONCLUSIONS

In general loan is one essential activity which awash bank is done .therefore determent of loan repayment performance is important task for awash bank because it is one way that Banks's get profit by collecting interest so this investigation uses different independent variables to known the determinants of successful loan repayment performance like amount of loan, loan processing time, managerial experience, educational level, equity to debit ratio, number of project follow up, availability of raw material to achieve banks benefit which is collected form lending. From those different variables that I used in the study amount of loan, loan processing time, managerial experience, educational level, equity to debit ratio, type of manager, and number of projects follow up have strong direct relationship with loan repayment performance, as amount of loan high the loan pay back is affect because of the interest and other factor affect the borrowers, as like of that if the duration of loan application to loan distributed is long the loan to pay back is affect the borrower's ability.

### **5.3. RECOMMENDATIONS**

I recommend that for the managers and loan offices of awash bank as loan is one and essential for the existence the growth of the bank, awash bank managers and loan officers have to prepare policy and strategies on determinant of successful loan repayment from those determinant , increase the number of projects follow up or loan officers have to serially have a panned, secluded way of loan follow up practices, asinine managers who have larger experience educational level for the loan and they have to decrease the time period of loan from the application to approval.

### **5.4 suggestions for future study**

Based on the limitations of the study indicated in chapter one the study suggests to for other researchers to conduct a study with a broader scope that encompasses customers in other regions. Moreover, this study includes only few variables and based on secondary data hence suggests for future researchers to include more variables with primary data.

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## APPENDIX A

### Format prepared for data collection

This template is designed to gather information from each borrower at AB in order to conduct the study "Determinants Factors of Successful Loan Repayment Performance in Project Financing: The Case of AB."

#### I. B. Background details about the borrowers or project manager

1. project name: \_\_\_\_\_
2. Project Sector \_\_\_\_\_
3. project type \_\_\_\_\_
4. Educational background of borrower/Manager:  
1 B 1 BA/BSC and a d above \_\_\_\_\_ 0 for diploma and below \_\_\_\_\_
5. Project manager/owner \_\_\_\_\_ years of managerial experience

#### II. Loan history

6. The loan processing time (the number of days from the loan application to the first loan disbursement) is \_\_\_\_\_
7. Total amount of Loan disbursed: Br. \_\_\_\_\_.
8. Equity to debt ratio: \_\_\_\_\_%.
9. Delayed Project implementation period (DPIP)  
1 for project lately implemented up to s six month \_\_\_\_\_  
2 for project implemented lately for more than six months but less than a year \_\_\_\_\_  
3 for project implemented lately for more than a year \_\_\_\_\_

#### III. Further details

10. The quantity of annual project follow-ups and inspections that the Bank conducts following the loan's disbursement: \_\_\_\_\_:

11. Borrower repayment status:

1. Successful/non-defaulter (loan fully settled according on the contractual arrangement)

\_\_\_\_\_

2. Defaulter/Not-successful (loan payback period delayed) \_\_\_\_\_

12. Type of management: 1. Owned \_\_\_\_\_ 0. Employed \_\_\_\_\_

13. Distance from project location to r o raw Material Input \_\_\_\_\_ KM

14. The distance \_\_\_\_\_ KM from the project location to the output product market

15. What kind of market the financed commodity? The

output product market is export \_\_\_\_\_ 1

The output product market is local, with \_\_\_\_\_ 0.

## APPENDIX B

### Correlation Coefficients

Correlation Coefficients Appendix B The project's distance from the market region and the type of market have the highest correlation coefficients among all the independent variables utilized in the empirical analysis. This suggested that one of the two variables could be used by the researcher. The market type is used by the researcher in his analysis.

	EL	MEPM	LPT	AML	NPF	EDR	PIP	ARM	AM	TM	DFPLRM
EL	1										
MEPM	0.2198	1									
LPT	-0.0337	-0.0432	1								
AML	0.1273	-0.0034	-0.0225	1							
NPF	0.1695	0.246	-0.2619	0.2054	1						
EDR	0.0439	0.1734	-0.0034	-0.3587	0.2264	1					
PIP	-0.2972	-0.3269	0.406	-0.1593	-0.4725	-0.2172	1				
ARM	-0.2399	0.0681	-0.0111	-0.0327	0.1263	-0.1703	0.0258	1			
AM	-0.0401	0.1685	-0.166	0.0972	0.4208	-0.1591	-0.3576	-0.0129	1		
TM	-0.0132	0.0006	-0.1526	-0.2308	-0.0061	0.2811	-0.0856	0.1034	-0.0898	1	
DFPLRM	0.0314	0.1072	-0.1656	0.1365	0.2067	0.1527	-0.1853	-0.2802	0.1359	-0.0254	1
DFPLPM	0.164	0.0156	-0.036	0.1894	-0.1126	-0.201	-0.0387	0.0176	-0.1942	0.0649	-0.1728
TMFCF	0.2602	-0.1147	-0.0428	0.1603	0.0394	-0.1214	-0.0735	0.0243	-0.2016	0.0592	-0.2137

## APPENDIX C

Figure1 Sensitivity and Specificity

