ADDIS ABABA UNIVERSITY (AAU)

COLLEGE OF DEVELOPMENT STUDIES

CENTER FOR REGIONAL AND LOCAL DEVELOPMENT STUDIES (RLDS)

"Effect of Social Capital on Loan Repayment: The Case Study of Oromia Credit and Saving Share Company(OCSSCo)- Sendafa Branch"

TeshomeKebede GSE/0457/10

Submitted to the Department of Regional and Local Development Studies, AAU as a Partial fulfillment of MA Degree in Development Studies

Final

Advisor:Kumela Gudeta(PhD)

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DECLARATION

I, Teshome Kebede, declare that the research project entitled “Effect of Social Capital on Loan Repayment:The Case Study of Oromia Credit and Saving Share Company(OCSSCo)- Sendafa Branch” hereby submitted to Addis Ababa University for the partial fulfillment of the requirements for the Masters of Arts Degree in Development Studies is my original work and not submitted earlier for any degree either at this University or any other University and all source of materials used herein has been duly acknowledged**.**

By:

Teshome Kebede Signature__________ Date :_______________

(Researcher)

ADDIS ABABA UNIVERSITY COLLEGE OF DEVELOPMENT STUDIES

ADVISORS' THESIS SUBMISSION APPROVAL SHEET

This is to certify that the research project entitled " Effect of Social Capital on Loan Repayment: *The Case Study of Oromia Credit and Saving Share Company(OCSSCo)- Sendafa Branch*" submitted in partial fulfillment of the requirements for the Master's of Arts Degree with specialization in Regional and Local Development studies has been carried out by Teshome Kebede: ID No: GSE/0457/10 under my supervision. Therefore, I recommend that the student has fulfilled the requirements and hence hereby can submit the thesis to the department for defence.

Kumela Gudeta Nedhasa(PhD)

___________________________ ___________________________ ____________

Advisor Signature Date

ADDIS ABABA UNIVERSITY COLLEGEOF DEVELOPMENT STUDIES

EXAMINERS' THESIS APPROVAL SHEET

We, the undersigned, members of the Board of Examiners of the final open defense by Teshome Kebede have read and evaluated his research project entitled "Effect of Social Capital on Loan Repayment: ***The Case Study of Oromia Credit and Saving Share Company(OCSSCo)- Sendafa Branch*"** and examined the candidate's oral presentation. This is, therefore, to certify that the research project has been accepted in partial fulfillment of the requirement for the Master of Arts degree in development studies.

______________________ ______________________ ______________

Chairperson Signature Date

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Table of Content

List of Tables

List of Figures

LIST OF ABREVATIONS/ACRONYMS

AEMFI: Association of Ethiopian Microfinance Institutions

CEOs: Chief eExecutive Officers

FDRE: Federal Democratic Republic of Ethiopia

GBMF: Group Based Microfinance

MFIs: Microfinance Institutions

NBE: National Bank of Ethiopia

NGOs: Non -Governmental Organizations

OCSSCO: Oromia Credit and Saving Share Company

SNNP: Southern Nations, Nationalities and People's region

USD: United States Dollar

ABSTRACT

This study has identified effects of social capital and other socio economic factors on loan repayment performance in the study MFI(OCSSCO)in Sendafa branch.The study was conducted on a sample of 127 customers selected both from rural and urban customers of the MFI at the rate of 60% and 40% respectively. Both qualitative and quantitative methods were employed to conduct this study.

Results of Probit regression have shown that most of the coefficients are consistent with relationships and their tests of significance indicate their importance in explaining the repayment performance of borrowers in the groups. Gender, household size, distance from the MFI office, experience in group borrowing, number of visits by loan officers, pressure in the group, meeting attendance frequency, and heterogeneity in group membership were found to be significant in the model.The results also revealed a positive relationship between loan repayment and socioeconomic factors, with the majority of explanatory variables being statistically significant. However, the distance between borrower's home and the MFI office has a negative coefficient that is statistically significant.

From the analysis, it can be said that social capital, shared liability and repayment performance had a very strong positive association. Social capital was found to have a significant impact on repayment performance due to the strong bonds between borrowers and the MFI and trust among the group members.The study has concluded that if the essence of self-help and cooperation is fostered and monitored properly, the poor canfulfill his/her repayment obligations.

Keywords : Microfinance Institution, Loan Repayment, Social Capital, Defaulters and Non-defaulters

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

Inclusion of the poor in the formal banking services is a challenging exercise. In practice, lack of appropriate collateral, credit history and regular flow of income are among the reasons that make their inclusion difficult. In the last three decades, a growing number of microfinance have developed effective mechanisms to encompass the poor and meet their financial needs. One such mechanism is group lending, lending to selected group of borrowers who are jointly liable for their loan. MFIs use group lending to incentivize poor borrowers to substitute their lack of physical collateral, credit history, and regular flow of income by their social capital. This mechanism tries to harness information available to group members and their relationships as a way of resolving asymmetric information problems involved in lending to those without collateral and credit histories (van Tassel, 1999; Ghatak, 1999; Ghatak and Guinnane, 1999; Varian, 1990; Stiglitz, 1990; Banerjee et al.,1994) and facilitating repayment enforcement (Besley and Coate, 1995; Armendariz de Aghion, 1999).

Three major reasons can surface out for addressing the problem in particular where the condition is severe in developing countries including Ethiopia. Conventional lending by banks requires loan-takers to provide material collateral, such as a house or land that the bank holds as a guarantee and will confiscate if the borrower fails to repay. In contrast, microfinance institutions (MFIs) offer loans to individuals who cannot obtain loans from mainstream banking services because they cannot provide the required securities and have no formal credit rating. One of the cornerstones of MFIs is the provision of small, short-term loans which enable borrowers to invest in new income-generating activities(Armendáriz & Morduch2010; Brau & Woller2004; Cull & Morduch, 2018).

In fact,this is the basic principle of microfinance to replace physical capital or collateral required to access loan with social capital or peer pressure and monitoring.As a result, MFIs are often committed to rely on soft information to assess borrowers’ creditworthiness.

In a group lending modality, the duty of repayment of loans is not shouldered by individual borrowers but on the group as a whole. This joint and several liability mechanisms in the case of group loan,which is common lending method to the poor, tackle three major problems which affect the repayment performance of the group loan borrowers.According to Verhelle and Berlag, 2003,joint and several liability mechanismsreduce the problems of adverse selection where the risk of a borrower is ascertained as members are self and co-selected, moral hazards i.e., it makes sure of proper utilization of loan leading a borrower to repay within the due date and enforcement of loan repayment through pressure mechanism on willful defaulters. This means group lending depends on social capital of members and is contingent on the quality of contract enforcement. Consequently, microfinance through group lending has evolved as anaccepted institutional framework to provide financial services to the poor in the absence of property collateral.

The concept of social capital has been widely explored in the sociological and economic literatures. Two of the socio-economic strands explain how social capital produces economic returns. The first views social capital as the pool of resources embedded in an individual's social network. The theory predicts that the richer and/or larger the pool, the higher the social return. In this line of thought, all social ties have an identical role, regardless of the stock of social capital mobilized to achieve a certain outcome. The second strand defines social capital in terms of actual use. According to this strand, economic returns are driven by the social capital embedded in the ties that are actually mobilized to achieve certain outcome,Postelnicu, L., Hermes, N., Szafarz, A. (2014).

In Micro finance institutions, social capital plays an important role since MFIs use the method of group lending to reduce information asymmetries and increase repayment performance. This method is seen as an effective instrument to overcome the problems of information asymmetries as it incentivizes group members to use their social ties embedding their social capital to screen, monitor, and enforce loan repayment on their peers. In this lending method, members of a borrowing group act as guarantors for each other's loans. This encourages them to collect soft information from their social networks to screen and select each other(Postelnicu, L., Hermes, N., Szafarz, A. 2014)

Once the group is formed, borrowers use this information to monitor each other and ensure that peers are using the loan for the planned income-generating purposeas well as to avoid default. Moreover, to preserve their social capital, group members may curb their own moral hazard behavior. Thus, by being jointly liable for the repayment of a group loan, borrowers pledge their social capital embedded in their ties with other borrowers, i.e. they provide social collateral and the success of microfinance relies on the use of social collateral and other socio-economic factors related to the borrowers. By doinso, Microfinance contributes towards the formation and strengthening of social capital,Yunus, 2005)

In the group lending modality, social sanctions for repayment misconduct can be heavy and the linkage between individual social capital and internal ties are important for repayment performance. The available evidence on microfinance group lending confirms that the theoretical prediction that internal ties among borrowers affect their screening, monitoring and enforcement efforts which in turn determines the repayment performance of group borrowers. Several proxies have been used in empirical studies to gauge the intensity of social ties. They include factors such as the duration of relationship, gender, family size,geographic proximityof the borrowers to the lending institution, educationa level, residence,role relationship (i.e. whether group members are relatives, friends, or acquaintances), frequency of contact, and Marital status of group members.

With respect to screening, it has been stressed that group lending model allows in many cases for endogenous formation of groups. This self-selection allows borrowers to use their social ties to screen each other. Empirical evidence on the importance of self-selection and the role of social ties is scarce, however. One of the few studies investigating this is from Sharma and Zeller (1997), who find that self-selected groups lead to better repayment performance than do exogenously formed groups. Hermes et al. (2006) show that repayment problems decrease when the group leader knew the other group members before forming the group.

1.2. A Glance at Ethiopian Microfinance Institutions

In the context of Ethiopia, MFIs have been a phenomenon since the second half of 1990s after the Microfinance Proclamationwas issued in 1996. This marked the start of deposit taking MFIs in the country (AEMFI, 2020). The Micro finance industry is regulated by the National Bank of Ethiopia, like any other formal financial institution though microfinance industry targets poverty reduction and is growth oriented. The industry has a history of two decades progressing with wider coverage anda significant dynamism. Currently, there are 49 MFIs licensed & operating in the country (NBE, 2022).

In relation to regional distribution of MFIs in Ethiopia, they are concentrated in the three regions, Oromia, Amhara and Southern Nations, Nationalities and People's region (SNNP) and Addis Ababa city administration. There is only one MFI in Afar and in Gambellaregions while three MFIs are operating in Somali and Harari Regions. Regarding the ownership and governance, as per the Microfinance Proclamation, MFIs should be incorporated in the form of share companies and there are three types of ownership structure. The firsttype of MFIs are those predominantly owned by Regional Governments and/or by Government-affiliated local NGOs. The second type of ownership relates to those MFIs owned by local/international NGOs. The third type relates to MFIswhose owners are private individuals.In most NGO affiliated MFIs, shareholders are not real investors in the sense of earning dividends and having a real interest in the economic benefits.

In relation to the overall performance, Ethiopian MFIs are continuously growing in terms of client outreach, loan outstanding, assets and capital when compared with the performance of MFIs in Sub-Saharan Africa. Their performance measure shows that MFIs have achieved the highest operational and financial self-sufficiency(Solomon BizuayehuWassie, Hitoshi Kusakari,andMasahiro Sumimoto,2019).

As per the data obtained from the Association of Ethiopian Microfinance Institutions (AEMFI, 2022), the microfinance industry as of June, 2022has more than 4.81 million loan clients, with ETB 72billion(140 Million USD) outstanding loan portfolioand more than ETB 20 billion(0.42billion USD) Capital. The total asset of the sector has reached more than ETB 104 billion (2 billion USD).

1.3. Conceptualization of Terms and concepts:

In this research, someof important concepts and variables which appear throughout this document are defined in the following manner.

Social capital: For the purpose of this research, social capital relates to groups norms, trust, reciprocity and knowing one another that are useful to act together in pursuing shared objectives among participants of Group Based Micro Finance(GBMF). The study focused on the relationships of participants at a Micro financial institution who are drawn from similar locality or community. The study also included different components of social capital particularly the followings ones.

Trust: It is a term to denote "circle of people among whom cooperative norms operate"(Fukuyama.2001:8). Also Coleman (1990) as cited in Frank(1992) has indicated that trust is costly linked to situations that involve risks.Broadly speaking, three main types of trust are identified. Trust to familiar people; generalized trust extended to strangers; and institutional trust which refer to the basic trust to a system of certain institution including its transparency, regulations and if it can be relied up on (Stone, 2001). In the context of MFIs, trust is used to indicate a confidence among participants of GBMF that one will not act against the interest of the other group members.

Reciprocity: It refers to give-and-take relations among group members. Trust and reciprocity are considered absolute as the trust that emerges from common understanding among group members in turn generates the confidence and willingness to take risk through reciprocity with one another.

Trust and Reciprocity: They are core components of social capital (Stone.2001).Francis Fukuyama is most notable for illustrating the relationship between social capital and trust. For him, all groups embodying social capital have a certain radius of trust. In this regards, the risk one takes depends on the performance of another actor. That is why people do not readily trust each other for it takes time to weigh the performance of another actor with regard to trustworthiness.

Norms and Sanctions: Norms refer to unwritten but commonly understood set of expectations and guidelines that serve as informal social control in the group based Microfinance. Even though it is widely believed that norms reduce the need for more dependence on formal and institutionalized legal sanctions, not all norms constitute social capital. According to Fukuyama (2001), there are norms of cooperation among some people that are primarily aimed at achieving their own selfish ends. Thus, norms that lead to cooperation for common benefits in the group borrower of the MFI under study are considered.

Sanction: It is the application of both formal and informal penality against those who disobey their responsibilities in the group based Micro finance. In this, an MFI plays significant roles in the formation and strengthening of social capital among the group memebers.

Group Based Microfinance (GBMF): This relates to amechansim for the provision of loan, saving, insurance and other services to individuals using a group as a guarantor.

1.4. Statement of the Problem

The majority of low income people in Ethiopia in general and those living in the rural areas in particular are denied access to finance mainly because of lack of property to be held as a collateral. To tackle the problems of property collateral requirement by low income people, new lending approaches have been developed and implemented by MFIs. Group lending is one such approach that has gained considerable success in increasing low income household access to credit and improve loan repayment performance ofMFIs.

In Ethiopia, most of the MFIs operate both in rural and urban areas delivering their services to the rural & urban community through a group lending modality using the social capital collateral. In this relation, review of previous studies conducted show that several attempts were made to explain the relationship between social capital and group loan repayment.

Bjønskov (2000), in his study mentioned that established groups`loan repayment is due to the trust and norms shared, which he referred to as their social capital and the same was asserted by Larance (1998) that social capital accumulated at the semiformal organizations is positively associated with access to institutional loans. On the other hand, Heikkila, Kalmi and Ruuskanen (2009) also found that the importance of individual social capital seems to increase when there is a decrease in the formality of credit institutions showing that people with low social capital may not have access to semi formal and informal credit in Uganda. Furthermore, Dhufues, Buchenrieder, and Munkung (2012) in their study of individual social capital and access to formal credit in Thailand found that the greater the number of socially higher ranking personal network members to whom one is connected through a strong tie, the fewer the access constraints one is likely to face. This implies that household with strong ties may be able to access more credit than unconnected persons. However, the differential effects of the dimensions of social capital on loan repayment in the MFIs and influence of socio economic factors were not discussed in litrature reffered.Moreover, The reseacher managed to trace little about the variations of social capital between rural and urban group borrowers in terms of loan repayment in the study MFI. Therefore, this study addresses these gaps by examining the differential effects of dimensions of social capital and their spatial variations in influencing loan repayment based on primary data to be collected from the sample customers of the study MFI. In view of the above stated problems, the following research questions will be answered in this study.

1. To examine the effects of social capital on loan repayment and identify which aspect ofsocial capital affects loan repayment the most?Spatial variation of social capital in rural and urban areas will be examined.
2. What are other socio economic factors whichaffect loan repayment in the study MFI?

Henceforth, seeking answers to these questions has crucial practical relevance and will contribute to the understanding of researchers and practitioners of microfinance institutions about the contributions of social capital to the repayment performance of MFIs.

1.5. Objectives of the Study

1.5.1. General Objectives

The general objective of this study is to examine the major social capital dimensions and other socio economic factors that contribute to repayment performance of MFIs: The case study of Oromia Credit and Saving Share Company (OCSSCO)-Sendafa branch.

1.5.2. Specific objectives

The specific objectives are:

i. To examine effects of social capital on group loanrepayment performance

ii. To investigate factors having effect on loan repayment in the study MFI other than social capital.

1.6. Scope of the Study

The scope of this research is seen from geographical and conceptual scope boundary point of view. Accordingly, the study was carried out in Oromia Credit and Saving S.C at a branch operating in Sendafa-Beke districtin North Shoa Zone.The study focus on theeffect of social capital and socio economic factors on loan repayment among the group borrowers of the branch. The analysis of loan repayment performance of the branch will help to understandthe contribution of social capital and other factors to loan repayment performance of clients at the studyMFI branch.

1.7. Significance of the study

In Ethiopia, access to finance is limited and large numbers of people obtain financial servicesfrom informal sources such as money lenders, relatives, friends and others.To address such constraints, the government has taken several measures among others which include issuance of the proclamation for the supervision and licensing of the micro finance businessestoencourage saving, private investments and launching of micro and small scale industries.Micro Finance Institutions (MFIs) adopted the group lending methodology in the delivery of financial services to their target clientsand havechanged the traditional notion of property collateral with social collateral to access loan to low income people.Various studies were conducted on the contributions of MFIs to household income, welfare and living standards. However, no sufficient information is available on the relationship between microfinance loan repayment and social capital in the contexts of Ethiopia and their variation in rural and urban settings. Hence, these issues will be explored in this study.

1.8. Limitations of the Study

The study was conducted in one of the branches of Oromia Credit and saving Share Company(OCSSCO), Sendafa branch located 40 KM east of the national capital, Addis Ababa.

The number of customers of the branch selected were only 10% of the total clients of the branch which is considered as a limitation of the study to represent the populations. This was done due to Lack of sufficient time and financial constraints.y. However, although the scope of the study was limited to only 10% of the bracnch`s cutomers efforts were made that the responses and data collected from those sample borrowers and lending MFI staffs at different positions can reflect realities on the effects social capital and other factors on loan repayment in the study MFI.

1.9. Background of Oromia Credit and Saving Share Company (OCSSCO)

Oromia Credit and Saving Share Company (OCSSCo) is one of the microfinance institutions licensed by the National Bank of Ethiopia (NBE) in 1997. It has been operational in Oromia and Harari regions and Addis Ababa and Diredawa city administrations. The services include credit, saving, micro insurance, local money transfer and fund management services to the customers both in rural and urban areas. Currently, the institution has more than four hundred branch outlets and more than 6500 permanent staffs working at different layers of the institution.The organizational structure of the institution extends from head quarter to the branch operating at district and town levels. Recently, the institution has got the permission to transform itself to commercial banking status under the name “Siinqee Bank” while continuing providing micro finance services to targetlow income people in both urban and rural areas nationwide

CHAPTER TWO

LITERATURE REVIEW

In this chapter, review of available literature,theoretical, conceptual and empirical was conducted for the purpose of gaining understanding on issues related to the effects of various dimensions of social capital on group loan repayment in MFIs in general and the study MFI in particular.

2.1. Conceptual literature Review

Though the idea of social capital can be traced long back,its entry into academic and policy debates can be credited to the pioneering work of Pierre Bourdieu (1986), James Coleman (1988) and Robert Putnam (1993). In its broader sense, social capital can be defined as a collective asset in the form of shared norms, trust, networks, social relations, and institutions that facilitate cooperation and collective action for mutual benefits.

Social capital as defined by Portes (1998) stands for ability of people to secure benefits by virtue of their membership in social networks or other social structures. However, according to Narayan and Pritchette (1999), social capital refers to the internal and cultural coherence of society, the norms and values that govern interaction among people and institutions in which they are embedded. It is a complex multidimensional concept having various dimensions, types, levels, determinants, and varieties of definitions exist depending on the discipline and interest. Nevertheless, most definitions emphasis the role of social relations in generating benefits for individuals and society as a whole.

The critical elements of social capital include social networks (families, friends, communities, and voluntary associations), norms of reciprocity (shared norms, values, and behaviours), and trust (people and institutions). It is collectively-owned capital generated through individuals' shared norms, values, attitudes, and behaviors that positively benefits economic development. The most common forms of social capital include structural and cognitive social capital; bridging, bonding, and linking social capital; strong and weak ties; and horizontal and vertical social capital.

Social capital can be measured at individual and collective levels as well as at the micro, meso, and macro levels. These different forms and level of analysis suggest that social capital can be defined, operationalized, and measured in different ways.

2.2. Theoretical literatureReview

Loan repayment behavior is very much related to the economic behavior discourse as economic behavior is the behavior of individuals that involves economic decisions and the causes and effects of those decisions. In economic research, a study on human behavior particularly in economic decision is attributed to the psychological discipline. There are two reasons as main considerations subject to the determinant factors of the economic decision, namely, rationality assumption and self-interest assumption (Spielberg,2004) though it can be clearly understood that those assumptions are subjective in nature (Frank,1997).

Economists have developed numerous theories seeking to explain the high repayment rates frequently associated with group lending in developing countries. These theories can be roughly divided into three categories (Cassar,et al,2005). Those who view the relational aspects of social capital as key to the performance of group lending and those who view the informational aspects of social capital as key to the performance of group lending; and those who view the merits of group lending (relative to individual lending) solely through its innate properties as a joint-liability contract where social capital plays little or no role.

Discussing on the distinction between the above is important. If the first two groups of theories hold, the existing level of social capital in the form of strong personal relationships or local information may be critical to group lending's success. The third group of theories holds that group lending may succeed whether or not it is implemented among borrowers with high levels of existing social capital. Opinion in the first category therefore emphasizes the potential for social sanctions as a primary factor in group loan repayment. Since the group members are jointly liable for repayment of the loan of each group member, they can press their fellow members who fail to maximize the probability that their share in the group of loan will be repaid. The greater the potential for social sanctions, the more likely they are to lie off the equilibrium path, and as the result is the higher group loan repayment rate one should observe. An example of this is Floro and Yotopolous case who demonstrate that where social ties are strong, group lending can both improve loan repayment and relax credit constraints (Floro & Yotopolus: 1990,Cassa et al: 2005).

2.3. The importance of Social capital in Micro finance

Social capital refers to the norms and networks that enable people to act collectively (Woolcock and al.,2000). Fox (1996) defines social capital as a social organization, relationship of cooperation and reciprocity, networks and leadership that facilitate collective action. More generally, social capital's definition depends on which level is considered. For example, at the country level, social capital is viewed as the degree of trust in government or other societal institutions (Fukuyama, 1995 cited in Okten and Osili, (2004)), social cohesion, reciprocity and institutional effectiveness. This includes the willingness to participate in civil society and obey the law and a general efficacy in the workings of civil administration.

At the community level, Jacobs (1961) posits that social capital exists as 'neighborhood networks,' or as Putnam (1993) (cited in Gomez and Santor (2001)) suggests, it signifies 'features of social life such as networks, norms, and trusts that enable participants to act together more effectively to pursue shared objectives. Grootaert and Van Bastelaer, (2002a) defines social capital broadly as the institutions, the relationships, the attitudes, and values that govern interactions among people and contribute to economic and social development. This definition shows the situations in developing countries' including Ethiopia and it plays a great role in the Ethiopian context. In the contexts of MFIs, social capital plays an important role since MFIs use the group to reduce information asymmetries and increase repayment performance. The joint liability element is seen as an effective instrument to avoid information asymmetries, because it incentivizes group members to use their social ties embedding theirsocial capital to screen, monitor, and enforce loan repayment on their peers. Majority of the MFIs use group lending modality wheremembers of a borrowing group act as guarantors for each other's loan. The joint liability encourages group memebers to collect information from their social networks to screen and select each other and use this information to monitor each other to ensure that peers are using the loan for the planned income-generating purpose as well as to avoid strategic defaults. Hence, by being jointly liable for the repayment of a group loan, borrowers pledge their social capital embedded in their ties with other borrowers as social collateral.

According to Oljerova et al(2003), people who are willing to engage in small business but are too poor to put up physical collateral for loans and are enabled to access loans by virtue of their membership to a certain group implies the link between social capital and Group Based Microfinance(GBMF).

In this regard, membership to a credit group is considered to be part of social capital. This conception conforms to many theoristswho asserted that social capital is securing benefits because of membership to a certain group. As per Oljerova et al & Olomola (2002), social capital in GBMF is required for the reason that it bears great benefit to both lenders and borrowers.

To the borrowers, it enables them to have access to credit while for the lender it reduces transaction costs and ensures high repayment rate through the exercise of enforceable trust among the members. Harper (1998) has more or less similar view to Olomola (2002) with respect to the link between social capital and GBMF. For him, providing access to micro financial service to the poor is apopular strategy for sustainable development.The reasons why MFIs use group model to deliver the service include the problem of provision of collateral can be overcome through using joint liability as a loan guarantee since group members know each other. They are ideally placed to appraise one another's loan. Costs can alsobe reduced for the lender by dealing with a member of borrowers simultaneously.
Group formationscan empower marginalized communities by building their awareness of the potential of collective action. However, for some authors like Mayoux (2001) and Hassan and Tufte (2001), the existence of social capital in the form of indigenous networks and norms of association and the use of these assets for microfinance group formation show the link between the two. In addition, other than reduction of transaction costs,it helps in empowering clients; better poverty targeting; and achieving financial sustainability for the lenders.These indicate the important relationship between social capital and group-based microfinance.

2.4. Social Capital among rural and urban communities

Social capital refers to the stocks of social trust, norms and networks that people can draw upon in order to solve common problems (Siranni and Friedland,1997). These networks involve activities of civic engagement such as neighborhood associations, service and charitable clubs, volunteerism and the like. In both rural and urban communities, social capital refers to the institutions and mechanisms whereby residents relate to and interact with each other to solve problems for the common good.

2.4.1. Social Capital in Rural Communities

In rural communities, the good of living in a small rural community is that each neighbor is usually well aware of what the others are doing. The degree of anonymity most often associated with urban living is absent in rural communities. In many small rural communities, homes of widely varying values are often located in comparatively close proximity to each other. This increases the potential for social interaction among people of varying income classes, and increases trust across economic lines. As communities become closer to each other, they tend to more likely be grouped together, increasing the likelihood that individuals of similar economic backgrounds will interact for the achivement of common goals. There is strong cohesion between the residents of the rural areas which shows the strength of social capital. (https://www.uky.edu/~deberti/socsaea.htm).

2.4.2. Social Capital in Urban Communities

The presence or absence of social capital is indicated in very different ways in the typical urban community. Subdivisions in urban communities are a clear indication of social and economic status and perhaps even political influence within the community. Members of the community try to outdo each other while at the same time staying within the bounds of what is considered "ok" for the neighborhood according to unwritten, but at the same time, very well recognized, norm (https://www.uky.edu/~deberti/socsaea.htm)

2.5. Social capital and loan repayment performance in MFIs

A number of empirical studies show the ties between group borrowers act as an effective disciplining device for the repayment of joint liability loans. The views of these studies on the role of the social ties between group members revolve around their importance for screening, monitoring and loan enforcement. The proxies that these studies used for social ties measurement are mainly the non-pecuniary resources they embed. These proxies include type of relationship (i.e. whether individuals are family, friends, or acquaintances), duration of relationship, meeting frequency, and geographic proximity to the MFI`s office etc. The available research finding shows that the type of relationship can impact the repayment behavior of group borrowers. The presence of relatives in the group can affect repayment performance both ways. On the one hand, Sharma and Zeller (1997) and Ahlin and Townsend (2007) find that a high percentage of relatives within the group increases delinquency in Bangladesh and Thailand, whereas Al-Azzam et al.(2012) finds that it reduces delinquency for Jordan. Indeed, family relationships between group members facilitate the process of screening and monitoring through an easier access to information. Moreover, family relationships enhance reciprocity. However, the effects of reciprocity on loan repayment may go both ways. On the one hand, it may enforce loan repayment. On the other hand, it may enforce delinquent behavior when family members mutually agree to default, or when social norms do not allow the individual who repays to punish a family member for non-repayment.

Regarding the duration of a relationship between group members, Hermes et al. (2006) showed that repayment problems decrease when the group leader knew the other group members before forming the group. This facilitates access to more reliable information in the process of screening and monitoring one's peers.

Van Bastelaer and Leathers (2006) look at the frequency of group meetings in Zambia and found that more frequent group meetings are associated with higher delinquency, justified by the fact that the frequency of group meetings is triggered by crisis conditions. However, Feigenberg et al.(2010),look at the frequency of interactions between group members outside the group meetings, and they find that more frequent interactions lead to fewer default occurrences. This finding supports the assumption that information exchange is facilitated when individuals meet more often outside group meetingsand hence, they are better able to monitor each other. Moreover, frequent interactions beyond the group may indicate a higher reciprocity agreement between individuals, which should curb their delinquent behavior. Related to geographic proximity, available microfinance studies show that when group borrowers live close by, the loan repayment improves (Simtowe et al. (2006), Karlan (2007), Cassar et al. (2007), and Al-Azzam and Mimouni (2012). The authors interpret this finding through the lens of the impact of geographic proximity on the monitoring activities. Indeed, the cost of information collection should be lower when individuals live closer to each other. In addition to non-pecuniary resources embedded in the social ties between group members, they may also embed pecuniary resources. The proxies used to measure the non-pecuniary resources embedded by social ties fail to completely capture the exchange of pecuniary resources. This is because there is an asymmetry between the non-pecuniary and pecuniary resources embedded in a dyadic tie (Postelnicu, 2015). In particular, the pecuniary resources exchanged by twoindividuals is determined by the network positions of the two individuals. This means that one cannot proxy the amount of pecuniary resources exchanged by a dyadic tie by the non-pecuniary resources embedded in that tie. While pecuniary resources are not likely to play an important role from the perspective of the effectiveness of screening and monitoring, they may be relevant for loan enforcement. Group borrowers may curb their delinquent behaviour in order to avoid losing ties with their peers when those ties embed important pecuniary resources. Moreover, these ties may help the individual with the repayment of her/his loan in case of economic default. Van Bastelaer and Leathers (2006) and Ahlin and Townsend (2007) consider in their investigations the pecuniary exchanges between group members. In particular, they calculate the total number of types of goods and services shared by the members of a group. Overall, this sharing seems to improve the group repayment performance. However, Ahlin and Townsend (2007) show that sharing among non-relatives is bad for repayment, whereas sharing among relatives is positively related to repayment conduct. This may be due to the fact that relatives may pose more credible threats of social sanctions as compared to non-relatives.

To sum up, researchers have emphasized the important role played by social ties in terms of screening, monitoring and loan enforcement.

2.6. Studies in Ethiopia

Berhanu (2005) conducted a study on the determinants of loan repayment performance of smallholder farmers in North Gondar, Ethiopia. In order to analyze the factors that affect loan repayment, he employed the tobit model. A total of 17 explanatory variables were considered in the econometric model. Out of these, seven variables were found to significantly influence the repayment performance. These were land holding size of the family, agro-ecology of the area, total livestock holding, number of years of experience, number of contacts, sources of credit and income from off-farm activities. The remaining variables (family size, distance between main road and household residence, purpose of borrowing, loan amount and expenditure for social festivals) were found to have insignificant effect on loan repayment performance of smallholder farmers.

Abafita (2003) analyzed the microfinance repayment performance of Oromia Credit and Saving Institution in Kuyu, Ethiopia. According to his finding; sex, loan size and number of dependents are negatively related to loan repayment. On the other hand, age was found to be positive, while age squared turned to be negative. Income from activities financed by loan, repayment period suitability and loan supervision are positively and significantly related to loan repayment performance. Moreover, loan diversion is significant and negatively related to loan repayment performance.The negative sign implies that the use of diverted funds for non-income generating purposes.

Assefa (2005) employed a logit model to estimate the effects of hypothesized explanatory variables on the repayment performance of rural women credit beneficiaries in Dire Dewa, Ethiopia. Out of the twelve variables hypothesized to influence the loan repayment performance of borrowers, six variables were found to be statistically significant. Some of these variables are farm size, annual farm revenue, celebration of social ceremonies, loan diversion, group effect and location of borrowers from lending institution.

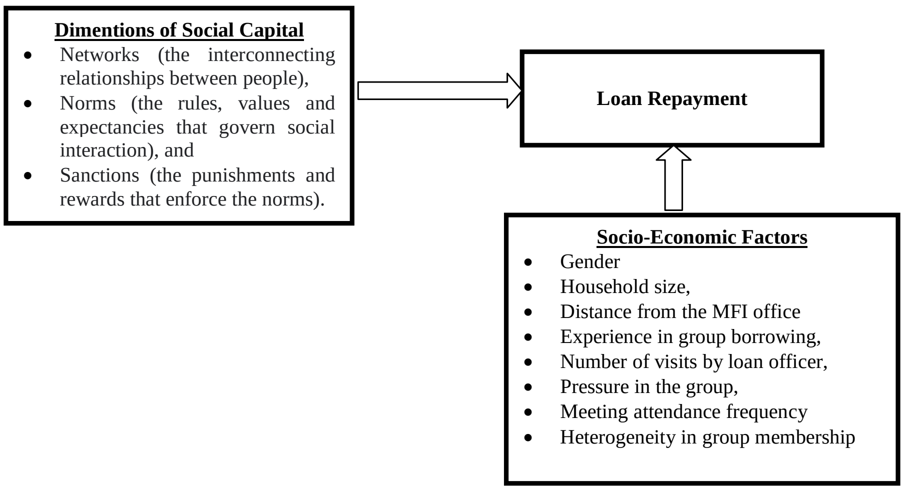
Abreham (2002) studied on the loan repayment and its determinants in small-scale enterprise financing in Zeway, Ethiopia. He found out other sources of income, education, and work experience related economic activities before enhancing loan repayment, while extended loan repayment period is found to influence the repayment performance negatively.

Retta (2000, cited in Abafita, 2003) employed probit model for loan repayment performance of women fuel wood carriers in Addis Ababa. He found that frequency of loan, supervision, suitability of repayment period and other income sources encourage repayment and reduce the probability of loan default while educational level is negatively related to loan repayment. This study will contribute to the existing knowledge about the spatial difference in social capital and its effect on loan repayment in the study MFI by identifying the spatial variations of social capital in rural and urban setting in the sense of enforcement of loan repayment in the MFI.

2.7. Conceptual Framework

MFI’s use two basic methods in delivering financialservices to their clients,group lending and individual lending methods. In view of this study, group lending method wasfocused. Group lending methodisone of the most common methodologies for providing micro-financial services to low income people.It involves a group of individuals, who become the basic unit of operation for the MFIs. As MFIs are required to provide collateral-free loans, group methodology help in creating social collateral that can effectively substitute physical collateral. In this method, groupmembersare trained to own joint responsibility for loans that are taken by individuals in the group this ensures repayments from all individuals in that group. Moreover, the groupserves as a forum where the credit discipline and other related issues are discussed and it also helps in credit appraisal and provides opinion on the creditworthiness of each individual in the group. This ensures that even without taking any physical collateral, the MFI is able to manage its credit risk.Having a group helps the MFIs in getting all clients at one spot rather than visiting each individual’s house. This helps the MFI in increasing the efficiency of staff and controlling the cost. This methodology can easily be appreciated due to the fact that if an MFI employee has to visit each individual house in isolation, it would be very difficult. In the absence of a group, if a client refuses to pay, there is no forum where such a case can be discussed or there is no method through which an MFI can exert pressure on the customer as legal recourse is not an economically sound option small loans. Moreover, the clients that the MFIs are dealing with are generally poor and may face genuine problems at times. Hence, rather than taking an aggressive legal approachwith such vulnerable clients, it is always better to have a more constructive and collective approach, which is provided by the Groups. This methodology is widely accepted and used in micro-finance across the world and in Ethiopia.In this study, repayment performance of an MFI depends on social capital dimensions that affect the functioning of groups in the MFI under study.

Figure 1: Conceptual Framework



From the above conceptual framework, repayment is a dependent variable as it is affected by theaspects of Social capital and their strength among the group members as well as other socio-economic factors. These components of social capital and socio-economic factors interact, influence and reinforce each other and influence loan repayment performance of the Microfinance Institutions.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1.Research Design and Approach

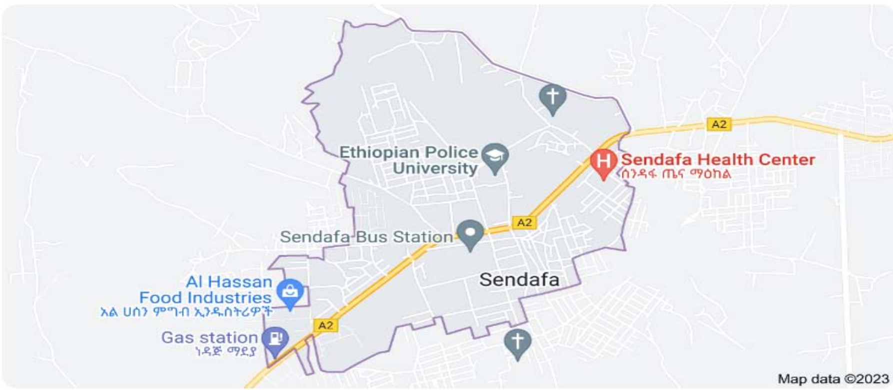
This chapter describes the procedure followed to carry out this study and gives the details of the research design that are adopted including study population, sampling design, sample size, sources of data, data collection, processing and analysis methods. It followed a cross sectional explanatory research design to examine the effects of social capital on loan repayment performance of sampled borrowers.Both qualitative and quantitative research approaches are employed to address the research questions. For the quantitative approach, a semi structured questionnaire was used while for the qualitative approach key informants and focus group discussions were conducted using unstructured discussion checklist.

3.2. Description of the study Area

Sendafa-Bake is a district under North shoa zone of Oromia regio.The study wasconducted in Sendafa branch of Oromia Credit and Savings Share Company (OCSSCO) which is found in the district town of Sendafa located at a distance of 45KM north east of national capital (AA).Currently, the branch has 1270 group loan borrowers served both in rural and urban areas including the district capital, Sendafa town.

In the town, there are five commercial banks and six Micro Finance Institutions(MFIs) giving financial services to their customers. Sendafa branch of OCSSCO is selected due to the fact that it did long time service in the district and found appropriate to see effects of social capital dimensions and other factors having effects on repayment performance of customers of the branch.

Figure 2: Map of the study area



Sendafa Town

3.3. Data Sources and Types

3.2.1. Sources

The sources of primary data were loan customers and staffs of the branch. The secondary data was collected from the branch and/ or district office of OCSSCO`s special zone of Oromia surrounding the National Capital located in Addis Ababa.

3.2.2. Data Type

Both primary and secondary data were used to achieve the stated objectives of this study. The primary data was collected through the use of semi-structured questionnaires, focus group discussions with sampled clients and key informant interviews.

3.3. Sampling Design, Procedure and Techniques

3.3.1 Population

Saunders et al.(2016) describes a population as the total elements or cases from which a sample is drawn. Accordingly, the target population for this study is OCSSCO`s loan customers in Sendafa branch. As per the report of OCSSCO, there are 1270 active borrowersat Sendafa branch.

3.4. Sampling Procedure and Technique

Currently, OCSSCO has more than 400 branches in Oromia region and Sendafa branch was selected purposively for this study.The reason for selection of this branch is that company level repayment performance of OCSSCO was more than 98% in group based loans. Sendafa branch was one of those branches which manged to enforce the collection more than 98% (OCSSCO report 2021) and hence selected for the study. Sample custmers of the branch were selected using a multi stages sampling procedure. The first stage was stratified sample where the customers of the branch are segregated in to rural and urban customers. The second stage of sampling was dividing the borrowers into those who made on time repayment and those who are defaulters. All borrowers of the branch that have repaid their loans on the due date were classified as non-defaulters while those who did not repay their loan on the due date were classified as defaulters.The third stage of selection was application of systematic technique to select the sample clients corresponding to 127customers at the rate of60%from rural and 40%from urban customers and 10%defaulters from each category of clients. This is due to the fact that the researcher considere 10% of the study population could be representative to reflect the realities of the study population.The fact that the number of rural borrowers at the branch was higher than that of urban borrowers, 60% of the respondents were selected from the rural customers of the branch and the remaining were from urban customers including the district capital, Sendafa town. Two focus group discussions were made with the staffs of the MFI and group leaders in which the sampled customers were organized.

3.4.1. Sampling Techniques

For the purpose of this study, customers of the branch were stratified in to two segments, rural and urban at the rate of 60% from rural and 40% from urban and simple random sampling technique was used to select the desired number of sample of 127 clientswere selected as sample to make it representative of the population. Customers were included in the rate of 60% and 40% to accommodate the difference in the number of rural and urban customers of the branch due to the fact that majority(870) of the customers of the branch are from rural areas and the remaining 400 custmers were from urban area including the district capital, Sendafa. Hence, of the total sample, 76 customers (60% of the sample) were selected from rural customerswhile the remaining 51 customers were selected from urban borrowers of the study MFI.

3.4.2. Sample Size

Three stage sampling techniques were used to select sample respondents. In the first stage, Sendafa branch was purposively selected from the branches of the institute then, 10% of the total customers of the branch, 127 cutomers were selected as a sample both from rural customers and urban customers at the rate of 60% and 40% respectively. Hence, data was collected from the total sampled customers for the study in the study MFI branch.

3.5. Data Collection Instruments

3.5.1. Questionnaire

The questionnaireemployed was a semi-structured one that can be used to collect requireddata onthe effects of social capital among the group borrowers of the study MFI in enforcing loan repayment collection. It contains both closed and open ended questions. The open ended questions were to encourage respondents to provide in-depth information about qualitative issueswhile the answers to the closed ended questions were designed to seek further clarification from other sources in order to be able to use such information adequately.

3.5.2. Pretesting of Questionnaire

A pre-testingwasconducted on five individuals at the group meeting place to test for reliability and relevance of question items to the meet the objectives of the study. Feedbacks obtainedwere incorporated to make necessary adjustments to some of the questions before the commencement of the actual data collection exercises.

3.5.3. Focus Group Discussion

Qualitative data was be collected through focus group discussions to increase the researcher`s understanding of the case and for the purpose of data triangulation to ensure reliability and validity.Three focus group discussions were conducted comprising one from custmors, the other one from non customer household and the third one was from the defaulter groups at the branch.The focus group discussion was guided by unstructured interview with few questions which was prepared beforehand. In general, the researcher was conduct the focus group discussion with a total of nine discussants selected purposively.

3.5.4. Key Informant`s Interview

The key informant interview constitutes purposively selected five OCSSCO staffs working at branch office and the district office.Unstructured interview was made with these key informants in order to acquire an in depth information to triangulated and verify the data from the respondent customers. From these key informants, the three key informants were the customer service officers at the branch offices whose tasks are selecting customers for the institution,loan appraisal and provision and collecting loans from these borrowers. One key informant is the Sendafa branch manager who is in charge of reporting, monitoring and evaluating the organizational tasks and activities. The last staff was a district Manager who control works and follow-up the overall activities of the branches under the special zone.

3.6. Method of Data Analysisand Presentation

For the purpose of this study, both qualitative and quantitative data analysis were made. The qualitative data analysis was made using descriptive statistics such as percentages, frequency, mean and tabulations. On the other hand, to analyze the quantitative data, Probit model was mployed and dependentvariable is repaymentcollection performanceand the independent variables include dimensions of social capital, age, gender, education, familysize, distance from MFI office,frequency of contact with loan officers and marital staus.

3.7. Model Specifications

In view of the foregoing, the effect of social capital and socio economic factors is examined in a regression analysis in which theregression equations is specified as follows.Each borrower's loan repayment (LP_i), that is, individual ability/willingness whether to pay back loan or not, as a function of observed explanatory variables(X) (socio economic factors), Trust among the group memebers and unobserved characteristics can be:

$$LP_i^* = X\boldsymbol{\beta} + \boldsymbol{\varepsilon_i}; \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (\mathbf{2})$$

Where, X, are a vector of explanatoryariables (socio economic factors) which are expected to influence loan repayment, $\boldsymbol{\beta}$, are a vector of parameters to be estimated and $\boldsymbol{\varepsilon_i}$are a vector of error disturbance term which is assumed to be normally and independently distributed. Loan repayment LP_i^* is not observable; this is because the individual willingness/ability to pay back loan depends on socio economic characteristics of borrowers. Consequently, $LP_i = 1$(loan paid back) if $LP_i^* > 0$ and $LP_i = 0$ (ifloan did not paid back) otherwise. Thus, the probability of individuals to pay back loan can be:

$$prob(LP_i = 1) = prob(LP_i^* > 0) = prob(X\boldsymbol{\beta} + \boldsymbol{\varepsilon_i} > 0) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (3)$$

Therefore, the model to be estimated is discrete choice model. The best discrete choice model to estimate is Probits the model is single equation model. Single equation Probit model is best discrete choice model compared to other such as Tobit (because Tobit require truncation of some variables and Logit (have long tail; difficult to have normal distribution(see for instance Evans and Schwab, 1995).

CHAPTER FOUR

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

4.1. Discriptive Results

Comment [MAW1]: Response rate

This section presents the results that were generated from the data analysis together with their interpretation which was guided by the research objectives and to answer the research questions.

4.1.1.Demographic and Socio Economic Characteristics of Resepondents

The major demographic and socioeconomic characteristics of respondents in this study included age, gender, marital status, family size and level of education, distance from MFI office, frequency of contact, Trust and were analyzed as follows.

4.1.1.1. Age group of the respondents

The results in table 4.1 show that the vast majority (97.8%) of respondents are between the ages of 20 and 59, with those under 20 and over 60 accounting for only 2.2%. The sample respondents' average age was 45 years, with a range of 18 to 72 years. In general, the results show that there are more younger borrowers in the sample than older borrowers. Data from the document analysis show that older borrowers are more responsible than younger borrowers in meeting their loan repayment obligations. Specifically, borrowers who are below age of 30 were more likely to have difficulty repaying their outstanding loan because younger borrowers may be involved in start-up businesses that are more likely to fail due to a lack of experience in managing their businesses. Furthermore, due to a lack of market or business development, they may be unable to generate sufficient income to repay the loan. This may suggest that OCSSCO, as a lender to these groups of people, should thoroughly assess their business feasibility and closely monitor the progress of their businesses to ensure that the loan taken is used for the intended purposes.

Table 1: Age group of respondents

Age Group	Frequency	Percent	Cumulative Percent
Under 20 yrs	2	1.6	1.6
20 - 29 yrs	31	24.4	26.0
30 - 39 yrs	45	35.4	61.4
40 - 49 yrs	35	27.6	89.0
50 - 59 yrs	13	10.2	99.2
60 yrs & Above	1	.8	100.0
Total	**127**	**100.0**	

Source :*Primary data*

4.1.1.2. Gender of the respondents

The gender of the respondents in the study groups is shown in table 4.2. As a result, 66 (52%) of respondents were female borrowers, while the remaining 61 (48%) were male borrowers. Out of the 127 interviewed borrowers, 115 (90.5%) repaid their loan in accordance with their agreement with the lending institution, while 12 (9.5%) did not. Only 6% of female borrowers were found to be defaulters, while the remaining 94% were non-defaulters. However, 13% of the 61 male borrowers did not repay their loans and became defaulters, while the remaining 87% were found to be non-defaulters.

Table 2:Gender of the respondents

Gender	Frequency	Percent
Male	61	48.0
Female	66	52.0
Total	**127**	**100.0**

Source : *Primary data*

4.1.1.3. Level of education of the respondents

Education is considered as one of the socio-economic factor affecting the productive use of loan and repayment in MFIs. It is believed that borrowers with higher educational levels have better knowledge and skills to mange their businesses and keep their business records properly and effect loan repayment from the income the business generates. The results in table 4.3 shows the level of education of the respondents who were included inthis study.

Table 3:Education level of the respondents

Level of Education	Frequency	Percent
Primary	79	60.7
Junior school	3	2.4
High school	2	1.6
No formal Education	45	37.4
Total	**127**	**100.0**

Source :*Primary data*

According to the findings, 60.7% of respondents received primary education, while those who did not receive formal education numbered 45, accounting for 37.4%. Those who pursued education from junior high to high school, on the other hand, account for only 5% of the total interviewed customers included in the study. This mean that a substantive percentage of respondents (37.4%) did not attend formal education, and more than 60% of those interviewed had only completed primary school.

In terms of loan repayment (Table 4.4), eight of the twelve defaulters have no formal education. This may indicate that non-defaulters may be more aware of loan utilization and repayment than defaulters, which in turn indicating a positive relationship between education and loan repayment performance. It seems plausible to aegue that Education has helped borrowers better manage their businesses and keep their records on a daily basis, which may have helped the borrowers repay their loans on time.

Table 4:Loan repayment versus educational level of OCSSCO`s borrowers

		Total		
Respondent		**No formal education**	**Others**	**Total**
Repaid	**Count**	40	75	115
	% of total	31.5	59	90.5
Not Repaid	**Count**	8	4	49
	% of total	6.3	3.1	9.5
Total	**Count**	48	79	127
	% of total	37.8	62.2	100

Source: *Own computation*

4.1.1.4. Marital Status

As shown in table 4.5, the majority of respondents (81.1%) were married, while the remaining respondents were single (12.6%), widowed (3.1%), or divorced (3.1%). According to the study, the percentage of married respondents who repaid their loans on time was higher than the percentage of those who defaulted. This suggests that married MFI customers were more responsible in meeting their repayment obligations.

Table 5:Marital status of the respondents

Marital status	**Frequency**	**Percent**
Single	16	12.6
Married	103	81.1
Widowed	4	3.1
Divorced	4	3.1
Total	**127**	**100.0**

Source : Primary data

4.1.1.5. Familiy size

A family is the number of people living in a household who are directly or indirectly dependent on the borrowed loan. It is one of the factors that influence borrowers' loan repayment performance in MFI contexts. According to table 4.6, the average family size of the sample borrowers was 6.19 people, with a minimum and maximum of 0 and 19 people, respectively. In terms of groups, the average family size for those who repaid the loan on time was 6.25 and 6.10 for those who defaulted

Table 6: Family Size of the respondents

Family size	**Frequency**	**Percent**
2 persons	8	6.3
3-4 persons	44	34.6
5-6 persons	24	18.9
7 & above	51	40.2
Total	**127**	**100.0**

Source : Primary data

4.2. Effects of Social Capitaland Socio-Economic Factors on Loan Repayment

This section of the study examines the effect of social capitaland socio-economic factors on repayment performance in the study microfinance institution (OCSSCO). As a result, Tobit regression analysis was used to identify dimension of social capital and other socio-economic factors that influence household loan repayment performance. This is in line with the view that in addition to social capital of the group loan customers of MFIs, loan repayment is influenced by socioeconomic factors such as group heterogeneity, loan officer visits, meeting attendance frequency, income from other sources, gender, area of residence (rural-urban), age, meeting attendance, monthly saving contribution, group experience, family size, distance from the MFI office, and group peer pressure.

4.2.1. The Model and Summary Statistics

We can model loan repayment as a function of borrowers' social capital and socioeconomic characteristics of borrowers as follows.

$$Loan\ Repayment = F(\text{socio economic characteristics}) \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots (1)$$

Where loan repayment is 1 if borrower pay back loan; 0 otherwise and explanatory variable (socio economic characteristics) can be:

1. Heterogeneity in the group 1 if the individual borrower is different win gender with other member of group, different religion, different residence area and different source of income; 0 otherwise
2. Number of visits by loan officer, the number of day visited by loan officer
3. Meeting attendance frequency, the number of day borrowers attended group meeting
4. Income from other sources, 1 if the individual borrower other source of income other than main job; 0 otherwise
5. Gender, 1 if borrows are male and 0 if female
6. Area of residence (rural-urban), 1 if rural and 0 if urban
7. Age, exact years of age of borrowers
8. Meeting attendance, 1 if attended group meeting; 0 otherwise
9. Monthly saving contribution, the amount of money borrows save every month
10. Experience in the group, number of year borrows in group loan
11. Family size, total number of individual in borrows house
12. Distance from the MFI office, KM of borrows house from MFI office
13. Peer pressure from the group; 1 if individual face pressure to pay back group loan from group member; 0 otherwise

14. Trust among group members: 1 if individual borrower have trust in the group, 0 otherwise

Table 7: Summary Statistics

Variable	N	Min	Max	Mean	Standard deviation
Loan Repayment	127	0	1	0.9055118	0.2936651
Heterogeneity in the group (HETERO)	127	0	1	0.8031496	0.399193
Number of visits by the loan officer (VISITS)	127	0	7	3.464567	1.946895
Meeting attendance frequency (MTNGATNDC FRE)	127	0	4	2.574803	1.158267
Income from other sources	127	0	1	0.2362205	0.4264414
The gender (GENDER)	127	0	1	0.480315	0.501591
Area of residence (Rural-Urban)	127	0	1	0.7086614	0.4561787
Age	127	18	61	37.14173	9.607144
Meeting attendance	127	0	12	6.740157	3.546097
Monthly saving contribution	127	30	100	65.68504	21.28182
Experience in the group (EXPERNCE)	127	0	3	2.346457	0.7168931
Family size	127	1	6	4.629921	1.607538
Distance from the MFI office(DFMFOF)	127	1	35	11.62992	8.638051
Peer pressure from the group (PEERPRSRE)	127	0	1	0.7716535	0.4214295
Trust	127	0	1	0.9055118	0.2936651

The results shown in table 4.7 aboveshows that more than 90.5% of the sample customers of the study MFI paid back their loans, while 12 customers (9.5%) did not. Respondents, on the other hand, attend meetings an average of seven (7) times during the loan term. The groups differed in terms of age, gender, education level, and marital status. According to Cassar et al. (2007), social heterogeneity appears to foster confidence that other members will indeed repay for the unintentionally defaulting members, bolstering the belief that the group is likely to receive subsequent loans in the future and that those who intentionally do not repay will not receive the next round of loans. In terms of monthly savings, the results show that respondents' monthly savings range from ETB 30 to ETB 100, with an average of 66 ETB. During the loan term, respondents were visited three (3) times on average by the MFI loan officers.Borrowers' residences range in distance from 1 km to 35 km, with an average of 11.54 km from the lending MFI branch office.

Table 4.8 shows a positive correlation between socioeconomic factors and loan repayment. Only the borrower's residence distance from the MFI office and gender have a negative correlation; that is, as the distance from the MFI office increases, the likelihood of loan repayment decreases and male borrowers tend to default. The negative sign of gender indicates that as the variable increased, repayment capacity decreased. Moreover,trust among the group memebers and loan repayment have direct correlation. All respondents who defaulted loan repayment responded that they do not trust group members and joined the group merely to get access to loan from the MFI. On the other hand, the borrowers were asked as to why they trust the rest of group memebers and they mentioned that they know each other and they have group norms which can not be vilolated as the consequence of violation is serious.

Table 8: Correlation Between loan repayment and socio economic factors

Comment [MAW2]: Which correlation did you use? mainly Pearson is not suitable for non-continuous variables

	Loan Repayment	Heterogeneity in the group	Number of visits by the loan officer	Meeting attendance frequency	Income from other sources	Gender	Rural-Urban	Age	Meeting attendance	Monthly saving contribution	Experience in the group	Family size	Distance from the MFI office	Peer pressure from the group
Loan Repayment	1													
Heterogeneity in the group	0.6525	1												
Number of visits by the loan officer	0.5771	0.3024	1											
Meeting attendance frequency	0.7209	0.4526	0.493	1										
Income from other sources	0.1796	0.2287	0.0197	0.1086	1									
Gender	-0.1205	0.0796	-0.0515	0.0128	-0.0152	1								
Rural-Urban	0.2668	0.3363	0.0285	0.1843	0.071	0.0268	1							
Age	0.4211	0.2515	0.3559	0.3079	0.0189	-0.0785	-0.0177	1						
Meeting attendance	0.4488	0.6868	0.2901	0.3033	0.1354	0.0663	0.1442	0.2175	1					
Monthly saving contribution	0.1019	0.1543	0.0164	0.0834	0.1254	0.1831	-0.010	0.10	0.1817	1				
Experience in the group	-0.0695	-0.0649	0.0487	-0.0219	-0.166	-0.135	-0.028	-0.1	-0.0174	-0.0053	1			
Family size	0.5306	0.6895	0.276	0.2942	0.1864	0.0057	0.209	0.18	0.6012	0.1272	-0.06	1		
Distance from the MFI office	-0.5395	-0.7371	-0.2913	-0.3863	-0.2088	-0.000	-0.265	-0.2	-0.7185	-0.0703	0.0965	-0.6524	1	
Peer pressure from the group	0.4656	0.7214	0.2367	0.2548	0.17	0.0724	0.1466	0.15	0.6663	0.0052	0.0012	0.6709	-0.6447	1
Trust	1	0.6525	0.5771	0.7209	0.1796	-0.12	0.266	0.42	0.4488	0.1019	-0.0695	0.530	-0.5395	0.4656

4.2.2. Results of Probit regressionAnalysis

This part of the study discusses about answeres to the research questions by showing how social capital and its dimensions affect loan repayment of the interviewed customers in the study MFI. The results of the probit regression analysis are supplemented by qualitative data results.

The summary of dimension of social capital and socio-economic factors affecting MFI loan repayment is shown in table 4.9.The results show that most of the coefficients are consistent with relationships, and their tests of significance indicate their importance in explaining the repayment performance of borrowers in microcredit groups. Gender, household size, distance from the MFI office, experience in group borrowing, number of visits by loan officer, pressure in the group, meeting attendance frequency, and heterogeneity in group membership were found to be significant in the model. The Probit regression results also revealed a positive relationship between loan repayment and socioeconomic factors, with the majority of explanatory variables (socioeconomic factors) being statistically significant. Only the distance between the borrower's home and the MFI office has a negative coefficient that is statistically significant.

Table 9: Regression analysis

Loan Repayment	Coefficient	Std. Err.	t	P>t	[95% Conf. Interval]
Meeting attendance	0.0031667	0.0028153	1.12	0.262	-0.0023923-.008726
Group Heterogeneity	0.2203766	0.0328228	6.71	0.000	0.1555667- 0.285186
Monthly saving contribution	0.0001902	0.000048	3.96	0.000	0.0000955- 0.000285
Number of visits by the loan officer	0.0089867	0.0054445	1.65	0.101	-0.0017637-0.019737
Experience in the group	0.1241559	0.0247081	5.02	0.000	0.0753688- 0.172943
Family size	0.0278161	0.0058069	4.79	0.000	0.0163503- 0.039282
Meeting attendance frequency	0.0171874	0.0054907	3.13	0.002	0.0063459- 0.028029
Gender	-0.0824848	0.0288841	-2.86	0.005	-0.13970- -0.02526
Distance from the MFI office	-0.0050335	0.0010276	-4.9	0.000	-0.0070626- -0.003
Peer pressure from the group	0.0929899	0.0255588	3.64	0.000	0.0425231- 0.143457
Constant	0.0010268	0.0337246	0.03	0.976	-0.0655636-0.067617

Comment [MAW3]: The marginal effect ? the power of the explaantroy variables to increase or decrease the probability of repay.

Post-estimaiton tests ?

Comment [MAW4]: Justification ?

One of the mandatory requirements for obtaining a loan at the investigated MFI is the formation of a group of 4-6 people. Because only those who trust each other form a group to guarantee each other's loans, trust is an important component of social capital that is considered for group membership. The level of trust among group members are summarized in table.

According to an analysis of data collected from loan customers, it was discovered that borrower's social network created values that can be used as social collateral for the purpose of obtaining credit services from this MFI, and group members' social ties assisted them in screening, monitoring, and enforcing loan repayment of their peers. In this line Grootaert (2001) reported that social capital reduces the likelihood of being poor since it acts as collateral to access loan and enforce loan repayment by improving the repayment behavior of borrower through thier social networks. The same was also supported by Floro and Yotopolous (1991), who observed that where social ties are strong, group lending can improve both the repayment of loans and relax the credit constraints.The result also showed that bonding and bridging social capitals are the two crucial components of social capital which have effects on loan repayment in the study MFI. Therefore, social capital is found to be a significant predictor of loan repayment performance in the MFI under discussion.

From these dimensions of social capital, it looks like that bridging social capital is more important in ensuring the probability for loan repayment by the group borroweres in the study MFI.This is because when there is good relation between the group members and the lending MFI, loan repayment becomes easy since members of the group give reliable information about themselves and their peers and this helped them to trace the defaulting persons in thier respective groups. This view is in line with Pitt and Khandker (1998), who found out that when there is smooth interaction, groups are less likely to default outstanding loans and this leads to improved repayment performance. As the bridging social capital become strong, the repayment performance improves and even in the absence of one member of the group, the group settle loan on his/her behalf when he has not able to meet his/her payment obligation because of the bridge that exist between them. In relation to bonding capital, the respondents mentioned that it is essential to ensure that members of the group interact frequently to provide support for new ideas and their application. In addition, to foster bonding, it is key that members show continual willingness to share information about new markets and products. In relation to bridging social capital, the results showed that priority should be assigned to helping the networks created that

Comment [MAW5]: Good to align your findings with the previous ones tend to foster relationships with other group members and creating an environment whereby members openly discuss about their success and hardships in business operations.

The results also showed that it is always necessary to have written rules and regulations to govern the groups and that they require training programmes that are tailored towards addressing their business needs. It was observed that in order to enhance group monitoring, team work in monitoring each other's business is essential which ensures that payment problems are jointly settled whenever they arise.

Besides, group monitoring promotes group lending by strengthening trust among members to screen and monitor each others since they are jointly liable for the repymant of group loans. On the other hand, the study revealed that it is key for the group memebers to know about the maximum loan amount each member in the group should be entitled which is achieved through adequately assessing the credit risk before the loan is given to a group member.

Table 10: Distribution of respondents by level of trust

Responses	Frequencey	%
Trust all of the group members	115	90.55
Trust majority of the grroup mebers	10	7.8
Trust some of the group mebers	2	1.6
I do not trust othem	0	
Total	127	100

Source: Survey result

About 115 (90.5%) of respondents said they trust all of their group members. The percentage of respondents who stated that they trust the majority of their group members is 10% (7.8%). As a result, a large number of respondents stated that they trust the majority of their group members. They formed groups with whom they have complete trust.

An open-ended question was asked to respondents to indicate why they trust their group members in order to elicit more information on the source of trust between group members. The major reasons for trusting majority of their group members are:

- ✓ They help each other at business
- ✓ They have not encountered any problem with regard to group repayment
- ✓ They have the experience for helping each other when problem emerges and long-term experience on give and take relations.

Reciprocity is also another important indicator of social capital. To find out if reciprocity takes place between group members, respondents were asked to indicate whom they will first ask for assistance in times of repayment problem. The proportion of respondents who said they ask the assistance of group members if they face difficulty in repaying their loans is larger than other options. This accounts for 50(41.7%) of all the respondents. The number of respondents who indicated family members as their first choice for assistance is 26 which represents 21,7% of all the respondents. Friends, co-workers, and a combination of group members, relatives and friends were cited as other sources of assistance. In fact respondents who said they would rely on their own assets are also considerable.

During the focus group discussion and individual interviews, informants indicated that some times they face financial shortage due to different causes. As a result, either they totally lack money to repay their installments, or manage to have only a certain proportion of the monthly installment. Thus group members will cover each other's deficits and make the group repayment as per the schedule. The researcher further asked as to why one should cover fully or partially the monthly installment of another member. The response was that members trust each other and exchange reciprocities. If a group member has received favor today from other group members, the members not only expect him/her to repay his/her loan but also to reciprocate the same at times when others are in financial trouble. Hence, reciprocity is an important aspect of social capital and assists the group memebers encountered financial problems to settle thier repayment in a group lending modality.

On the other hand, group norms are important components of social capital and group membership is usually linked with group norms since they govern relations between members. According to Frank (1992), group norms are important forces to impose sanctions on free riders. Group borrowers also develop their own internal norms to govern relationships between members.

Respondents were asked whether they have developed an internal norm at all. The finding indicates that 120 (95%) of all the respondents have mentioned the existence of internally developed norms and only 7(5%) of the respondents indicated the absence of norms in their group. In focus group discussions and individual interviews, respondents have indicated the importance of group by law which means governing rules in regulating members' relationships and behavior in a group. The norms were established to encourage monthly meetings, repayment of loans and saving deposits and to disciple the group members are strictly adhered to. For example, as mentioned by the interviewd respondents, when group members fail to meet monthly repayment and regular saving, they will face financial punishment from the MFI staff responsible for the group follow up. It also The group by law also delays further access to credit in the future. For this reasons, a considerable number of group members have developed internal norms that are meant to regulate repayment schedules. When either group norms or OCSSCO rules or both are not dully observed, there will be sanctions against defaulters.

It was found out that 12(9.4%) of the respondents have encountered a member who was not able to pay his/her loan (including themselves). As many as 115(90.5%) of the respondents have indicated that a problem of this sort has not occurred in their groups. According to Coleman (1988), urban areas are marked by some degree lack of social capital. Frank (1992) has also made similar assertions and has indicated that residents of large urban areas lack closely linked networks of personal relationships. Accordingly, it was asserted that closely linked people could impose effective sanctions against norm violators.

The researcher held a discussion with OCSSCO`s staff both at district and branch levels to compare the repayment rate as an indicator of rural and urban areas. Result of the discussion indicates that rural borrowers performed well than the borrowers in urban areas. This was witnessed by the performance of branch as it has never been below 98%. As per OCSSCO`s staffs, this is attributed to:

- The activities of rural clients are divesified and cross subsidze each other for loan repayment.
- The social capital element of rural clients interms relation and monitoring each other is better than their urban counterparts; and
- The rural clients are socially close to each other.

From the point of view of this paper, the discussion with OCSSCO`s staffs disclose that the rural clients of OCSSCO are connected in many social activities and hence, social sanctions against a defaulter include barring from group membership and reporting such behavior to the wider community to augment group pressures to reduce cooperation with defaulters. These are very strong forces to discipline individual behaviors. Moreover, the respondents indicated that they not only expel the individuals who defaulted intentionally but also tell others not to form group with him/her in the future too.

4.3 The nexuses between social capital and local development intervention

Good social capital can be described as a lubricants for getting things done since it allows people to work together and to access benefits from social relationships. It is related to the internal social and cultural coherence of society and societies and institutions could not exist without social capital.Social capital enables people to work together and facilitates cooperation and innovation. Any development initiative that doesn't consider the importance of social capital is missing an opportunity for improvement and risking inefficiencies.

In the study, it came out that the influence of social capital in creating access to financial services,one of the tools to adress the challenges of poverty was noticed at an individual borrowing family level since social capital served as a collateral in getting access to credit to to engage in income generating activities. It was also observed that all forms of social capital are based on shared norms and use these norms to achieve common social objectiveswhich otherwise were not possible individually.Therefore, this is an indication that social capital is an important determinant of economic development both at local and regional levels. This could be considered as an evidence suggesting that any development initiatives should incorporate measures of social capital to avoid specification bias and improve the take up the initiatives of any sort in a particular areas to ensure its progress and sustainability.

Hence, Social capital as a feature of social capital such as trust, norms, and networks can improve the efficiency of society by facilitating coordinated actions and opportunities available for local developments such as microfinancial services.

CHAPTER FIVE

CONCLUSIONANDRECOMMENDATIONS

5.1. Conclusion

Microfinance institutions in Ethiopia are the available alternative to bank credit for micro-businesses that cannot access loan from conventional banks. Microfinance institutions are essential to address the financial needs of small scale businesses and encourages an enterprise culture. The study evaluated the effects of social capital and socio economic factors influencing loan repayment in Oromia Credit & Savings Share Company(OCSSCO), a microfinance institution operating in Sendafa district.As per the findings of this study, 9.5%) of group members defaulted in loan repayment and the respondents mentioned various reasons for their default. Henceforth, the study concludes that there are various socio economic factors influencing non-repayment of loans by the borrowers.

Group lending has been a significant institutional innovation that has allowed MFIs to serve clients without tangible collateral. As a palliative measure to address the moral hazard and adverse selection that are inherent in credit markets, group lending relies on social collaterals. As a result, group lending offers a sensible case study for investigating how institutions and social capital interact.

Bonding social capital facilitates the formation of borrowing groups and cooperation within them, but it does not provide any assurance against moral hazard, which is of concern to the lender. Bridging social capital, which is embedded in norms and values and serves a similar purpose in group lending, however, does provide such assurance by upholding integrity.

Similar patterns of interactions between social capital and formal institutions as those described in this work can be anticipated in all such situations. Instances other than group loans are outside the purview of this work, hence empirical verification of such predictions is left to further studies.

However, MFIs have made an effort to disprove the conventional wisdom that poor people are uncreditworthy and risky by offering them credit and successfully enforcing the collection of loan repayment in accordance with the terms and conditions outlined in the loan contract in place of the traditional collateral requirement. The study proved that social capital is a highly reliable indicator of repayment performance. This indicates that loan repayment is made simpler when there is a strong link between members and the organization or credit institution since the member can provide accurate information about themselves that will enable them to be found in the event of a default.

The study also demonstrated that bridging social capital is a major predictor of repayment performance, with repayment performance increasing as bonding social capital does. This demonstrates that even without a member, others can still help him out because of the bridge they have built, and they compensate him when he is unable to meet his obligations.

The research findings also showed that there was a significant strong relationship between social capital and joint liability, indicating that the stronger the group, the better its ability to monitor and screen members, which in turn results in better screening and monitoring within the group, which may improve loan repayment due to the group's existing trust.

In general, it can be said that social capital, shared liability, and repayment performance had a very strong positive association. Social capital was found to have a significant impact on repayment performance. This is due to the fact that strong bonds between borrowers foster good trust and provide encouragement for everyone to pay their debts on time or else they would strive to make up for it.

The requirements of the financial institution, Banks, on the other hand, believe that there is a substantial credit risk involved. However, MFIs have made an effort to disprove the conventional wisdom that poor people are un creditworthy and risky by offering them credit and successfully enforcing the collection of loan repayment in accordance with the terms and conditions outlined in the loan contract in place of the traditional collateral requirement. Borrowers must continue making payments in line with the loan repayment schedule in order for the MFI to continue operating a successful business endeavor and provide borrowers with a sustainable source of financing. According to the consumers surveyed, there are no ongoing loan repayment issues for the lending institution under study.

5.2. Recommendation

1. Given that social capital and repayment performance performed better in rural areas where poverty is more severe than in urban areas, it would be prudent to advise that as the government proposes extending microfinance services to the rural areas as a strategy to fight poverty, the trust and networks that exist among client groups should be given much attention.
2. MFIs in general and the study MFI in particular should strengthen clients trainings, group formation and meetings should be held so that business progress is discussed in order to inculcate and promote savings and as a result there will be good repayments by the group borrowers.
3. In order to form successful groups, the microfinance Institutions should closely work with the community members to strengthen the existing social capital .
4. The microfinance institutions regularise their visit to their customers and provide information on profitable business ventures that suites to each client's location and condtions.
5. MFIs should advise thier customers on how to diversify their income generating business to over come the problems of none repayment of loans due to business failures.

5.2.1. Areas for further research

Based on the findings of this study, it was observed that social capital under the group lending modality in MFIs can improve repayment performance. It was also observed that the repayment performance for rural customers in the study MFI was better than that of urban borrowing customers the fact that there exists strong social bonding among the rural borrowers of OCSSCO. Therefore, the researcher recommends further study on;

- What contributes to the difference in the strength of social capital between rural and urban group based MFI borrowereS.

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Appendix: Questionnaire For OCSSCO`s Customers

Addis Ababa University, College of Development Studies
Questionnaire for individual interview on effects of Social Capital and socio economic factors on Repayment Performance: The case of Oromia Credit & Saving Share Company(OCSSCO)- Sendafa branch

Dear respondent,

My name is TeshomeKebede, a student of Addis Ababa University College of Development Studies Department of Regional and Local Development Studies undertaking a study on Effects of Social Capital on group loan Repayment Performance: The case of Oromia Credit and Savings Share Company(OCSSCO) at Sendafa branch in partial fulfillment of the requirements of the award of Masters of Arts Degree. You have been chosen to be one of the respondents in this study and you are kindly requested to give your personal opinion as per the questions that follow. Please note that your responses will be treated with due confidentiality and will be used for academic purposes only.

PART I: Demographic Characteristics of OCSSCO`s Borrowers

1. Sex of borrower: Male_______ Female __________
2. Age of borrowers_____________
3. Educational Status:____________________
4. Marital status: Single____ Married ____others ____
5. Total number of family members (Family size) _____________________
6. Head of the Household: Male____ Female_____________________
7. How long have you been a member of the microfinance institution? Month…….year…..E.C
8. How many persons in your household are working &engaged in work that earns income /products?_______________________
9. Is your business and Residence place similar)? Yes____ No _____

10. Residence of borrower: 1) Rural _____2) Urban_____
11. Method of lending: 1) Group________ 2) individual_______

Part II Group Formation

12. Are you a member of any group ?Yes____________No_________________
13. How many member you group has? 1. _________ 2.____________3.___________
14. Do your group members meet frequently? Yes___________ No___________
15. The group meetings enable members to strengthen existing social ties
16. Do the advice provided by the loan officers help for the success of business & loan repayment Yes______________No____________
17. Do the group members rely on each other to get access of loan and make repayment? Yes___________No________ If Yes, why/____
18. Do you agree that strong group network enhance cooperation and social benefits to the group members? Yes___________No___________________ If yes, how?____ ____________ If not why?____
19. Information provided in groups increase the chance of business success and loan repayment
Yes,_________________________No__________________________
20. Do you have group by law ? Was the group normshelped you to maintain cohesion in the group?
Yes______________No________________
If Yes, How ?____
21. Did you take training from OCSSCO? Yes____ No______
22. If yes, what kind of training did you take? How to do business_______ Training on different Microfinance service (credit, saving, insurance)_____________ both on business and microfinance training ________________.
23. Was training useful? Yes_____ No___________

Part III Access to loan and repayment

24. Do you have saving account in the MFI? Yes_____No________

25. If yes, where do you save your money? In OCSSCO_______ In Banks ______Both in Banks and OCSSCO_______ Privately (Iqub)_____________

26. For what purpose do you save? To expand business ___________for personal needs__________For consumption___________ for emergency_______ for repayment __________

27. From where do you take the loan? From OCSSCO_________From Other Sources________

28. For what purposeyou took the loan? ___________________________

29. Do you use the loan for the intended purpose or you divert it for other purpose? _______ Fused for intended purpose_____________________________________ diverted it to other ____

30. Do you have access to get loan from other institutions? Yes___________ No ____________

31. Do you have access to get loan from informal sources? Relatives__________ Friends______ Informal money lenders (Iqub, Idir)____________ from other source __________

32. Was the loan sufficient for your business? No__________ Yes ________________

33. Was the condition of interest rate on loan ? Too much_________ Suitable to repay _________Very small____ Too high_______ medium _______________

34. Was the repayment period in OCSSCO, suitable for you? Suitable___________________________Not suitable____

35. Amount of loan taken in birr _____________

36. Amount repaid in birr _______________

37. Did you pay all amount of loan? Yes_______________No_________________ if No, what is the reason for not repaying the loan? ____

38. Is there any continuous follow up and supervision to evaluate the loan utilization and repayment?

Yes_____________No___________

39. Did you have other source of income before taking loan from the MFI? Yes_____________No______

40. If your answerfor Q39 is yes, what are your sources of finance?

Source Annual Income

From Agriculture --------------------

From Trade ------------------------

From monthly salary-------------------------

Other (specify) ______________ ____________

41. Why do you borrow from OCSSCO?

To repay other loans _______________________

To expand business__________________

To open a new business ______________________

To purchase agricultural inputs ________________

Others (Specify) -----------------------------------

42. What business types areyou running? Trade _______Service______ construction _____Agricultural____________

43. Do you involve in different activity like urban agriculture at any scale? Yes_____________________ No _________________________

44. Do you have other source of income other than your business? Yes____ No _____

45. If there is other source of income, what is the average amount of income you get?

In week________, month ________, year_________

46. Business experience in years _____ Started first time_____ Experienced _______

47. Revenue from your products ___________

48. What is the distance from your home to the MFIs office ?A) ≤5Km B) > 5Km c) ≥ 10 km

50. Do you believe the loan is disbursed to you timely? Yes __________________No_______________________

51. How much money did you receive in loan from OCSSCO ?_____________birr

	Round 1	Round 2	Round 3	Round 4	Round 5
Year					
Amount of loan					

52. The loan size you obtain from OCSSCO is: Too Small_____ Fair Large_____ Very large

53. Did you repay loan to OCSSCO? Yes ________________No________________________

54. If your answer to Q53 is 'yes' what is your repayment status? Fully repaid on time___ too late___ partially repaid on time____ too late_____

55. If your answer to Q53 is 'yes' what motivates you to repay your loan on time?

To keep social state using the expectation of getting another large loan_____________________

Build good relationship with the loan provider______ __________________

Others (specify) ____

56. If your answer for Q53 is 'No' what cause your repayment problem?

Weak supervisions for defaulters___________________

Loan activity was not profitable_______________________________

Personal problem (sick, change of place)_____________________________

Low evaluation & monitoring by the loan officer of OCSSCO_______________________

Economic shocks (Disaster, theft, fire, flood weather conditions, others or etc.)

57. Used enterprise capital for consumption (food, clothing, HH goods) ____________

Lack of sale/ demand______________ Family celebration (wedding, birth, etc.) _________

58. Is the repayment period set by OCSSCO suitable for you ? Yes_______ No ______

59. Is the frequency of collection by OCSSCO suitable? Yes_______________ No_____________

60. What will be your preferable collection period? Weekly____ monthly_______ quarterly ______Semiannually annually______Other (specify) _________________________

61. What will be your suggestion to make the repayment modality suitable?

To give enough grace period before starting to repay____________

To make repayment period longer__________________________

Others ________________________

62. Have you ever been supervised regarding loan utilization by OCSSCO`s officers? Yes_______________________ No_____________________________

63. How often does the credit officers visit your enterprise's activities?

Never visited________ once a week _____daily______ quarterly______

64. Do you consider supervision as being important for loan repayment? Yes________________

No ____________________________

65. Interest rate for credit set by OCSSC is: High_______, Medium_________, Low______

PART IV: Business Related Questions

66. In which Business activities you engaged?

Agricultural sectors (Like farming, poultry, dairy farm, animal fatting etc)________________

Commercial/Trade/retail/activities_________________________

Service sectors ________________________

Others (specify)____

67. In Q-66, if you are involved in Agricultural sectors, in which business activities you involved? Animal fattening_____ bees farming _____crop production______ Others (specify)____

68. In Q.66, if your business activities are commercial/Trade/retail/activities, in which business activities you involved? Trade (retail)__________ shop and container selling___________ cereals_______ Other specify ____

____

69. In Q 66, if you involved in enterprises, in which business activities you involved? Constriction________ woodwork and metal work _________________Other (specify ____

70. In Q66, if you involved in service sectors, in which business activities you involved? Barber and beauty____ ____________salon________ ______________secretarial and copy service___________ Other (specify)_____ __________________________________

71. From above business activity you selected, how long is your business experience? One year_______ two years _______three years ________ four years and above__________

72. Do you always pay your credit obligations on time? Yes__________No____________

73. Does supervision helped you to improveyour repayments?__________________NO___________

74. Do you always borrow based onyour repayment track record? Yes_________NO__________

75. Do group meetings improve your repayments through discussion of your business progressYes_____________________No______________________

76. Did you experience some members running away without paying their loans? Yes__________No__________

77. How relationship in the group enabled better loan repayment in your group?____

78. Do you think formation of a group with close relatives help in enforcing repayment? Yes_________________________________ No______________________________

If yes, how____

If No why____

The END